

## Spend on the World Like Never Before

Domestic travel, hospitality need to perk up

Indians are travelling abroad in significant numbers, soaking up a large part of dollars that migrant workers send back home to their relatives. Travel makes up about half the money Indians spend abroad, and outbound remittances are growing furiously relative to inflows. The spurt in international travel spending is on a low base. So, the numbers are eye-catching. But this is going to remain a high-growth category as Indians feed the global industry over the next decades. Part of the reason for the rise of the Indian traveller is the underdeveloped domestic industry that cannot cater to secular tourism, either on price or in quality.

Take travel. Indians fly to destinations abroad on foreign airlines as local carriers bulk up their fleets. Aviation hubs in the Gulf/ West Asia or East Asia work to the benefit of foreign airlines for flyers to Europe and North America.

India. Indian airlines face a tough job in clawing market share while facing high fuel costs at home that squeeze their profits. Yet, this is an obvious starting point to bring back some of the dollars Indians are spending and will continue to spend on international travel. Eventually, India should have its own aviation hub.

Then there is hospitality. The domestic industry is concentrated in established destinations that leads to over-crowding and ecological damage. Overall, the share of branded hotel rooms in India is small by international standards. Better facilities at newer destinations could convince more Indians to holiday at home. This is particularly relevant to India with its geographical diversity.

Improving connectivity within the country has a direct effect on tourism infrastructure, which needs to be built in public-private partnership. India must also pitch aggressively for convention tourism that can affect both outbound and inbound travel. Be it travel or hospitality, skills shortages constrain growth of the domestic industry. These need to be addressed from the perspective of rapid job creation and gender-neutral employment.

## Start Work on Project Optimus Governance

Bureaucrats have reportedly suggested plans to rationalise and restructure government departments and ministries to the prime minister. This is certainly a need of the hour. Narendra Modi himself has long advocated for 'maximum governance, minimum government'. Now, his administration needs a plan. This won't happen merely by downsizing departments or outsourcing critical functions — although fighting flab and creating extra-governmental partnerships have their place in a reformation — but by creating systems and processes that promote a coordinated whole-of-government approach.

Restructuring is more than an efficiency exercise. It's an optimisation one. The driving force must be maximising resource (human, financial, material) utilisation by leveraging synergies. The left hand must be aware of what the right hand does. This means moving away from siloed thinking, duplication and working at cross purposes. Rationalisation is also not a euphemism for any drive for outsourcing critical government functions or hollowing out government capacity. Rule-bound bureaucracy, seen in many political quarters as impediments to action, must not be simply swapped for an increased dependence on a parallel network of 'consultants'. Improving implementation and governance is impossible if the bureaucracy is hollowed out. Rules and regulations must be visible, and developed as instruments to enhance implementation of policy and not as hindrance.

The next five years are critical for putting in place systems and processes — the way and wof of good governance — that will underpin India's transformation. This requires improving internal coordination, and collaboration within government for efficient, agile and responsive implementation — in praxis.



## It's Cool to Be Nice, Gentlemen Champs

Nice guys finish last? Considering role models in various fields — in corporate, political, sporting, even creative playing grounds — seem to be rolling in their own 'alpha-ness', and rolling it out in spades for fans to rah-rah over, making evolutionary meat out of competitors, and slinging mud in every general direction isn't just accepted but downright admired. Just ask Trump fans and foes. So, in this Machiavellian mela ground, India's World Cup-winning team is that much extra special. The Men in Blue are champions, but champions who are gentlemen who have come out on top — without billboarding bluster, without marketing menace.

Sledging, that now-standard practice of players taunting their opponents to rattle them during play which past Indian captains gladly imported for 'tactical gains', isn't something Rohit Sharma and his teammates keep in their kit. They simply don't need it. Great fast bowlers of the past like Dennis Lillee and Shoaib Akhtar made bullying part of their arsenal. Instead, the likes of Jasprit Bumrah let their bowling — and their smiles — do the talking. And how. Whether it's about the next quarter's profits, or the next round of electioneering, our alphas can look to India's T20 champs who have made mutual respect, and their 'quiet riot' superpowers the ingredient for success. They've made goodness cool again.

## STATE OF PLAY Education reforms need to tackle the 'how', not just 'what' and 'why'

# Out of the Blackboard Jungle



Pranab Dhal Samanta

The NEET controversy has many facets to it. But most worrying for the long term is that the idea was born out of a 'reform process' and still fell victim to the very inefficiencies it sought to correct.

So, what went wrong? The answer points to a deeper systemic malaise, where reform as a policy buzzword has become a career essential in governance, but the execution of what remains below par. This problem will keep surfacing because most reforms India needs now are structural and systemic.

NEET was projected as a reform measure against all that ails admissions into medical and engineering colleges. It was to reduce the stress burden on students struggling with multiple exams, marginalise coaching institutions, remove arbitrariness in admissions and broadly standardise the entire system through a single test.

There was no disagreement with the need for reform. In fact, the 'what' and 'why' of education reforms have never been a point of major discord. But the way the current crisis has unfolded has brought home the point that much more attention will need to be paid to the 'how' of reforms.

National Testing Agency (NTA), at the heart of this reform process and now the controversy, conveys a serious gap between conceptualisation and execution.

Doubts have arisen on whether this entire effort has inadvertently strengthened the coaching economy rather than marginalise it. Student suicides continue because of pressure of tests, raising questions on whether a single test has ended up increasing stress levels.



Enough of theory

because of lack of other options, than reducing it. And there's the issue of whether the problems of higher education are inflicting the school system by making board exams redundant from an admissions point of view.

These questions are now a subject of serious evaluation, largely because the execution plan was not thought through thoroughly — be it from a larger standpoint of how a future could impact students, to the basics of developing a foolproof logistics plan on carrying out a nationwide test.

The federal body into any structural reform is vital. And this crisis has underlined it even more strongly. Many states had reservations with NEET. They can adopt a legal recourse, and continue to oppose it, as is the case in Tamil Nadu. This apprehension could extend to the National Education Policy (NEP) itself if conversions are not conducted and flexibilities not worked out in consultation.

This principle holds true across all sectors, barring perhaps national security and related areas. A lot can be achieved through the persuasive powers of the Centre. And this also has to do with the fact that structural reforms take in states differently.

Many states have their own exam-conducting agencies, which precede NTA in conducting common entrance tests. Any reform on the assessment side of the education sector should logically have made stakeholders in the process. Instead, they were deemed assumed. As a result, states of state governments in higher education get reduced. While some states like Tamil Nadu, Karnataka and perhaps Maharashtra will resist this, given their investment in this sector, others could end up just confining themselves to school education. Either outcome is undesirable.

There is a valid argument that political interests are involved in many private engineering and medical colleges. This cracks the sanctity of the admissions process in many institutions. These are real challenges, which need to be addressed through practical reforms in partnership with states, however difficult and complex the process may be.

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In the instant case, it appears neither the concerns nor the expertise available



Have NTA-centric reforms inadvertently strengthened the coaching economy rather than marginalise it?

le with states were fully understood or explored, resulting in efforts to undermine and illegally profit from the new exam, just as it was done earlier. The tragedy with NEET is that its distinction from the old system has now blurred, if not vanished, due to poor execution.

The final point on reform that this controversy has brought to light is the need for multiple interlocutors with the Opposition. Just like the federal buy-in, building stakeholders within Parliament helps avert a crisis, which can impact any new policy initiative. Going ahead, this will be a critical piece of the reform process. Otherwise, derailment may loom large at every step.

Got it will need to open channels with NTA parties to ensure that reforms can proceed with some give and take. In other words, some amount of cross-party political solidarity will be important to ensure a reform initiative doesn't fall victim to vested interests.

The NEET controversy has also highlighted the requirement of desirable admission tests. It cannot be that of one test comes under the cloud, then there's no other backup for students. Reform in the sensitive, critical sectors like education need to be injected in a manner that students are insulated from any potential failure.

One can argue that multiple tests provided that option in the past. Maybe better models are available now. But the bottom line is that the sensitivity of the sector requires that any reform needs to be understood to the last detail. Because consequences of a failure are disastrous. The problem with the NEET crisis is that — the end is just not in sight.

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## Head in Cloud, Feet on the Ground



Romal Shetty & Aditya Puri

Rapid technological evolution is revolutionising the way we work. Developing domain expertise across new advancements is onerous for organisations. But if they narrow down their focus to a few key technologies like Gen AI, automation and the cloud, they can enhance their efficiency and promote sustainability.

To achieve desired outcomes, these technologies must be adopted judiciously as enablers rather than an end in itself. As all tech trends may not become game-changers, a nuanced understanding of their potential benefits and limitations is crucial.

Cloud is at the forefront of this transformation. By 2028, it's expected to contribute to \$300-\$800 bn to India's GDP, accounting for about 8% of total GDP with the potential to generate about 14 mn direct and indirect jobs. For banks and other financial institutions, cloud presents a dynamic, powerful foundation to rebuild business, attain the agility they need to compete and deliver substantial shareholder returns across the four R's — reputation, regulation, revenue and responsibility.

Cloud offers deeper insights and analytics, enhances new customer experiences and improves brand value. It helps organisations comply with regulations by strengthening IT security and controls, and ensuring resilience and agility. Organisations can also benefit by creating new products and services using alternative business models and fulfilling social responsibility by developing a greener, more efficient and contributing to sustainability.

However, realising these benefits requires effective management of cloud to stay at the point in initial excitement. Cloud adoption has evolved from a CIO's prerogative to a CEO's strategic imperative. So, realising this opportunity requires a balanced combination of strategic leadership and technical prowess.

Some key considerations that can help develop a focused approach to realise the benefits of cloud technology: ► Optimising use Organisations of IT to analyse their needs before moving to the cloud. Regular monitoring, keeping track of spending, using agile budgeting, and increasing supply and demand can help optimise cloud capacity and reduce outlays.

► Accountability Organisations can benefit from optimally securing the right amount of cloud financial management, processes and policies. Cloud offers deeper insights and analytics, enhances new customer experiences and improves brand value. It helps organisations comply with regulations by strengthening IT security and controls, and ensuring resilience and agility.

provider committed to a zero carbon footprint, adopting efficient migration approaches and embracing green cloud practices, can help organisations accelerate their sustainability efforts to reduce carbon emissions and achieve net zero. These efforts can reduce significant emissions and be scaled to software, contributing to people, planet and profits.

Cloud offers numerous benefits. It's important to address the challenge of rising costs proactively. Prudent implementation of these strategies can optimise cloud outlays, by up to 25%, depending on an organisation's cloud financial maturity. This involves understanding pricing structures, continuously monitoring usage, maintaining accountability, streamlining storage and re-architecting legacy applications.

Organisations must leverage cloud as an opportunity to drive tangible value through cost optimisation and business growth, rather than perceiving it as a challenge. Beyond cost, many functions of reducing IT expenses, cloud technology also drives sustainability, enhances business resilience and boosts shareholder value. Banks should focus on benefits of technology as a differentiator and a significant business enabler.

Shetty is CEO, Deloitte South Asia, and Puri is senior adviser, Deloitte

Make room for it

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## Not to Craft the Politics in Policy



Mythili Bhushanmurti

A month ago, headlines were chock-a-block with news of Lok Sabha election results. Then there was the NEET mess. For the next few weeks, the Union budget will dominate headlines. The question uppermost in the minds of most observers is: will realpolitik (read: coalition compulsions) dictate the contours of the budget and economic policy? Or will the NDA government eschew populist policies and stick to the fiscal straight and narrow?

The interplay between economics and politics is neither new nor unique to India. It's part of elected democracies. The use of the term 'political economy' — defined as the study of the conditions under which production or consumption is organised in nation-states — until well into the late 19th century, when economics emerged as a separate discipline, bears testimony to the close interdependence of one on the other.

What is new is the time round, however, is that the election results have dramatically brought home the perils of assuming sound economic policies are enough. They are not.

Leaving aside the usual mishmash of caste, religion and local politics that's part and parcel of our elections, BJP's performance fell short of expectations, primarily due to inflation and unemployment. Both factors lie within the domain of monetary policy.

► Inflation RBI might point to the decline in inflation — from 7.8% in April 2022 to 4.8% in June 2024. But, remember, a fall in the inflation rate only means a reduction in the rate of increase in prices, not a reduction in the price level. So, the pain for the public from more than two years of high inflation is real. No wonder they responded in the only way they could: by showing their displeasure at the hustings.

► Fiscal, inflation control, technically RBI's mandate. But as Jerome Powell said while admitting the limited success of the US Fed in controlling inflation, 'We now understand better how little we understand about inflation.' This is true in India, where the prices of food and fuel, accounting for close

to 70% of the consumption basket, are essentially outside the influence of monetary policy. In such a scenario, supply-side factors — government policy, such as provision of free food grain, and tax on fuel — are no less important in containing inflation.

► Employment Jobless growth has been a stubborn feature of our post-reform growth. Worse, the position is unlikely to improve in the near future, given the stubborn stickiness of the manufacturing sector's share in GDP. The fact that the BOP is a critical element, a potent weapon to address inflation.

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Recent research suggesting the manufacturing-driven growth model may not be for us raises many pertinent issues. If we are to charter a different (services-driven) model, preconditions are in place. A services-driven model requires a higher level of skills, and more educated and healthy workforce than 'wasteful' use of resources — not without concerted action by government and greater spending on areas like health and education. Both are in the states' domain.

But let's not act as a catalyst. The ball is squarely in Gov's court. It must promote job creation and growth, even as it tries to ease distress of the jobless through welfare schemes, and lend support on the supply side to keep inflation under check. All this calls for more expenditure on the revenue rather than capital side, and is bound to both restrict Gov's ability to use public investment as an engine of growth, and take away some of the sheen in the eyes of fiscal hawks.

As we continue down the path of fiscal consolidation and retain a broad policy continuum, some tweaks are essential to ensure public, as far as possible, from corporate, rural distress is real. Latest data show that agriculture growth in the last quarter was the lowest in a decade. The fact that BJP did worse in semi-urban and rural areas is a pointer that must be addressed with higher allocations for the farm sector and SMEs, along with targeted support for sectors in distress.

Welfare policy is all about trade-offs. Thanks to strong growth, driven by a large part by government capex and sound fiscal management, the last fiscal year ended with a lower fiscal deficit than budgeted — a remarkable achievement in pre-election year. Today we have the fiscal space needed to address concerns that have long been ignored.

The forthcoming budget will be a far-reaching document of government's far-reaching policies and futuristic vision. The pace of reforms will be further accelerated in tune with the aspirations of people of India for rapid development, said Drupadi Murmu in her presidential address to Parliament last week. It's time to wake up and smell the coffee. A futuristic budget must have more than Sensex on its radar.

## THE SPEAKING TREE

### Stop and Observe

KV RAGHUPATHI

The currents of aspirations and indulgences in our world are oppressive and irrational. There are countless pursuits and indulgences in our lives. Either we're living in self pity or we're aiming for greater accomplishments. Either we become ecstatic and disoriented or madly pursue power and positions. Either we're sinking deeper into unfavourable thoughts, or we're chasing the next big goal that will bring us happiness. Either we're rationally fighting through the wrath to consume more, or we're struggling with dread and wrath. We are rarely aware that we are missing anything significant from our lives as we are so engrossed in our activities, pursuits, and indulgences.

We seldom allow ourselves just to stop and observe. One of the core concepts of lifelong learning is observation. Scientists and artists observe closely to come up with and create something novel. By observing, we resist the impulse to draw biases and judgements from what we observe. Contentment is observing in a kind of silent, language-free and impersonal learning. Observation without intention and language is meditation.

Our level of contentment with everything increases as we continue to observe. The more we observe, the more our ego collapses, the more liberated we feel, and, thus, the closer we begin to feel our deepest selves and the outside world. Just keep observing. This is meditation.

## PARANORMAL ACTIVITY

Paraphrase From History

Parva

SI Bhargava

The inhabitants of the doab region between the Iravati and Chandrabhaga rivers were called 'Parva'. Their king was Salva. Now he's old and getting older. Sitting next to his grand-daughter, he asks her, 'Do you guess what my age is?'

'Grandpa, no one is older than you,' the 60-year-old replies. 'And yet I don't have any backache while walking about... I don't walk bent, powerful.' Can you tell me why?'

'You're very strong, well-built, powerful,' she says with a smile. 'I'm not that old,' he says. 'You keep saying, 'Who, folks from the old times?' How many of you are there?'

'None in this kingdom has seen you for a long time. You have been away for a long time. They are there in the cities of other kingdoms, outside the cities among common people. People from the old times are all strong, in good health.'

'Why is that?'

'It's because of the way they live. Not the way you youngsters do. You leave the ways of your place and people and take up the ways of others...'

His grand-daughter interrupts and says, 'Grandpa, how could you forget that we had promised to not talk about this again?'

## Chat Room

Nerves of Steel

Steal the Trophy

Agropres the Edit, 'Team India, Admired For Its Superpower' (Jul 1), India's long-drawn-out ICC tournaments finally wound up on a glorious note in Bharuodas on Saturday. There was never a doubt about Team India's talent, but sport is as much about skill as about strategy. The team worked really hard to achieve this stunning victory; they deserve all the credit for lifting the trophy. They are in no less deserving World No. 1.

GREGORY FERNANDES

Mumbai



{ OUR TAKE }

## Coping with the monsoon impact

Infrastructure collapse after a single day's rain is a wakeup call to reimagine Delhi's water future

Last Friday, Delhi received a record downpour of 228.1 mm rain, the highest for a single day since 1936. A taxi driver died when the canopy of a terminal at the Indira Gandhi International Airport collapsed on his car and 11 others were injured as rain battered the city. It triggered an infrastructure collapse in the national Capital of a scale that raised serious questions about urban governance, especially the preparedness of the city and state governments to deal with the monsoon.

Exceptional rainfall is becoming common around the world — and wreaking havoc in countries big and small, rich and poor. It is always difficult to prepare for such extreme events (which are increasingly becoming common), but Delhi's multiple administrations (the LG, the UT's elected government, NDMC, MCD) had adequate warning. A record 153 mm rainfall on July 9 last year led to massive flooding in the city with the Yamuna waters breaching its bunds and inundating areas close to the river. Soon after, the powers that be promised that the city's infrastructure would be augmented to ensure that it would never encounter a similar situation. The truth is little has been done. Last week's flooding happened because the city's choking sewage drains had not been cleared, the nullahs had not been de-silted, pumps had not been readied to limit water logging and other maintenance work was left incomplete or ignored. Worse, the big problem highlighted a year ago — storm water drains being used for sewage and vice versa — was also the big reason why many parts of Delhi flooded on Friday.

The city's administrators have to address the issue across three time horizons. In the short-term, they will have to ensure the efficacy of existing infrastructure, carrying out routine maintenance work regularly, and putting in place a protocol for inspection. In the medium-term, they will have to augment infrastructure. And in the long-term, they have to accept the new reality forced on us by the climate crisis, factor in extreme events as routine ones in the planning process, and design a city that can withstand events such as Friday's. It is important to remember that much of the visuals of flooding coming in from Europe are because of the inability to do the third. Delhi's problem is more first-generation. That's the real tragedy.

## Low Tehran turnout hints at political crisis

Iran's presidential election, necessitated by the death of Ebrahim Raisi in a helicopter crash in May, has been marred, like most recent polls in that country, by a record low turnout that reflects growing voter apathy. It also ended in a stalemate, with a run-off announced for July 5 to let voters decide between hardliner Saeed Jalili and reformist Masoud Pezeshkian. Just 40% of more than 61 million eligible voters cast their ballots, the lowest turnout in presidential elections in more than four decades. This growing disinterest among voters has shown up the frailties of an electoral system that weeds out perceived reformists or dissenters.

The clergy's bid to firewalled the headline Islamic polity from any liberal incursion is undermining Iran's political democracy, with a large segment of the population staying away from elections since their voices are not allowed to even feature in the contest. This disillusionment has grown since the widespread protests triggered by the September 2022 death of Mahsa Amini, a 22-year-old arrested for violating the strict dress rule for women, did not lead to anticipated reforms. A higher turnout in the run-off could benefit Pezeshkian, who was marginally ahead of Jalili in Sunday's election.

No matter who wins the run-off, he will have a tough task dealing with challenges such as an inflation rate of more than 40%, strained relations with the West, reviving the Iranian nuclear deal and finding a way out of crippling sanctions. Even here, the Iranian president's options are limited as most decisions are left to the Supreme Leader, Ayatollah Ali Khamenei. While India must be prepared to continue engaging with the Iranian leadership to secure its strategic interests across the region, this election should serve as a wake-up call for the Supreme Leader and his aides about the need for change.

## Eat the rich, but do it in a logical manner

A clean-up is needed in India's tax regime to make it rational across assets. There is also a need for policy permanence

Opinions on taxes on assets almost always depend on one's position in life. Those without assets see the merit in taxing the asset-rich and those who have built or inherited assets will argue for no or low taxes. After all, they argue, that tax on the income has already been paid and then the assets have been created — why tax them again? But other than a few tax havens that have zero tax on income or profit from assets, most nations tax both income and profits from assets. As does India. The tax regime in India has been used to nudge investors in certain directions and has ended up in a thoughtless hotchpotch with no first principles in sight. Worse, the lack of policy predictability has investors angry and confused as they are unable to make long-term decisions with their money. I argue for a first-principles-based approach to taxing both income and profits from assets for a nation that is on the road to middle-income status.

But first, let me define the broad categories into which assets fall. These are equity (stocks and equity funds), debt (fixed deposits, public provident fund, bonds, debt funds)

and real assets that will include real estate (immovable) and gold (movable), among other things. Income from assets is usually taxed at the slab rate (the maximum tax rate that your income tax is levied on — also called your marginal rate of taxation). So, income from debt is interest and from real estate is rent. Equity, like gold, is subject to no income, though, in India, dividends (that are actually distributed profits) are taxed as income in the investor's hands. Profit, or income, is the difference between the buy price and the sell price. Called "capital gains", these are taxed according to the length of time they are held by the investor. If held for a shorter period of time, these profits are taxed mostly as income. For a longer holding tenure, the long-term capital gains are usually taxed at a lower rate. Sometimes these profits are adjusted for inflation, lowering the tax burden. Then there is the issue of re-investment — should the government tax profits from assets at all if it is getting reinvested in the same asset class? All these lead to very different treatments for the three asset classes. I suggest that all assets have a rationalisation of treatment across three parameters. Treat them equally so that investors can make investment decisions based on the merit of the asset rather than to harvest a lower tax regime.

The first parameter is that there should be equality regarding rates of taxation. For the same purpose (income or capital gain), tax rates must be equalised across the three asset classes and the various forms they are held in, removing the tax arbitrage that exists today. I would like to argue for reducing the rates to the lowest possible rather than the other way around. The exact number is for the budget team to decide — this column is more a strategy direction than a recommendation on rates. Second, there should be equality regarding the holding period to classify an asset as held for the short-term or long-term. Equity (and listed bonds) go long-term after a holding period of one year, real estate at two years, physical gold at three years, and gold and debt mutual funds do not go long-term at all. In a strange move in 2023, the ministry of finance classified long-term profits on debt mutual funds as income to be taxed at the investor's marginal tax rate, while listed bonds get treated as equity in terms of their long-term tax treatment. This move defies logic, and better sense must prevail when the full audit of the taxes on assets is done. A neat tax system should equalise the holding period that classifies an asset as short-term or long-term and should not differentiate the mode of holding the asset — directly or through an institution. Third, there should be equality regarding reinvestment treatment. The current system gives a free pass



Monika Halan



We should sort out our asset tax system fast and give a clear pathway to an aspiring India that wants to be rich

to real estate by making profits tax-free if reinvested in specific bonds or another piece of real estate. There are many conditions and these keep changing year by year. But the basic tax pass that is given to real estate is not given to any other asset class for reinvestment within the same asset class. This is particularly worrisome for long-term equity investors who cannot switch from a poorly performing fund to a well-performing fund because there is a capital gains tax on exit. Surely there can be a way to switch your holding, say within a month, into another fund for no incidence of a long-term capital gains tax.

Two more issues need attention. One, we need policy permanence and not this annual tinkering with the tax system. It is difficult to make long-term decisions for investors if their best ideas in the market are changing. Why is it so difficult to think through the tax on assets on a first principles basis and then just stick to it?

And last, please clean up the strange rule of taxing equity as debt when it comes to fund of funds in the mutual fund space. With

₹20,000 crore of systematic investment plans coming month after month from retail investors into risk assets such as equity funds, mutual funds are now the go-to product for middle India seeking a long-term investment product. However, a special category of funds called fund of funds which is just a mutual fund that buys units of other funds — typically used to invest overseas to give geographical diversification to a portfolio — has a tax rule that is incorrect. There is no other way to put it — it is just wrong to tax an equity fund of funds as debt. As the government likes to say, India is on its way to becoming a developed country. *Anirudh Kaul* by 2047 is a realisable goal. Along with prosperity will come financialisation and the need for investments. We still have time before the rush of retail money becomes a gush. We should sort out our asset tax system fast and give a clear pathway to an aspiring India that wants to be rich.

Monika Halan is the best-selling author of the *Let's Talk* series of books on money. The views expressed are personal

## In Iran, a battle between polarising political views

On June 28, Iran's snap elections for a new president ended in a run-off, with none of the three final candidates securing a majority. The surprise element was that even at a historically low voter turnout of 40%, the sole reformist candidate, Masoud Pezeshkian, maintained a lead of nearly one million votes over Saeed Jalili, a hardliner and long-time ally of Supreme Leader Ayatollah Khamenei. Mohammad Bagher Ghalibaf, a former Islamic Revolutionary Guard Corps (IRGC) commander, former Tehran mayor, and current parliament speaker — who projected himself as the establishment choice, came a distant third in what was his fourth presidential campaign.

After the moderate Rouhani government was weakened by the Trump administration's unilateral withdrawal from the nuclear agreement in 2018, the Guardian Council, the conservative-dominated vetting body, has been systematically disqualifying the majority of reformist and moderate candidates in parliamentary and presidential elections. Khamenei has backed conservative control of all branches of power — parliament, judiciary and presidency — when the Islamic Republic is facing severe internal and external challenges and a generational change in political leadership. Protesting against disqualifications that restricted the voters' choices, reformists, including former president Mohammad Khatami, boycotted the elections. Amid the "Women, Life, Freedom" protests, Green Movement leader Mir Hossein Mousavi, who has remained under house arrest since 2011, called for a referendum on Iran's political system and the drafting of a new democratic constitution. Even moderate leaders such as Rouhani and Javad Zarif have decided the "rule of minority". In this context, the approval of Pezeshkian, a five-term parliamentarian from East Azerbaijan province and a prominent reformist disqualified in the 2021 presidential election, was a surprise. In a bid to attract alienated voters, Pezeshkian adopted Baraye Iran (For Iran), the anthem of the recent protests, as his campaign slogan.

While Mousavi still did not vote, Khatami, Rouhani, and Zarif supported Pezeshkian's campaign. Still, the manoeuvre to bring reformists back to the political arena to counter voter apathy has largely failed to attract the "grey voters" — a term for reform-minded individuals who usually don't cast their ballots. The only exception was the capital, Tehran, which usually sees the worst turnout. It saw an increase of 10.6% in polling, possibly in the favour of Pezeshkian. Further, the border provinces of Kurdistan and Sistan-Baluchistan, inhabited by ethnic and Sunni minorities, recorded the lowest turnout. The non-participation of 60% of the electorate underscores the deep dissatisfaction with the political system. Pezeshkian's lead, despite the low turnout, has overturned the conventional wisdom that reformist prospects depend on high turnout. The most plausible explanation is a shift of conservative votes in his favour. Jalili and Ghalibaf together garnered 12.8 million votes, a decline of 5.2 million from the 2021 election when Raisi emerged victorious with no serious challenger. Pezeshkian, who is an ethnic Azeri Turk and has represented Tabriz in parliament since 2008, received a wide lead over the conservatives in the three north-western provinces, where the majority of Azeris (peaking 16% of Iran's population) live. Pezeshkian's campaign focus on addressing the long-standing neglect of border areas and ensuring the inclusion of Sunni Muslims and ethnic minorities in government posts may have helped in making inroads into traditionally conservative votes in these regions.

Another notable feature of the elections was the intensive power struggle within the conservative camp. In the March 2024 parliamentary elections, a younger generation of hardline clerics such as Mahmoud Nabavian and Mehdi Rasaei, at the helm of the Front of Islamic Revolution Stability (known by its Persian acronym Paydari), had carried out an "anti-Ghalibaf" campaign focussed on curbing the conservative faction. Unlike the pragmatic conservative Ghalibaf, Jalili, who has secured the highest votes in Tehran in the 2020 parliament, fell to fourth place. Paydari is the most fundamentalist political group in the conservative spectrum. Unlike the pragmatic conservative Ghalibaf, Jalili favours a rigid version of Islamic law and is fiercely critical of the reformist cause of social and cultural freedoms and diplomacy with the West, denouncing them as sectarianism. Paydari supported Jalili, who has his power and authority to Khamenei and is known for his uncompromising stance on the nuclear issue. The support of former president Mahmoud Ahmadinejad. However, Ghalibaf, driven by personal ambition and the support of power networks he cultivated during his tenure as Tehran mayor, refused to withdraw in Jalili's favour even after the pre-election surveys indicated Jalili's substantial lead over him. Even an intervention by IRGC Quds Force Commander Esmail Qaemari failed to convince either Jalili or Ghalibaf to withdraw. Subsequently, a triangular contest made a run-off including Pezeshkian almost inevitable. After the defeat, Ghalibaf extended support to Jalili.

The Pezeshkian-Jalili run-off on July 5 will be a showdown between the two most polarised political views in Iran: the conservative apparatus, including the Basij, a million-strong volunteer paramilitary organisation that led the crackdown on the 2009 Green Movement and the revolutionary hijab protest, will mobilise for Jalili. Pezeshkian's fate depends on whether he can finally move the grey voters.

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{ MALLIKARJUN KHARGE }  
LEADER OF OPPOSITION IN RAJYA SABHA

The future of 30 lakh students has been affected due to recent paper leaks. If this keeps happening, students will stop their studies

## Biden versus Trump as a modern Greek tragedy

If this is not a tragedy of Greek proportions, what is? The United States (US) presidential debate between an incoherent, physically and intellectually impaired man who cannot even enunciate some of his best ideas in a chronic liar is a theatrical coup that nobody in the world thought they would see in their lifetime.

Donald Trump and Joe Biden are seeking re-election this year and, if neither pulls out, one of them will become the President of the US, holding the reins of a much larger global territory than the geography of the United States. The prospect of a foreboding, "an impending sense of doom," as literary critic Frank Kermode says, that is gripping almost every observer of US geopolitics everywhere in the world.

Biden's friends and staunch supporters have already written essays on why he should bow out of the presidential race in the interest of the Democratic Party and the nation at large. It is, after all, a tall order to make Trump come across as a better politician.

Pessimism much? Philosophers and literary critics, Friedrich Nietzsche being the foremost, have long argued about the relationship between pessimism and tragedy. "Tragedy... is in its essence pessimistic. Existence is in itself something very terrible, man something very foolish," said the German philosopher. What is even more interesting, and bang for the buck in the present moment, is Nietzsche's proposition that all tragedy emanates from time. "All the tragedies which we can imagine return in the end to the one and only tragedy: The passage of time," philosopher Simone Weil took the idea further. The tragedy of the 2024 US elections is, paradoxically, predicated on time — the age of the president, the cut-off period for an abortion to remain legal and the deadline for the ceasefire in Palestine.

Just how far will a leader go in order to save face and secure a military victory in the East? In 2004, a campaign in London ran on these lines. Only, it was for a National Theatre production of Euripides's *Iphigenia at Aulis* and the "leader" in question was the Greek king Agamemnon, the man who burnt the "topless towers of Ilium", and not Tony Blair, in cahoots with

George W Bush, burning Iraq down. This is just to show how everything we see on the stage of western politics today has its roots in the Greek classical literary traditions. Hence, the two men in the present instance, vying for the presidential post in the world's oldest democracy, are nothing more than two performers in the *polis* — the public space.

One of the defining features of Greek tragedy, according to Aristotle, is terror. Only when terror is unleashed and the twin emotions of fear and pity are heightened can there be the cleansing of the sad emotions. The moment of catharsis.

Seeing Biden lose his grip on reality, quite literally, during the debate was both a moment of terror and pathos. Similarly, Trump's astute use of the debate platform foreshadows the days to come. Not very confidence-inspiring, is it? One, then, begins to question the very purpose of such an exercise. What did the viewers and voters get out of it?

In 1980, behavioural scientist Constantine G Lyketsos published his findings on the effects of ancient Greek drama on patients with chronic psychiatric issues. Taking the Aristotelian view forward, that frenzied people have the ability to empathise with tragic heroes, performances of various Greek tragedies had been used in Athens's Dromokation Mental Hospital as a means of psychotherapy. The findings suggested that "drama is not merely a recreational activity for mental patients. On the contrary, a unique psychotherapeutic effect is produced by the power of plot and language".

Is the presidential debate, then, an act of intervention for the public at large in the US and abroad? It would seem so, going by the public response to the debate.

The only catharsis offered here, however, is to the non-US citizens who are heaving a sigh of relief that they are not poor Americans saddled with an impossible choice this November.

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## OUR VIEW



## Street vendors in India also deserve good laws

A street vendor attracting an FIR under the Bharatiya Nyaya Sanhita places a spotlight on informal commerce and the complexity of market forces clashing with civic discipline

Criminal laws in India dating back more than a century have finally made way for the Bharatiya Nyaya Sanhita 2023 (BNS), with this new penal code coming into force from 1 July. This switchover from pre-1947 provisions of law marks a significant moment in updating our legal framework. Ironically, it's a street hawker who looks likely to go down in history for being among the first to face charges under it. On 1 July, an FIR (first information report) was registered by the police in Delhi under Section 285 of the BNS against the said vendor for causing obstruction under a foot-over bridge of New Delhi Railway Station. Such vendors dot India's urban-scapes and can be found on almost every street, selling a variety of wares—from fruits and snacks to clothes and daily-use items. Many public spaces resemble bustling markets with buyers teeming around pushcarts, tripods and makeshift stalls. Given this reality, it's a challenge to keep public pathways free of obstruction. After all, countless vendors do it openly everyday. To be sure, India does have a law in the form of the Street Vendors Act of 2014 to govern street vending. In addition, some states have their own rules too.

Implementation of the 2014 central law, however, seems to lack the cooperation needed of local administrations, with a chaotic free-for-all visible on so many streets. A hawker's ability to operate at a particular public spot is often dictated by the arbitrary nod of a public official, rather than the lawful distribution of hawking rights. The law was framed to set all this chaos in order. It provides for the setting up of Town Vending Committees by local governments, which would undertake surveys to map all vending zones, split localities into those where

it's allowed, where specific restrictions apply, and where this activity is outlawed. Hawkers, as envisaged, could obtain certificates to operate at these spots for a fee over a specified period. With such licences to show the police, they'd get a chance to prosper. The test of this regime lay in whether it would eliminate bribery bred by uneven law enforcement at the street level, what with entire networks of cops and officials suspected to be stuffing their pockets with pay-offs. How has the law panned out? The answer varies across urban India, but its efficacy has been largely unsatisfactory. Given the multiplicity of authorities involved, its fair and equal application was never going to be an easy task.

There's another difficulty. Intervening in street interactions of demand and supply holds back commerce, which explains why hawkers being cleared by cops often attract sympathy. This activity is largely informal but still a key source of livelihood for many of India's poor. While leniency towards hawkers mustn't be a nuisance for others—and nobody should get to obstruct any passage—it's helpful to let markets operate as freely as possible within that legal constraint. So long as demand and supply get to meet, this commercial activity serves a valid purpose. We just need to keep it orderly. And ensure that the mechanisms we deploy don't act as stifling tools of control. For big business, India abandoned its old Licence Raj in the early 90s. By dropping umpteen rules that called for a stack of permits covering everything from what an enterprise could make to how much, we liberated India Inc's supply responses to demand. Let's look at street vending likewise. If licences are necessary to keep pathways free, these should be neither scarce nor hard to obtain. Let's balance all interests equitably.

## MY VIEW | TIGHTROPE WALK

## It is a country's institutions that determine its success or failure

We must go beyond cosmetic measures and address root causes if NEET-like fiascos aren't to recur



**RAGHU RAMAM**  
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It is not the geography, culture or natural resources that determine the success of a country. Instead, it is the nature, quality and strength of its institutions. This was the proposition made by James Robinson and Daron Acemoglu in their book *Why Nations Fail*. They examined countries with similar geographical, cultural and natural resources; for instance, North and South Korea, East and West Germany and several African countries to establish that, all things being equal, it is the nature of their institutions—specifically whether they are inclusive and governed with the national interest in mind or extractive, catering to a minuscule proportion of the rich and powerful—that is the most telling differentiator.

Every nation faces a choice of investing for the future or present. This is not just about funds, but where money is deployed. And it is not limited to funds either. The term 'investment' encompasses strategic efforts to occupy mind-share and strengthen nation-building elements like healthcare, education, research and development, social justice, wealth distribution and corruption-free systems. India's record on these lead indicators is on a downturn. Take, for example, the NEET fiasco.

Symptoms of our education system being in dire straits are evident, ranging from rigged exams, question paper leaks, paid proxies appearing in lieu of

actual candidates, fly-by-night ed-tech companies and billions of rupees made by 'coaching industries' that fleece hopefuls battling near-impossible odds. Our school education system has virtually abdicated its role to the tuition industry, stacking the odds against the poor. When it comes to NEET hopefuls, the difference between the cost of education at government colleges (that have approximately half the 100,000-odd seats) and at private deemed colleges is astronomical. While the former is somewhat affordable at under ₹8 lakh, the cost of education in private colleges is upwards of a crore, reserving these seats exclusively for the top 1% of Indians. As if that weren't enough, the latter are now encroaching into the 50,000-odd government seats that are still affordable by circumventing the exam itself. After all, it's only the rich who can pay for leaked papers.

The rot didn't start with this instance, which came to light more because of the ham-handed way it was conducted and protests by students, rather than any proactive audit by authorities, who remained in denial despite glaring evidence to the contrary. It had set in long ago. Almost every exam conducted for government posts at central or state level, especially at lower echelons like for the appointment of teachers, constables, municipality workers and even peons, have massive over-applications with highly over-qualified aspirants desperate to get these posts. The 'rates' for attaining these are well known, as is the nexus between private institutions, bureaucracy and politicians. Yet, the urban middle- and upper-middle class remained unconcerned because that rot did not affect them directly. NEET does.

The irony is that regardless of the position of an undeserving candidate, the gangrene doesn't stop with one part. It spreads across the system, spoiling everything it touches. Bridges fall because of incapable engineers and dishonest officials. Soldiers die because of substandard equipment. Billions of

man-hours are lost to annual waterlogging due to incompetence and corruption. Accidents rise because driving licences can be bought. A constable who paid his way to become one begins illegitimate recoveries as soon as he does. And doctors who bought their way through medical colleges could end up killing patients with licensed impunity.

Every investment made in the future, be it the small savings of a household in a mutual fund, massive stock-market infusions by foreign institutions or even bonds issued by the government, is essentially an investment in the quality and strength of the institutions that govern us directly or indirectly.

Nations succeed or fail because its citizens recognize the umbilical link between good institutions and their future success. Inclusive institutions leverage the entire national capacity and do not hamstring the majority of people with uneven playing fields. Extractive institutions focus on a specific demographic slice for short-term gains. Inclusive institutions are unbiased, fiercely independent and beyond reproach, capable of producing meritorious policemen, engineers, drivers, government servants and doctors. Extractive institutions are opaque, mired in controversies and scams, spewing substandard material. Inclusive institutions ensure political power is distributed with checks and balances, fostering participative economic and educational policies that enable equitable wealth creation. Extractive institutions concentrate disproportionate power and resources in the hands of a few.

But most of all, nations succeed or fail because they realize the difference between cosmetic assuagement, headline management and blame shifting, and actually fixing the root cause of the problem, which is the nature and quality of the institutions. Until that happens, we'll keep taking the patient to a beauty parlour instead of a hospital, because the focus is on making the patient look good, not curing the disease.

## 10 YEARS AGO



## JUST A THOUGHT

The purpose of education is to replace an empty mind with an open one.

MALCOLM FORBES

## MY VIEW | MUSING MACRO

## Use dialogue, deterrence and trade to deal with China

AJIT RANADE



is a Pune-based economist.

Less than one year, India's solar-cell manufacturing capacity will increase to 30 gigawatts from 6. These cells go into solar photovoltaic modules, whose capacity will also double to 150 gigawatts in two years. This will not only meet domestic demand but might also make India an exporter. A similar story can be told in India's quest for self-sufficiency in mobile phones. India's capacity now fulfils 97% of the domestic demand for handsets, plus earned \$15 billion in exports last year. Electronic exports will touch \$50 billion in the next two years. Notably, this production and export success is riding on imported Chinese components. For solar energy, India imports cells, glass, frames and encapsulants from China. To reach 500 gigawatts of renewable capacity, weaning away from Chinese imports won't be easy. And imposing punitive import tariffs just makes the sector expensive and uncompetitive in India. In electronics too, the growth of the domestic base depends on rising imports of printed circuit boards,

micro assembly, semiconductor devices, LEDs, integrated circuits and capacitors. Overall imports from China have grown 31% last year, and the share of China in electronic devices and components has only gone up.

This story extends to other critical sectors. In the last 15 years, China's share of India's industrial product imports has increased to 30% from 21%. Chinese imports grew faster than overall imports. It is largely intermediate goods that are imported from China, not end products or even raw materials (at the other end). These are organic chemicals, active pharmaceutical ingredients, capital goods and machinery. These inputs are critical for domestic markets and exports. It's a classic case of supply-chain dependence.

India-China trade in the last four years has been at \$88 billion, \$126 billion, \$136 billion and \$119 billion, respectively. China is India's biggest trading partner. The asymmetry in the bilateral deficit continues. Chinese imports don't just feed India's domestic ambitions, but also help with disinflation.

These trade statistics only serve to highlight the dilemma of what India's China strategy should be. Until the betrayal at Galwan, the relationship was firmly compartmentalized. Trade, commerce and investment were in one compartment, and border

issues in another. Despite India slapping anti-dumping duties, non-tariff barriers and investment restrictions, trade and commerce were growing. Indian exporters must realize and exploit the fact that China represents a \$6 trillion consumer economy, where even a 1% market share is a tremendous opportunity. More than 100 countries export to China. Despite trade war-like tariffs imposed on Chinese goods by America, China-US trade has grown to nearly \$800 billion. India's efforts at increasing exports to China must intensify and reduce the trade deficit. The size of the deficit is less than 1% of China's pile of foreign exchange. Beijing is keen on diversifying away from dollar assets as it fears American confiscation, or severe devaluation. There is scope for substantial Chinese capital inflows into India, which we have discouraged. Yet, surely, in areas such as automobile manufacturing, Chinese capital cannot pose a national security threat. We need a strategically nuanced approach to our

restrictions on inflows of Chinese capital. If it is in form of risk capital, for example, it does not add to our foreign debt obligations.

As for border issues, more dialogue is the only way to go forward. The Chinese betrayal at Galwan was in unilaterally trying to change the status quo on the Line of Actual Control. The framework that had worked for nearly five decades stands discarded because of Beijing's treachery. The Chinese betrayal might be a result of President Xi Jinping's stance, or an assertion of China's growing economic, military and technology clout. Or it could be on account of the influence of social media in China, which can be like riding a tiger for policymakers. India is no more immune to the corrosive effect of social media in influencing international relations.

Besides, there is the increasing role of 'grey zone' warfare and non-state actors, of cyber-attacks, and disinformation, apart from many low-level irritants like renaming Arunachal Pradesh regions in Chinese, all of

which are further complicating the scope for meaningful dialogue. However, this should not obscure certain stylized certainties.

First, that China has nothing to gain from a full-fledged military confrontation with India. Second, the India-China gap will remain significant for at least a decade. Third, India's strong deterrence on the border is equal in measure to the Chinese build-up. Fourth, China is facing very big domestic macroeconomic and demographic challenges, as well as thorny border issues with multiple neighbours, which will engage policymakers much more than anything else. Fifth, India and China account for 40% of humanity, are neighbours, ancient civilizations and have common interests on global issues that are popularly acknowledged. Sixth, one has to make distinctions between states, governments, people and societies when it comes to dialogue between India and China. There is much scope for increasing people-to-people links despite border hostilities.

The near-term approach, as also recently articulated by former foreign secretary and a leading China specialist Vijay Gokhale, should be to engage China more through political dialogue and a deeper understanding of bilateral issues.





## THEIR VIEW

## MINT CURATOR

# Washington Consensus is dead: Long live the Berlin Declaration

The world's shared common sense today argues for the establishment of a new balance between markets and collective action



**DANI RODRIK, LAURA TYSON & THOMAS FRICKE**  
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**P**aradigm shifts in mainstream economic thinking usually accompany crises demanding new answers, as occurred after stagflation—low growth and high inflation—gripped advanced economies in the 1970s. And it may be happening again, as liberal democracies confront a wave of popular distrust in their ability to serve their citizens and address the multiple crises—ranging from climate change to unbearable inequalities and major global conflicts—that threaten our future.

The consequences can now be seen in the US, where former President Donald Trump has a good chance of winning the presidential election in November. Similarly, a far-right government could take power in France after the coming snap election. To prevent dangerous populist policies that exploit voters' anger, and to avert major damage to humanity and the planet, we must urgently address the root causes of people's resentment.

With this imperative in mind, many leading economists and practitioners convened in Berlin at the end of May for a summit organized by the Forum New Economy. This 'Winning Back the People' summit led to something resembling a new understanding that may replace the market-liberal 'Washington Consensus', which for four decades emphasized the primacy of free trade and capital flows, deregulation, privatization, and other pro-market shibboleths.

The Berlin Declaration published at the end of the gathering has since been signed by dozens of leading scholars, including Nobel laureate Angus Deaton, Mariana Mazzucato and Olivier Blanchard, as well as by Thomas Piketty, Isabella Weber, Branko Milanovic and many others.

The Washington Consensus has been wobbly for some time, challenged by abundant research documenting rising income and wealth inequality and its causes, as well as reassessments of the role of industrial policy and strategies to combat climate change. Recent crises, not to mention the danger of losing the fight for liberal democracy itself, have catalysed an effort to translate all this research into a new common framework of policies to win back citizens.

The Berlin Declaration highlights widespread evidence that people's distrust is to a large extent driven by the shared experience of a real or perceived loss of control over one's own livelihood and the trajectory of societal changes. This sense of powerlessness has been triggered by shocks stemming from globalization and technological shifts, amplified by climate change, artificial intelligence, the recent inflation shock and austerity.

This diagnosis logically leads to an equally clear



conclusion. To win back people's trust requires policies that restore confidence in their—and their governments'—ability to respond effectively to the real problems they face. This means focusing policies on the creation of shared prosperity and good jobs, including policies that proactively address imminent regional disruptions by supporting new industries and directing innovation towards wealth creation for the many.

There is equally strong support for designing a healthier form of globalization, for coordinating climate policies, and for allowing national control over crucial strategic interests. Underlying these priorities is broad agreement that income and wealth inequalities must be narrowed.

As part of a new consensus, climate policies will need to combine reasonable carbon pricing with strong positive incentives and ambitious infrastructure investment. And there is widespread acceptance of the need for developing countries to get the financial and technological resources they need to embark on the climate transition.

In sum, there is a new shared common sense that a new balance between markets and collective action needs to be established.

To agree on all of this would probably not have been possible five years ago. The large number of signatories, and the diversity of perspectives they represent, reflect how much the discussion has changed with the accumulation of more and more empirical evidence.

The signatories of the Berlin Declaration do not pretend to have all the answers; far from it. Rather,

the Declaration's purpose is to offer a statement of principles that obviously differ from the previous orthodoxy and to create a mandate to refine political concepts for practice. How to get industrial policy right must be defined in a national context, as well as in a cooperative international effort; the same is true of how governments can best incentivize climate-friendly behaviour. How to re-frame globalization or most effectively reduce economic inequality also remain open questions.

Nevertheless, achieving a consensus on the principles that should guide policymakers is hugely important. Recognizing that markets on their own will neither stop climate change nor lead to a less unequal distribution of wealth is only one step toward devising optimal strategies that can effectively address the real challenges that confront us. A lot of progress has already been made on this front.

We now face a choice between a protectionist populist backlash, with all the conflict that this implies, and a new suite of policies that are responsive to people's concerns. To pre-empt populists, we need a new political consensus that focuses on the causes of citizens' distrust, rather than on the symptoms.

A concerted effort to put citizens and their governments back in the driver's seat and promote well-being for the many is needed to restore trust in our societies' ability to overcome crises and secure a better future. To win back the people requires nothing more—and nothing less—than an agenda for the people.

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## There's no alternative to better data on climate-change effects

Countries like India must quantify the impact on their economies



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We know too little about what to expect as global warming worsens  
BLOOMBERG

**I**t isn't hard to understand that global warming is already changing how we live. In India's capital, New Delhi, this summer has been so hot—above 40° Celsius even at night—that people are gasping, tap water is scalding and the walls of their homes emit heat like radiators. The Saudi Arabian authorities said that 1,300 pilgrims have already died on this year's Hajj. Players at the European soccer championships are collapsing due to exhaustion.

And yet economists—clearly able to keep cool heads when everybody else is losing theirs—are in the middle of a fresh debate about the real costs of climate change. A new working paper from two academics at Harvard and Northwestern, published by the National Bureau of Economic Research, argues that the macroeconomic damage from climate change might be as much as six times higher than previously estimated.

Their model predicts that a single degree increase in global mean temperatures leads to a gradual decline in world GDP that peaks at 12% after six years and does not fully mean-revert even 10 years after the shock. They point out that this makes unilateral climate action worth it for countries like the US; that argument must surely also hold countries that are poorer but far more exposed to climate change, such as India.

The paper has set off a storm of furious criticism, and not just from economists. The climate scientist John Kennedy argues that its methodology may be flawed. He is sure, for example, that we can easily extrapolate from the historical record of 0.3-degree shocks to global temperature to the larger, one-degree changes associated with climate change.

It's clear that global warming is already having a malign effect on human health and livelihoods. We just need more clarity on how much.

Discussion of the real costs of climate change, to human welfare and to national economies, have been going on for decades. But we no longer need such estimates to make the case that it is real, and a problem. Instead, we need them as inputs into policymaking, like jobs or price data.

Policymakers are still short of objective, sector-specific and precise estimates of current and possible future costs. That shortage is a growing problem—because climate policy is beginning to bite. Billions of taxpayer dollars are being directed to sectors that promise to curb emissions; consumers are paying more for carbon-intensive goods and services; and pressure to

follow a net zero strategy has complicated decisions for companies and institutional investors.

These should all count as successes in the fight against climate change. When money moves, however, people begin to ask pointed questions. It isn't just various Republican politicians attacking 'woke capital' to get in the headlines. Serious macroeconomic decision-makers, accustomed to evidence-based policy, are beginning to ask exactly what global warming's costs and benefits are for their countries.

India's chief economic advisor V. Anand Nageswaran, for example, asked earlier this year if we were irrationally scared of the health effects of global warming. It is true that we in India are more exposed to heat stress than most. But, he pointed out, large-scale studies suggest that far more people die in India as a consequence of 'moderate cold' than from extreme heat. Delhi's temperature might stay above 40° Celsius for weeks on end, with all the negative effects on public health and economic activity that entails, but would other Indians actually live longer if average temperatures rose? Do we have real evidence for the aggregate effect of higher temperatures on mortality in India and the rest of the developing world?

These questions deserve real answers. But the data we currently have are insufficient. And that lack of data might lead to erroneous conclusions. Some scholars in India have noted that those most exposed to heat stress are manual labourers, construction workers and farmers—marginalized groups whose illnesses and deaths the country's public health system might not properly record.

It's vital that we put more resources into identifying and analysing the effects of warmer temperatures. Some efforts have already begun: Last year, the WHO released a framework to quantify the economic value of the health outcomes of climate-related investments. Countries like India must also begin to quantify the many indirect effects of climate change on their macroeconomic fundamentals: from greater variability in farm output to less productive physical investments. We can't make evidence-based policy for the great global problem of our time without more high-quality data.

BLOOMBERG

## MY VIEW | A VISIBLE HAND

# Oil dynamics are shifting in favour of our energy plans

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The global oil market has been rolled over the last several years. The demand shock during the pandemic, gradually evolving demand dynamics due to the electric vehicle (EV) transition, disruption of tanker movements following the Israel-Hamas war and economic sanctions against Russia, in interaction with supply responses to these events, have impacted international oil prices, trade flows and investments. Emerging clean energy technologies and more widespread efficiency policies and techniques are combining to slow down growth in oil demand.

First, a look at oil prices. They had averaged about \$50 a barrel from 2015 to just before the pandemic that began in 2020. They plunged in the wake of global lockdowns to the teens, briefly even turning negative. This paradoxical 'negative price' arose because supply glutted in certain places (like Cushing, Oklahoma, US) were so great that prices reflected an incentive for operators to pick up the oil at those locations and

prevent the commodity from overflowing all available on-land and tanker storage capacity. Oil prices recovered to a more normal \$50-60 going into 2022, when the Ukrainian war and resulting economic sanctions against Russia caused prices to a jump to \$120 a barrel and settle down at an average of about \$80, which is roughly where they are today.

There appears to be a \$15-20 per barrel uncertainty premium baked into the price of oil. The oil price volatility index, which measures the variability of prices, reached an all-time high of 226 during covid and stayed elevated in the 40s till recently (a reading of 30 or below is seen as normal).

The Organization of Petroleum Exporting Countries (Opec) along with Russia, together called the Opec+ countries, have kept supply tight, partly contributing to the high price of oil since 2022. High prices have provided 'windfall' profits to many companies that are in the business of pumping oil. Businesses have followed a strategy of returning some of that money to shareholders through buybacks and dividends, but also are reinvesting a portion in increasing capacity. According to a recent report by the International Energy Agency (IEA) that focuses on the long-term oil

demand-supply balance till 2030: "World oil production capacity, led higher by the United States and other producers in the Americas, is forecast to outstrip demand growth over the 2023-2030 forecast and, barring the covid pandemic period, inflate the world's spare capacity cushion to unprecedented levels."

Total supply capacity is expected to rise by 6 million barrels per day (mb/d) to 113.8 mb/d by 2030, a staggering 8 mb/d above projected global demand of 105.4 mb/d. In product terms, there is a steady shift towards natural gas liquids (NGLs) and condensates. The IEA expects half of the increase in supply to be in NGLs, with most of it coming from the US and Saudi Arabia. Guyana will become the newest petrostate, with oil production going from zero to about 600,000 b/d in a few short years.

Structural demand factors are also changing dramatically in geographical and product terms. The locus of demand growth had already shifted eastwards, a

shift that began with fast-swelling Chinese demand in the latter half of the decade and now includes India's. As seen after the sanctions against Russia, this shift has important implications for oil trade flows and overall market dynamics.

The IEA forecasts that overall demand will peak this decade. As a market forecaster, Goldman Sachs expects the peak to occur a bit later, in 2034, based on the pace of EV adoption, uncertain growth of China and impact of rising incomes on emerging-market demand. It predicts that "the thirst for oil will be driven by increased demand for petrochemicals and specialized refined products like jet fuel, rather than gasoline."

**Oil prices are projected to fall and grant India the economic space to invest in its transition to clean energy**

Oil prices are notoriously difficult to predict. However, long-term structural factors directionally indicate a slowing and eventual peaking of demand. Supply factors will, of course, respond to this long-term path. Taken together with the elimination of the uncertainty premium embedded in today's

oil prices, it seems plausible that average oil prices in the latter half of this decade will drop closer to the \$40-60 per barrel range.

This scenario augurs well for India, which looks likely to have a positive growth rate of oil consumption for another 20 years or more. Today, a \$10 change in the average crude oil price changes India's net oil imports by about \$12-13 billion, which makes up about 0.3% of the annual current account deficit (CAD).

The shift to petrochemicals is also beneficial to India, since it is a net exporter of these products and has established some of the most modern refinery complexes in the world. While the oil bill and the consequent pressure on India's CAD is likely to be lower in the years ahead, it can provide a cushion to accelerate the country's green-energy transition in parallel.

A \$20 average fall in the price of oil for a five-year period starting from 2025 would result in annual savings of about \$25 billion. Over a five-year period, that would amount to well over \$100 billion. This transformation of 'savings on oil' to 'investing in clean energy' will require a clear-headed and far-thinking strategic plan.

P.S. "Plans are useless, but planning is indispensable," said Dwight D. Eisenhower.



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PAPER WITH PASSION

## Cosmetic makeover

The new criminal laws have retained old laws with minor changes while others could impact civil liberties harshly

India has finally shed its colonial legacy in jurisprudence, embracing a new era with indigenous criminal laws. The big question being asked is whether it has truly moved beyond nomenclature or if it's merely a name change. The archaic Indian Penal Code (IPC), the Indian Evidence Act, and the Code of Criminal Procedure (CrPC) have been replaced by the Bharatiya Nyaya Sanhita, Bharatiya Sakshya Adhiniyam, and Bharatiya Nagarik Suraksha Sanhita, respectively. This historic change, taking effect from July 1, 2024, has stirred considerable debate among legal experts, practitioners, and the broader public. While some provisions break from the past, others are just old wine in new bottles, adding a layer of confusion in the legal system. The IPC, established in 1860, and the Evidence Act, enacted in 1872, have long been the cornerstones of India's criminal justice system. Both were products of the British colonial administration and have been criticized for their outdated and colonial-era perspectives. The CrPC of 1973 also formed a significant part of the legal framework governing criminal procedures in India.

The new legal laws Replacing the IPC, the Bharatiya Nyaya Sanhita aims to update and Indianise the criminal code. There are some provisions that are definitely new while others are mere replicas of the old ones. One notable change is the adoption of the definition of terrorism from the Unlawful Activities (Prevention) Act (UAPA). This new definition encompasses a broad spectrum of activities intended to threaten the unity, integrity, and security of India. However, critics argue that this broader definition could lead to misuse and the criminalisation of legitimate dissent. Another stark departure is Bharatiya Sakshya Adhiniyam which replaces the Indian Evidence Act and seeks to modernise the rules of evidence in line with contemporary technological advancements. A significant change is the new stance on electronic evidence. Last but not the least, the Bharatiya Nagarik Suraksha Sanhita, replacing the CrPC, introduces several changes aimed at streamlining criminal procedures. The new law redefines the use of handcuffs and expands the scope of police custody beyond the initial 15 days, a change that has sparked considerable concern regarding potential misuse and the risk of increased custodial violence. So far, the legal fraternity has been rather jittery about the new laws. Prominent legal luminaries, State Bar Councils, and Bar Associations have expressed apprehensions about the potential implications of these changes. Chief Justice of India DY Chandrachud has commented that the new laws could create a positive impact only if there are concurrent investments in infrastructure development and capacity building for forensic experts and investigating officers. The expanded powers of the police and the handling of electronic evidence are areas of particular concern, highlighting the need for careful implementation and oversight to ensure that the new laws do not lead to increased misuse of power or injustice.



## PICTALK



Pilgrims wait in a queue to get themselves registered for the annual Amarnath Yatra, in Jammu

# A new dawn in Tibetan diplomacy

A seven-member American delegation led by US House Representatives met with the Dalai Lama, indicating a shift in the US stance on Tibet

A seven-member American delegation led by Michael McCaul, and Nancy Pelosi, both leading lights of the US House of Representatives, recently met the Dalai Lama at Dharamshala, Himachal Pradesh; this is a particularly significant event. They delivered a clear message that the USA no longer accepts Tibet as a part of China; and the US Congress will be soon passing an Act to be made into a law, called the "Resolve Tibet-China Act". The delegation told the Tibetan spiritual leader that "things have changed now". This American message has unmistakably resonated in Chinese ears. This US delegation first called on His Holiness at Dharamshala, indicating they were calling on the Tibetan government-in-exile, calling on Prime Minister Narendra Modi only thereafter. The Government of India has not hesitated to welcome the delegation. Xi Jinping may have forgotten that Mao Zedong's regime had first claimed 'suzerainty' over Tibet.

Before long, it asserted that Tibet was a Chinese province, before attempting to erase Tibet's culture, heritage and language. These events have towards the end of World War II. By allowing Stalin's Red Army to enter Berlin and occupy it, the US made the Russians believe that they were the prime victors of WWII. In 1949, the Soviet Communist regime, by hook or crook, acquired the atom bomb. This made them believe even more they were now a superpower. Eco-militarily though, the Soviet Union was no 'super' but only a Eurasian power, as it had historically been. Similarly, the US overestimated the Communist China as well. Compared to Chiang Kai Shek and his Kuomintang (KMT) on the mainland, the Maoists were much more committed. That, however, was no reason to dump the KMT as well as Formosa, now Taiwan from the UN as an official member. In fact, India should have been the correct replacement, but the Nehru govern-



ment was insistent on giving the right of way to Red China, believe it or not. The USA, or at least its State Department continued to believe for years that the Soviets and the Chinese were a single communist bloc. The extent of the animosity between the two was fully realized only after the Sino-Soviet clash along the Ussuri River in 1969.

It was only thereafter that President Nixon decided to call on Chinese Premier Mao Zedong in 1972, which brought a great deal of prestige to Dr. Henry Kissinger. The ultimate perspective of this resumption of relations was China, when Deng Xiaoping introduced economic reforms, emphasizing manufacturing and exports. The surplus of trillions of dollars accumulated by China came largely through exports to America. The course of these events explains why the State Department of the USA until now ignored the treatment of the hapless Tibetans by successive Chinese regimes over the last seven decades. It was prudent to postpone the implementation of these laws until a comprehensive and independent audit of institutional readiness is conducted. Alternatively, a phased implementation to test the waters would be a more sensible approach.

Noopur Baruah | Tezpur

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Unfortunately, the Leftists and communists in the country had clamoured for the (then) newly formed Red Chinese regime, which had requested its recognition within a few days of its winning the civil war. Deputy Prime Minister Sardar Patel, on the other hand, was of the clear view that there was no hurry to recognize the new Chinese regime. In November 1949, Patel invited the American charge d'affaires Donovan to verify if there was an urgency in the recognition of Red China.

Knowing the Sardar through his long correspondence with Jawaharlal Nehru on the subject of China, uppermost in his mind must have been the concern that the Sino-Indian border should be mutually recognized. But Jawaharlal Nehru was in a hurry and without consulting the Sardar, informed the Chinese of India's decision to recognize their regime in the December of that year itself. While expressing its delight at Nehru's message, China also laid down a few preconditions. India would pass on to the new regime all properties and assets of China. Secondly, India would not recognize any members of the KMT. Thirdly, India should support the expulsion of Nationalist China from the UNO, as well as its replacement by the

communist regime. China's perfidious intentions can be gauged from the fact that its communist regime announced the 'liberation' of Tibet as the People's Liberation Army's (PLA) task just one day before the founding of the People's Republic of China. The Tibetans had expelled the Chinese Amban, although he had been a Kuomintang government appointee. The Chinese blamed India for it, abusing Nehru as 'a lackey of British imperialism' and complicit in the British humiliation of China, which Mao sought to reverse. The People's Daily of China in an editorial denounced the concept of suzerainty as feudal and oppressive—the very thing China demanded over Tibet. It even called on the UNO to examine India's relationship with Bhutan. The reality, which the Nehru government chose to ignore despite even Ambassador K.M. Panikkar's warnings was that China was eyeing Nepal, Sikkim and Bhutan too. But while the first prime minister, a votary of international peace and brotherhood was oblivious to this. The sufferers were from Tibet and India.

(The writer is a well-known columnist, an author and a former member of the Rajya Sabha. The views expressed are personal)

## LETTERS TO THE EDITOR

### REFORMING JUSTICE

Madam — India is poised to undergo a transformative shift in its criminal justice system with the implementation of three groundbreaking laws starting July 1st, 2024. However, the primary concern lies in the readiness of our institutions to handle these changes, necessitating a nationwide audit. There has been no thorough assessment of the preparedness across various criminal justice institutions in different states. Additionally, the transition from old laws to new ones is likely to create significant confusion. It would be prudent to postpone the implementation of these laws until a comprehensive and independent audit of institutional readiness is conducted. Alternatively, a phased implementation to test the waters would be a more sensible approach.

Noopur Baruah | Tezpur

### A DEMOCRACY IN DISARRAY

Madam — The signs were clear for all to see. We eagerly awaited the end of the elections and patiently anticipated the results. Yet, once Parliament convened, it quickly became apparent that walk-outs and paralysis were the order of the day. The drama of democracy played out in full view, with heightened agitation across the country. On the anniversary of the Emergency, Parliament was divided, and the opposition was relentless in disrupting proceedings at every turn, reflecting the turbulence within our so-called democratic framework. Opposition leaders harshly criticized President Droupadi Murmu's address, dismissing it as a government-scripted speech riddled with falsehoods. They accused the government of imposing an undeclared emergency and challenged its claims of economic growth and investment. Leaders highlighted issues facing farmers, unemployed youth, and recent national events. The true nature of our parliamentarians has been laid bare,

KOMAL PATEL

you ended up twice what you thought was good for you. Ensure you keep a tab of serving size and calculate your portion and calorie/sugar intake accordingly. "Rich in protein," "Fiber-rich" etc are another set of crowd pullers that mostly tend to divert consumer's attention from other not-so-healthy ingredients. Bearing these points in mind, your next trip to the supermarket will be a game-changer for your household. Don't get carried away by big claims made on the face of the package, TURN IT AROUND & be sure to read the numbers. Whether it's calories, saturated and trans fats, sodium or added sugars, learn the limiting ingredients and bring to the table what is healthier and more wholesome for you and your family.

(The author is a dietitian and Clinical Nutritionist Ambassador of FIT INDIA Movement of GOI, views are personal)

## India's T20 World Cup victory



India celebrated a momentous victory over South Africa in the T20 World Cup 2024 final, marking a glorious return to World Cup triumph after a 13-year hiatus since their last ICC trophy win in 2011. Under the astute leadership of Rohit Sharma, the team showcased exceptional prowess

and resilience, dominating the tournament with consecutive victories. This win was particularly poignant as it marked a grand farewell for two Indian cricket stalwarts, Rohit Sharma and Virat Kohli, along with head coach Rahul Dravid, who had not previously won a World Cup trophy. Both Rohit and Virat announced their retirement from T20 Internationals, making this victory an emotional and proud moment for all Indians. Rohit's tactical brilliance and Virat's consistent performances have been instrumental in India's cricketing success over the years. Their departure signifies the end of an era. The Indian cricket team displayed outstanding skill and determination, ensuring that they lifted the ICC trophy and gave their beloved captain and star player a memorable send-off. This victory will be cherished as one of the most emotional and proud moments in Indian cricket history. Bishal Kumar Saha | Murshidabad

Bishal Kumar Saha | Murshidabad

farewell to a coach whose wisdom has guided Team India to new heights. Dravid's tenure has been marked by unforgettable victories and moments of cricketing genius, from nurturing young talent to instilling a culture of discipline and resilience. His legacy will continue to inspire future generations of cricketers, embodying the values that define our beloved sport. A World Cup win would be the perfect capstone to Rahul Dravid's remarkable journey. As we celebrate Rahul Dravid's contributions to Indian cricket, we also honor a figure whose integrity, dedication, and humility have left an indelible mark on the game. His departure marks the end of an era, but his legacy will continue to inspire and shape the future of Indian cricket for years to come. What a distinguished man and an outstanding cricketer!

Jayanthi S Maniam | Chennai

Send your feedback to: [lettersstopioneer@gmail.com](mailto:lettersstopioneer@gmail.com)

## Unveiling the deception: Decoding food labels for healthier choices

It's vital to scrutinise food labels beyond their claims. Decoding the fine print ensures that what we eat aligns with our health goals

Decoding Food labels As a dietitian, I strive to provide the best possible tailored meal plans to my clients, so why would I not stop and flip food packages to scrutinize labels to ensure what goes on my plate and my family's? Albeit, every time I do that I stop to think about the actual intent of documenting the ingredients on the package and I feel deceived. The idea behind all this 'extra work' was to keep the consumer informed and help them make intelligent choices for themselves. But then I see a granola bar labelled 'whole grain' and 'healthy snack,' only to find sugar listed as the first ingredient. Has the food industry turned food labels into a game of hide-and-seek with our health? Food manufacturers have become masters of a deceptive language game. Over time, they've developed tactics to maximize sales and keep their customers hooked, often at the expense of health. Buzzwords like 'natural' and 'low-fat' create an illusion of health, while hidden sugars and cleverly disguised serving sizes make it difficult to decipher the truth. These tactics paint a picture of a healthy snack, obscuring the reality which can be quite different. So, does this mean we're doomed to fall victim to marketing tactics? Absolutely not! With a little knowledge, we can become empowered to decode food labels, making informed choices about what purchases we make.



Here are a few key areas to focus on during your next grocery run and fill your shopping cart with what is right for you: As I said earlier, don't allow the food companies to trick you into buying their products just because they claim to be 'natural,' 'low-fat' or 'multi-grain.' Low fat doesn't mean that literally. The term also implies added sugars and the use of unhealthy fillers. For the longest brown

rice has wooed Indian buyers, this does not mean that brown rice syrup is any good and a healthy replacement for sugar! High fructose corn syrup, agave nectar, palm, etc are scattered through the list of ingredients keeping even the most discerning customer, from grasping the true sugar content. When you see 'sugar-free' on the label, know that other forms like sugar alcohol or artificial sweeteners might be in play. The latest in line is, 'naturally' sweeteners or 'fruit extract' which again is sugar; no less, no more.

The biggest gamble lurks in the Serving Sizes. As a standardized directive laid down by the FDA, it is ideally meant to help consumers compare the same products from different brands, empowering them to make the best choice for themselves. But, most manufacturers shrink the serving size per package, compared to what an average consumer would typically eat. Consider finishing a whole bag of munchies in one go while the manufacturer suggests two servings per container. All ingredients are specified per serving and



# The Statesman

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## Democratic Disconnect

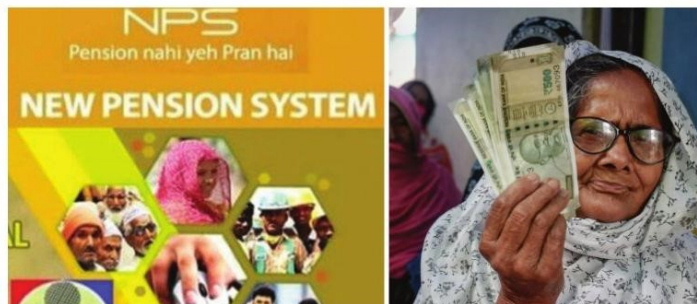
The turmoil within the Democratic Party over President Joe Biden's debate performance against challenger and former President Donald Trump on June 27 has sparked a critical conversation about the future of the party's leadership. This debate performance, marked by stumbles and an overall lack of vigour on Mr Biden's part, has amplified existing concerns about the President's ability to lead the party into the next election. The reactions from top Democrats, particularly during a private call with Democratic National Committee (DNC) members, reveal a troubling disconnect between the party leadership and its broader base. Top Democratic officials, including DNC chairman Jaime Harrison and Biden campaign manager Julie Chavez Rodriguez, appear to be dismissing the legitimate concerns raised by party members. Instead of addressing the debate's shortcomings and the subsequent wave of criticism, they opted for a positive spin, projecting confidence in Mr Biden's path forward. This approach has left many within the party feeling gas-lighted, as they are being asked to overlook clear signs of trouble. This attitude of dismissing internal dissent is problematic. For a party that prides itself on inclusivity and responsiveness to its base, ignoring such a significant issue is counterproductive. The Democratic Party must recognise that concerns about Mr Biden's performance and stamina are not just media-fuelled hysteria but genuine worries from its core supporters. Failing to address such issues head-on risks alienating the very people who are crucial to a successful campaign. Moreover, the insistence on maintaining an optimistic outlook, despite clear evidence of struggle, does little to inspire confidence among the electorate. Voters need to see a party that is realistic about its challenges and proactive in addressing them. This means acknowledging Mr Biden's weaknesses and openly discussing potential strategies to overcome them, rather than brushing them under the rug. The call for Mr Biden to step aside in favour of a younger candidate is not an attack on his achievements but a strategic consideration for the party's future. Figures like Vice President Kamala Harris, California Governor Gavin Newsom, and Michigan Governor Gretchen Whitmer represent a new generation of leadership that could energise the base and appeal to a broader demographic. Their continued support for Mr Biden is commendable, but the party must be willing to have difficult conversations about succession and leadership dynamics. Furthermore, the Democratic Party should not underestimate the political landscape's volatility. While Mr Biden's favourability ratings might not have dramatically shifted post-debate, the perception of leadership weakness can have long-term consequences. The party's strategists and donors are right to be anxious, and their voices should be part of the broader strategic discourse. In the face of these challenges, the Democratic Party has an opportunity to demonstrate resilience and adaptability. This requires more than just cheerleading; it demands substantive engagement with the concerns of its members and a willingness to explore all options for ensuring electoral success. Mr Biden's performance should serve as a wake-up call to him, his family and supporters.

## China's Challenge

China's economic data paints a concerning picture for both its manufacturing and services sectors. The manufacturing PMI has remained at 49.5 for the second month in a row, indicating a persistent contraction. Alongside manufacturing, the services sector too has slowed to its lowest point in five months. This dual-sector slump underscores the pressing need for China's policymakers to adopt a more robust and nuanced approach to stimulate the economy. The manufacturing sector, traditionally a pillar of China's economic might, is struggling despite strong export performance. The National Bureau of Statistics' data reveals that while production managed to stay above the contraction threshold, critical indicators such as new orders, raw material stocks, and employment remain in the negative territory. This imbalance suggests that the current export momentum is not sufficient to drive a comprehensive recovery. The manufacturing sector's woes are compounded by weak external and domestic demand, which prevents a rebound in producer prices. In the services sector, the picture is equally bleak. The non-manufacturing PMI, which includes both services and construction, dropped to 50.5, the lowest since December. The services PMI, in particular, has slipped to 50.2, indicating a significant slowdown. This decline reflects a cautious consumer base and a temporary boost from the Labour Day holiday, which failed to generate sustained growth. Given these challenges, it is evident that China's current policy measures are insufficient. While the central bank has announced a re-lending programme for affordable housing to address the property market crisis, broader fiscal measures are needed. The reliance on property as a growth engine is increasingly untenable, and new strategies must be developed to invigorate other sectors of the economy. Fiscal policy should take the lead in this recovery effort. With limited room for monetary easing due to currency pressures, the government must consider issuing more debt to fund stimulus measures. However, this approach is not without risks. High local government debt and deflationary pressures pose significant threats to long-term economic stability. Policymakers must strike a delicate balance between stimulating growth and maintaining fiscal health. One potential avenue for sustainable growth lies in fostering new industries. Premier Li Qiang recently highlighted the importance of developing new growth engines to reduce the economy's reliance on traditional sectors like property. This strategy is essential for creating a more resilient economic structure that can better withstand future shocks. As China approaches the Third Plenum in mid-July, where top Communist Party officials will gather to discuss the nation's economic direction, there is hope that more decisive and forward-thinking policies will emerge. The meeting presents an opportunity for China to reassess its economic priorities and implement measures that can drive long-term growth. As the world watches, China's policymakers must demonstrate bold leadership to navigate these turbulent times and set the stage for a more stable and prosperous future.

# Pension conundrum

In the old system, government employees knew that their pension would be 50 per cent of their last salary if they served at least 25 years or proportionate to the service. The benefit in NPS is unknown. Neither the return on accumulated capital nor the return on investment is guaranteed. In addition, there is no family pension. According to the original proposals, employee contributions would be invested in the market of their choosing. Employees' financial literacy issues were ignored



Ever since, the employed class in Central government and state governments started feeling the pinch of the new pension scheme, which neither guarantees the principle amount nor the interest thereon at a fixed rate, nor offers a family pension to the deceased pensioner, the political parties that were not in power or craving to be in power promised that they would bring back the old pension scheme that guarantees a maximum fifty per cent of the last salary drawn to employees if they worked for a full term, and a family pension to their spouses after the death of pensioners. The current pension system which is also called New Pension Scheme (NPS) is contribution-based, which is invested in the market and returns on which are subject to market risks. That is not in fine print but boldly explained when the NPS was introduced in 2004. State governments in Rajasthan, Chhattisgarh, Jharkhand, Punjab, and Himachal Pradesh have informed the Central Government Pension Fund Regulatory Development Authority (PFRDA) about their decision to revert to the Old Pension Scheme (OPS) for their government employees. Rahul Gandhi too sounded a shift to OPS if he was elected to power. The Andhra Pradesh government is the one that promised to get back to OPS during the 2019 elections but it went back on its stand, and now Mr. Chandrababu Naidu, who is an ally of Prime Minister Modi, is demanding that if he could revert to the old system.

Historically, with the assurance to offer workers in the informal sector a comprehensive contributory social security vehicle, a new pension scheme was designed with the engagement of private financial companies in January 2004. Instead, it was directly thrust on employees in the Central and State Government, and Public Sector organisations. Two decades after it was introduced, the participants in the scheme are now realising that the NPS is neither social nor secure. Neither the government, nor the trade unions, nor even the beneficiaries - the employees of state and central governments - heeded economists' hints and analytical advice at that time. There was a reason why they were silent.

The first point was that today's agitators or participants had not raised their voices because the scheme was announced before they joined government service. Then it was specifically

shift in advising reforms to civil service pensions in India on the premise that the government's finances were under pressure due to an ageing civil service. The project work was assigned to a privately managed economic foundation in Mumbai, with interests in financial and capital market education in India, as well as encouraging private investments and private fund managers.

The foundation believed that the Ministry of Social Justice and Empowerment recognised that poverty alleviation programmes aimed at the elderly alone cannot solve their income and social security problems; the problem must be addressed through thrift and self-help, in which the people save for old age during their working lives. The government's role in this endeavour could be to build the necessary institutional infrastructure in collaboration with the private sector to enable and encourage such citizens to take on this task. Based on the foregoing, the expert committee under Project OASIS proposed an individual contribution-based, non-benefit guaranteed, non-return guaranteed, non-accumulation guaranteed pension scheme for the unorganised sector, to be managed by private fund managers, in which contributions of Rs 5 to Rs 10 per day per worker flowing into the system was expected to generate wealth for their old age.

If it were to be accepted and implemented, a major advocacy campaign would be required to rally support from informal workers, collect their shares, invest in the markets, earn profits, and ask them to wait until they reached the age of sixty. Instead, the private foundation targeted government employees across the country, where money could flow into their investment businesses instantly with a single government order; and they were successful in convincing the government to replace the old defined benefit social security pension with contribution-based NPS for civil servants hired on or after 1 January 2004.

The General Provident Fund was abolished and replaced with a voluntary Tier II benefit under the new pension system. The New Pension Scheme would operate on a defined contribution basis and have two tiers. Tier I is required for all government employees who begin their careers on or after 1 January 2004. In Tier I, government employees must contribute 10 per cent of their basic pay, Dearness Pay, and Dearness Allowance, which will be deducted from their monthly salary. The government will make a matching contribution. At exit, he must invest 40 per cent of his pension wealth in an annuity (from an IRDA-regulated Life Insurance Company), which will provide pension for the employee and his dependent parents for the rest of his life. If a government employee leaves the scheme before reaching the age of 60, the mandatory annuity would be 80 per cent of the pension wealth. The quantum of benefit is not defined. This is a departure from a defined benefit pension scheme. In the old system, government employees knew that their pension would be 50 per cent of their last salary if they served at least 25 years or proportionate to the service. The benefit in NPS is unknown. Neither the return on accumulated capital nor the return on investment is guaranteed. In addition, there is no family pension. According to the original proposals, employee contributions would be invested in the market of their choosing. Employees' financial literacy issues were ignored.

The finest part is that under the old system the government paid pensions to employees only after they retired. The burden of all employees was not immediate, and the Government did not feel the burden. In the new system the government pays a monthly contribution to private fund managers under NPS, in addition to regular pension to the old cohorts.

The burden on the exchequer has increased rather than decreased. Only the NPS designers know how wise the decision was to carry two burdens at a time under the guise of reducing the burden on the state exchequer. Now as all the old cohorts whose mouths were shut by not including them in the NPS by the then BJP Government are retiring and obtaining the benefits of OPS, and the new entrants under NPS nearing retirements start demanding equity, a time bomb is ticking which will have to be addressed by the current government. Can it do so?

## LETTERS TO THE EDITOR

editor@thestatesman.com

## Unpardonable

SIR, Delay in fresh census enumeration, which is overdue after the last one held in 2011, needs to be explained by the central government. In this fast-changing socio-economic demography which is impacted by policies coined due to global political pressures, surely we need to know where we stand in welfareism 13 years after the last census.

Census proforma must be redesigned by a select committee of experts looking at goals of equitable and just development. The enumeration operations can be handled by a large force of unemployed educated youth who can be trained for this purpose by giving them suitable remuneration. Earlier teachers were deployed, which badly affected studies of children in schools. This should be avoided. Further, with India's strengths in digital technology, we can design census programmes at minimum cost to the exchequer.

All individuals paying income tax and those filing returns can be mandatorily asked to complete census proforma and file it digitally. Those with lower or nil brackets of income can be paid a small allowance too completing the same. Yours, etc., Brij Bhushan Goyal, Ludhiana, 28 June.

## CONSTRUCTIVE

SIR, Just like respect, cooperation or credibility can be earned and not demanded. The opposition political parties can gain credibility, make their presence felt, get their voice heard and contribute to the country's development through their positive gestures.

Rather than opposing the ruling party's endeavours for the sake of opposing, as it is their birthright or solemn duty, they can perform their role effectively, constructively and responsibly if they become constructive.

As a formidable grouping, they can raise their voice for solutions to the problems that they have been hammering in their manifestoes. Such policy suggestions, if they get implemented, can go much to their credit in the next election. In no case should they allow the ruling party to earn public sympathy by blaming the opposition for non-cooperation or boycott.

Apart from raising their voice over conventional issues that are non-risky as well as vote-catching like unemployment and corruption, opposition parties, to serve their long-term interest, can take up non-conventional but contentious issues like eroding value education, pressure of rising population, rationale of reservation policy, dominance of caste factor, rising stress amongst youth, farmer's suicide, discrimination, etc.

A MEMBER OF THE ANN ASIA NEWS NETWORK

ASIAN VOICES

## One social security law to address multiple challenges

The recent discussions in parliament have highlighted a concerning trend in national policymaking. While the National Council debated compensation policies for human-wildlife conflicts and crop damage, the National Assembly engaged in heated deliberations over a proposed Education Act. These focused debates, though important, reveal a potential blind spot in addressing broader socioeconomic challenges facing the nation.

Critical issues such as youth unemployment, substance abuse, financial and digital inclusiveness, urban poverty, and inadequate elder care have been notably absent from these discussions as each issue is discussed in isolation.

Rather than creating or amending multiple laws for specific sectors, it may be more effective to enact one comprehensive social security law. This approach could address a wider range of pressing issues and provide a more holistic framework to address multiple challenges.

UNDP's Social Protection Offer 2.0 emphasises the critical role of social protection in promoting economic and social inclusion, particularly considering the gaps exposed by the Covid-19 pandemic.

It states, "Social protection is an effective tool to promote economic and social inclusion and it is a key lever to reduce inequality and poverty, address vulnerabilities and enable investment in human development."

## KUENSEL

The UNDP's Social Protection Offer 2.0 presents an integrated approach with three key objectives: (1) "Protect and prevent" by reducing vulnerabilities and ensuring access to essential services; (2) "Empower and promote" by enhancing capacities of vulnerable households through improved access to healthcare, education, and employment; and (3) "Transform society" by addressing root causes of poverty, inequality, and vulnerability. This comprehensive approach aims to create a more resilient and equitable society through multifaceted social protection measures.

Social security laws are designed to provide comprehensive protection for all members of society, with a particular focus on creating a safety net for vulnerable and marginalised groups.

The law should promote universal access to necessities and a decent standard of living, address crucial social issues such as healthcare, education, employment schemes, and natural calamities and wildlife-related issues. In the modern context, they also extend to inclusive financial services and digital rights as these are becoming necessities.

Such social security law must adopt a holistic approach, addressing interconnected issues. Therefore, parliament must take into holistic action in deliberation instead of pushing each issue in isolation.

The studies also provided that "social security programmes help to create a sense of community and social solidarity by providing a safety net for those who are most in need."

This is particularly important in societies where there are significant income and wealth disparities, as social security programmes help to reduce these disparities and promote a sense of shared responsibility.

For example, the National Health Service (NHS) in the United Kingdom provides free healthcare services to all citizens, regardless of their income or social status, which helps to promote social cohesion and reduce health inequalities.

## IN MEMORIAM

ROY GOURI — Left us for Heavenly Abode on July 2, 2000. May her soul Rest in Peace. Remembering your presence always. — Bulai, Mumi, Kulu, Buju.





A thought for today

More the law, less the justice

CICERO

## Lawful, Liberal

New criminal codes will be tested on their ability to protect the principle of presumption of innocence

The three new criminal codes that kicked in yesterday — BNS, CrPc and Indian Evidence Act, respectively, which have governed the criminal justice system. That'll happen only once all cases filed under the old codes are closed. Given India's caseload, this, in effect, means two sets of codes will be in application simultaneously across jurisdictions — a tremendous challenge for those who man the criminal justice system. That the codes needed an overhaul is indisputable. But challenges remain aplenty.

**Undertakers burden** | The approach to the codes' overhaul was discarding colonial baggage and to be reformative. Here, proportional penalty is key. This means penalties are designed such that minor offences don't invite jail time. Old faults compounded by new offences that have crept in are unlikely to lessen the undertaker burden. It's imperative that during training of the law enforcement machinery, it's drummed in that no matter the crime and prescribed sentence, there must be unwavering focus on presumption of innocence — the hallmark of a liberal reformative justice system.

**Heavy hand** | Minimum age for criminal responsibility continues to be 7 years, lower than international convention. Snatching is a criminal offence. It's still prison for those not looking after old parents. Sex on the pretext of marriage can be punished with up to 10 years' jail. A judge can award such convict 1-day jail, or 10 years. Such latitude can be problematic in interpretation — not all judges are judicious.

**Old laws block** | Archaic legal ideas continue to be in play. Defamation remains on the statute, as do provisions for 'sedition' if not in so many words. A rigorous wedding of old archaic laws is required, not least when it comes to marital rape. Onus is on legislatures to decriminalise petty behaviour and junk harsh provisions to meet the agenda of reformative justice.

**Capacity flags** | Due process is deeply linked with capacity. Poor forensics botches up many an investigation. And courts must not allow police free hand when it comes to seizing 'evidence'. Due process ensures, for instance, forensics of digital devices don't impinge on privacy rights. It demands probes compartmentalise a phone's contents — what investigators can and cannot explore. And that this rule is spelt out.

Various police forces advertise they 'care' for civilians, but collective experience is often otherwise. At the core, liberal justice, the long-stated purpose for an overhaul of IPC, CrPc and IEA, firmly stands for individual rights. The Sharma of India's criminal justice delivery must be premised on protection of personal freedoms and civil liberties.

## For Rohits To Win

Nice guys don't have to lose, provided rules are laid out & implemented fairly. This falters only in politics

Cricket captain under whom India wins a world cup is bound to be celebrated in the country. But what's unusual is the leadership quality for which Rohit Sharma is being saluted — niceness. Popular wisdom is that nice guys finish last. Because the common belief is that getting to the top takes a large dollop of jerk-ness.

Can one really beat the competition without being a bit of a brute and a bully? Without some crookedness? Actually, it all depends on how the rules of the game are laid out. On how these are framed, but also on how these are implemented. In football, for example, it used to be said that, to be successful one must be a bit nasty. Then, new rules and tech made the refereeing more just, and the play more honourable. And tough-tacklers stopped being heroes. Or consider

British colonialism, which was just business by unequal means. Only once a rules-based global order levelled the playing field, could Indians start building their own commercial empires.

Today, sports to business to science, in almost every sphere there are many success stories of the Rohit bhैया leadership style of agreeableness, positivity and even-temperance. Politics alone maintains a big difference. There are two key elements to this. One, any attempt to regulate the

aggro in the electoral field runs against the *lakshman rekha* defending free expression. Two, its incentives diverge a lot. People want business to deliver good products and services, and sports persons to deliver wins. Only in politics are its ugliest moments often its most popular. It's effectively as rules-free as voters will tolerate. So, it looks like a no-holds-barred fight in most countries, most of the time. Everywhere else, nice guys and gals can now finish first.

## Insta food era

The two-shelf kitchen in flats might vanish soon

Shinie Antony



Once people ate people, cavemen being cannibals, and one can almost picture the large pickle jars of sundried, salted human toes. After the discovery of fire came spit-roasting and charred meat — leading to the invention of toothpaste — to steamed, smoked, batter-dipped and deep-fried, till it all culminated in MasterChef with its fancy plating ritual. Today every dish ever consumed first walks the red carpet on Insta, in photoshoots with professional lighting and camera angles. If it can't be posted, it can't be eaten.

Women woke up early to soak, grind, chop and pound. Old films show them singing happy songs while doing so, just like ads had women wash clothes in delicious ecstasy because they'd finally found the right detergent. Men ate, women cooked — no excuse would do, not even labour pains. For the longest time patriarchs had no clue where water was kept. They were always calling out to the matriarch when thirsty, so that potable water became the best hidden secret in most households. Men, stumbling through kitchens if left alone, pined for their wives. The day men learnt to make tea, marriages began to break up.

Cooking was delegated to daughters-in-law who began to hire cooks; maharaj and khansama entered the kitchen. But groceries still had to be bought and pots washed. Street food changed dining table dynamics long before the food delivery guys. Thalis went up against breakfast buffets, glutinous was no longer a sin. Once mankind had tasted fast food, domestic fare had to up its game, trying to get the taste of chaat or Chinese just like that sold outside. Post-Covid that battle has been lost. Ordering in is now a finger flex. With the same warm look that sepia moms had when they asked, *aj kyoo khagne*, beta? an app can seduce with mouthwatering options. The pampering has been taken out of home-cooking. *Man ke haath ka khana* is now the childhood trauma we tell therapists about.

Everyone trustingly swallows what's served, with even 'homemade' outsourced. Whether it's farm-to-table or a gourmet meal, no one's going to mess up their own eaters. The tiny open two-shelf kitchen is now a thing of the history. Cooking from scratch means popping leftover pizza into the microwave. O, the joy of entering a café and telling someone in detail exactly how complicated we like our coffee while a twitchy queue taps feet behind us.

# As Old As Trump, Biden? Good

Ageism ignores economic reality. Seniors are a high-spending group, from healthcare to consumption. They aren't a drag on growth. They are a plus for it

Dipankar Gupta



There is a lone loud rumour doing the rounds. We are told that the elderly are stubbornly living longer and their numbers are now well beyond the load-bearing capacity of the young. This accusation is not just economically untrue, but it also undermines a fundamental feature that is found in humans alone.

**Human seniors a breed apart** | What we tend to ignore is that only among us do the old dominate the young. Even our close genetic neighbour, the silverback gorilla, must yield its leadership to younger rivals who are both stronger and more attractive to females in the band. Hard to tell which of the two hurts the gorilla more, but in humans, it's the latter. Human beings are, in that sense, a freak of nature. In US, 75-plus men are banging away at each other for the most powerful office on earth. In the corporate world, if you haven't noticed, peppered



hair makes a CEO look credible. For us, age confers dignity, not humiliation, as with gorillas. But what about retirement and when the body goes frail? Even then the old keep contributing.

**They keep economy going** | The pharmaceutical industry depends on the elderly to sell their drugs, such as the omnipresent lisinopril for hypertension, which in US is prescribed about 90 million times annually. In India, knee replacements are at around 2,50,000 a year and have grown 2.5 times in the past five years.

Sadly, but happily for the producers of products, those above 65 years old are 11 times more prone to cancer. They are also assembly line cardiac surgeries and long stints in ICUs from which hospitals rake in the most.

The "seniors living" market is expected to grow worldwide at a CAGR of 6.2% over the next seven years. Through this is still a fledgling industry in India, it is projected to touch \$22bn by 2030. In India, if current form holds, the spending power of Gen S ("S" for seniors) will be \$1tn by 2050.

Gen S also supports the economy via pension funds, which are a "captive audience", in a manner that helped for much of it is channelled towards govt at low interest rates. The rate of growth in pension funds has outpaced GDP growth in several non-OECD countries. Examples abound from Canada to Uganda to India of pension contributions helping develop a country's infrastructure.

Globally, seniors today constitute the wealthiest age

cohort. The overall consumer class will bulge in numbers from 3.9bn in 2020 to about 5.6bn by 2030. This might deflate some cocky juvenile bubble, but 76% of seniors will be in this consumer class (who spend at least \$11 a day) by 2030 — a good 11% higher than for other categories.

**Their spending power's huge** | By 2030, a Brookings report says, Gen S will spend close to \$15tn, up from \$8.7tn in 2020. In Japan, the country targeted most for being too creaky geriatric, pensioners' share of spending is over 40%, a double that of 2002. Also, Japanese couples over 65 have three times more assets than the average family. This makes seniors the driving force behind spending everywhere, Japan included.

In US, those born before 1965 are increasing their spending in year-over-year terms while younger generation retail spending has declined. Spending is what seniors do best, and they are at it.

This is why some Americans call the "silver economy" their secret weapon. It is pulled out when the country's economy is cornered by inflation, deflation and myriad other economic crises. During the Covid years, this silver economy may well have been the silver bullet that helped most countries survive. So then, why yell at the old?

The digital health market too is burgeoning on the back of seniors. Even in India, a non-OECD country, health services are expected to touch ₹1.4L cr by 2027. Keeping this in mind, GAI has set up a Senior Age Growth Engine, or SAGE, to promote consumer goods aimed especially for the old.

Investigations in certain type of cases will call for major infra upgrade. As per a BPRD report, while states like Maharashtra, Uttarakhand and Tamil Nadu have over 10 regional forensic science labs, Arunachal Pradesh, Meghalaya and Mizoram have none. Furthermore, vacancy rates exceed 70% in some cases and pendency rates reach up to 40% in some labs.

Govt's recent decision to allocate ₹2,000 cr for upgrade of FSAs acknowledges these issues. However, only swift and efficient action can ensure the new legal provision is implemented properly.

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There are numerous flaws in the three new laws. Even if these were to be set aside, govt bears responsibility to ensure they are implemented properly. This requires overarching cooperation within its different organs. Plus a more efficient and transparent govt-citizen interface. It will take a lot more effort to truly decentralise our system. For now, authorities must focus on ensuring through the new laws the change that is possible. That is going to be the real test.

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It is judicial decisions that have provided the specifics of such punishment in the past. From the number of hours of service per week to the number of years to the courts, courts have laid down terms on a case-by-case basis. Now, with community service gaining legislative recognition, specific guidelines must be put in place. This would ensure uniformity and remove vast scope for judicial discretion.

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So, adjusting these new provisions could face hurdles unless judges undergo thorough gender sensitisation training.

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Aryushi Sharma and Aashna Mansata



India's criminal justice system entered a new era yesterday with the enforcement of three new criminal laws — Bharatiya Nyaya Sanhita, 2023 (BNS), Bharatiya Nagarik Suraksha Sanhita, 2023 (BNSS) and Bharatiya Sakshya Adhiniyam, 2023 (BSA). Superseding colonial-era statutes, the laws promise to put in place a modern, citizen-centric and justice-oriented criminal justice system.

To resolve long-standing issues of delays in justice delivery and slow investigative processes, the new laws hold, the spending power of Gen S ("S" for seniors) will be \$1tn by 2050.

**Training must be thorough** | Making the new laws work requires thorough training and competence building of key stakeholders, including police and judges. Home ministry has already launched initiatives for training of police, prisons, judicial and forensic personnel. However, this cannot be only about disseminating info. Far more is needed. Training of stakeholders must foster a shift in mindset towards the laws' core objectives: to do away with colonial overhang and make the system more citizen-centric. This requires responsive and trust-based policing practices and judicial procedures.

**Community service a grey zone** | BNS lays down community service as a form of punishment for six offences. However, the specifics remain unclear. There is a general lack of clarity on what community service entails, its term, segment(s) of community that will

benefit from it, and how such a punishment will be enforced.

It is judicial decisions that have provided the specifics of such punishment in the past. From the number of hours of service per week to the number of years to the courts, courts have laid down terms on a case-by-case basis. Now, with community service gaining legislative recognition, specific guidelines must be put in place. This would ensure uniformity and remove vast scope for judicial discretion.

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## Battle Begins: New Codes Versus Old Ways

Gender sensitisation to much larger forensic infra, BNS & two other laws demand huge capacity expansion in the criminal justice system. Are govts up to it?



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## Improving financial stability

Some areas of concern remain

The Reserve Bank of India's (RBI's) Financial Stability Report, or FSR, released last week, suggests the state of the financial system in India is broadly strong and stable. Several indicators of broader financial risk in the economy have declined, and the system appears prepared to deliver the resources required for growth. The gross ratio of non-performing assets in the banking system is at a multi-year low, at 2.8 per cent, and the FSR expects it might continue to decrease. However, there are still certain sources of future risk that require careful monitoring by the regulator.

One of these is the return of the shadow banking sector. Non-banking financial companies (NBFCs) perform a useful role in the economy. But, as was revealed when Infrastructure Leasing and Financial Services, or IL&FS, went into crisis six years ago, they are also a source of vulnerability. Lending and activity took a long while to recover from the chaos in the NBFC sector set off by IL&FS. Since then, the regulatory supervision of NBFCs has become more stringent. But, as the FSR points out, in terms of net borrowing they are the largest participants in the banking system. Most of that borrowing has been taken out from scheduled commercial banks, which now provide over half of NBFC financing. Housing finance companies, or HFCs, play a similar intermediation role. This is not in itself a problem, the FSR contends: The failure of a large NBFC would, in its estimation, cause a serious loss to Tier-1 capital in the banking system, of greater than 2 percentage points — but it would not cause a bank collapse.

Yet this might be too sanguine a view of the situation. A single point of failure is rarely a problem. The issue is that whatever might set off failure in a particular NBFC might have a similar effect on others — shocks are correlated, as the 2008 financial crisis taught. Of course, a single fall could also create a crisis of confidence among NBFC depositors, which would have the same practical fallout of contagion. The FSR has also pointed out that NBFCs continue to perform a maturity transformation role. Such intermediaries, who pick up short-term funds but lend for longer tenures, are a well-known source of instability in the system.

It is also worth noting that somewhat newer concerns are beginning to make themselves felt in the financial system. The FSR contained a note on the 26th round of the RBI's systemic risk survey. Several sources of risk, including global monetary tightening, had moderated. But two domestic risks were perceived to have increased. The first is the risk from lower consumption and demand. This reflects broader concerns about wages and employment growth in the Indian economy. But, more interestingly, climate risk has been allocated "high risk" status in the survey. In fact, climate change is — along with cyber risks — viewed as the greatest macro-financial risk at the moment by the respondents to the survey. The FSR contains a review of global trends when it comes to regulating climate risk. Both the Indian financial system and financial-sector regulators, including the RBI, need to start preparing to deal with increasing climate risk. Climate change will also have implications for monetary policy, which could increase risks for the financial system.

## Power equations

Proactive focus on thermal power needs a rethink

With northern India facing the longest and most intensive heatwaves in decades, national power demand has hit 250 Gw, 25 per cent more than last year and 71 per cent more than in 2022. The power ministry has rightly taken pride in ensuring that thermal power stations have adequate stocks of coal to keep the lights, fans, and air-conditioning on. This has been a chronic problem in previous summers, leading to prolonged outages. This year, with the Eastern Dedicated Freight Corridor operational from October 2023, coal stocks have reached plans well on time. As on June 23, thermal power plants had 16 days of stocks as against 9.4 days on June 23, 2022, and 12.7 days on the same day in 2023.

All told, the government appears to have been proactive in ensuring that India's burgeoning demand for power will be met in the years ahead. To this end, the government reportedly expects to add 15.4 Gw of coal-fired capacity in 2024-25, the highest in nine years, and 90 Gw by 2032. At the same time, a programme of "Coal Reforms 3.0" is on the agenda to increase the availability of coal for industrial sectors, especially steel units, with the broad objective of reducing imports to zero in the next two financial years. The first step in this process will be to introduce separate forward bidding auctions for domestic coking coal for steel units with washeries (to remove impurities in coal) and for those without washeries. Both moves can be considered practical and pre-emptive. Peak power demand is set to reach 366 Gw by 2030 from 243 Gw currently. Plus, in 2024-25 alone, leading integrated steel manufacturers in India are expected to commission an additional 15 per cent capacity in fossil fuel-guzzling blast furnaces.

The big question that arises from this thermal power rampup is the impact on emission and the future of renewable energy. India has set a target to achieve 50 per cent cumulative installed capacity from non-fossil fuel-based energy resources by 2030 and has pledged to reduce the emission intensity of its gross domestic product by 45 per cent by 2030, based on 2005 levels. It is hard to see how it can achieve the latter. True, the installed capacity of non-fossil power in India is now 45.3 per cent of the total capacity, putting India on track to exceed its climate-change commitments. But this is illusory progress. The absence of viable storage technologies has limited grid offtake from renewable sources. Thus, thermal energy still does the heavy lifting for the Indian economy, accounting for over 70 per cent of power generation.

Encouraging industry to continue its dependence on coal is unhelpful. In this respect Coal Reforms 3.0 appears to be at odds with a scheme announced earlier this year for a pilot project for green hydrogen to replace coal both as a fuel and as feedstock (which is possible even in steel produced through the blast furnace route). Given that coal-based thermal plants are responsible for a disproportionately higher share of emission than the industrial sector, the government may do well to balance a well-meaning approach to power India's economy in the immediate future with a longer-term perspective of making the air safer for Indians to breathe in the long run.

# The complexity of green transition

Inaction on generating new revenue as fossil fuel taxes dry up will harm India's economic prospects

ILLUSTRATION: BINAY SINHA



As climate change plays out and India prepares to transition towards lower carbon emissions and a greener economy, a range of challenges needs to be addressed. One such area is the impact on government revenues. An inordinately high proportion of state and central government revenues, which according to one estimate, account for about 3 per cent of India's gross domestic product (GDP), emanate from fossil fuels. To illustrate, tax and non-tax revenues from fossil fuels are greater than India's entire defence Budget and also exceed what the central government spends on education and health.

But it is not just the quantum but the complexity of change that will be India's biggest challenge. Multiple sources of funds will dry up as we consume less fossil fuel, revenues from public sector enterprises (PSEs) involved in fossil fuels will fall, and those requiring subsidies, such as for renewable energy, will require more. The dependence on revenues also differs from state to state. Some states, such as Odisha, have higher royalty revenues due to coal mining, while others such as Maharashtra rely more on tax revenues.

The problem, therefore, is not merely of generating additional government revenues from non-fossil sources, but also about sharing these revenues in a manner that is satisfactory for the many stakeholders. Take, for instance, the issue of state autonomy over tax generation. One of the key reasons why petroleum products could not be included in the goods and services tax (GST) was that the current value added tax (VAT) regime enables state governments to decide on the level of taxation autonomously. GST, for all its benefits, does not score high on state autonomy considerations. Any movement away from VAT is likely to be a cause for concern to states interested in maintaining some autonomy over their revenues.

There is another challenge related to the high levels of subsidies being given to the electric vehicle

(EV) sector. Policy rightly focuses on steadily reducing the share of petroleum-driven vehicles and increasing that of EVs. However, the challenge is that the EV solution requires significant subsidies, whereas fossil fuel vehicles are revenue generators for the government. Reducing EV subsidies will slow down the transition, but maintaining high subsidy levels will impose a growing burden on government revenues. What makes this challenge more complex is that the EV rollout and fossil fuel reduction have different stakeholders with the government.

Yet another class of issues are related to reducing the damage that transition will cause. Take, for instance, the coal mining jobs that will be eliminated over the next few decades as dependence on coal reduces. There are two categories of jobs that will be lost. The first category includes those who are directly employed in coal mining. These are easier to deal with for two reasons. First, those directly employed in coal mining are fewer in number, and second, their numbers will fall over the next few years due to technological changes in the mining sector and natural attrition. But the key challenge is for those who are indirectly employed due to coal mining — these are the many providers who are servicing mines and miners.

They are far greater in number and typically there are few economic alternatives in the vicinity of coal mines. Another example is related to stranded assets in the thermal power sector, or the capital that will become redundant as India shifts away from thermal power towards renewable energy. In other words, we can broadly classify the revenue needs of the transition to include those required to (a) cover falling revenues, (b) enable rapid transition, (c) correct the economic destruction that will accompany the transition, and (d) identify appropriate allocation principles that will not disempower the states. Taken individually, each of these is a tough challenge to address, but taken together, they seem insurmountable.

The rational approach in such circumstances



LAVESH BHANDARI

may appear to be delaying efforts at finding the right solutions. The 2070 Net Zero target is some decades away, new technologies are emerging rapidly, and the Indian economy is undergoing a deep structural change. It might, therefore, seem that a wait-and-watch approach is the right path ahead.

And that is precisely what India cannot afford. The transition process has already started and is irreversible. Renewable energy capacity and generation are growing rapidly, and so are EVs. The latter are also part of a (silent) strategy to use the depth of domestic markets to leverage scale economies for tapping into global markets. At the same time, the costs of transition will rise going forward, and the bulk of these will need to be borne by the government. Therefore, doing nothing on the revenue front will lead to a situation where growth in government revenues is steadily curtailed, which will impact the fiscal situation quite significantly over the next decade or two, with obvious adverse implications for growth. There are some solutions to the problem, but each has different characteristics and India will need to identify what works best for it. Increasing direct tax rates, for instance, is unlikely to work given experience with implementation and leakages. Carbon taxes will hasten the transition and may reduce the immediate revenue challenge but will not solve the long-term fiscal problem. Rationalising GST may work but will require significant negotiation between the Centre and the states. New forms of taxes, such as distance or road use taxes, may be easier to implement but may not address the state autonomy objective. Reducing non-productive expenditure or welfare expenditure is always easier to call for than to implement. Moreover, it would be difficult to reduce welfare expenses in an era where trickle-down effects are operating slowly. Some solutions, such as carbon taxes, may even require constitutional amendments, which are possible but will take time and much coordination.

An important feature of this problem is that many key stakeholders are a part of the government, namely, Central and state governments and PSEs. And here, actions within the government have already shown the path ahead. By allowing fossil fuel PSEs to enter the renewable energy space, the government has to some extent aligned the interests of the fossil fuel PSEs with that of the transition.

An alignment between the central and state governments on transition and associated action on revenue generation may be a more difficult exercise, but it is critical. Many of the costs, whether changing expenditure profiles, stranded assets, or employment impacts, will be borne by the states, which are not ready for them. India, therefore, requires the creation of a formal mechanism that maps state-level transition requirements against revenues, identifies emerging gaps, and explores various alternatives ahead. Most important, the government needs to identify possible revenue sources where state governments have some autonomy.

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## The need for hydrocarbon focus

Countries across the world have realised that the transition from dirty fuels to clean energy is not a neat, linear path but a bumpy journey with plenty of rough patches and sudden diversions. While they invest heavily in new, clean energy capacities, their dependence on older, "dirty" fuels is not going to go away anytime soon.

This is particularly true for India. It is the fastest-growing big economy but it has a long way to go before it can be considered a developed (or more accurately, a high-income country), and its energy needs are growing exponentially. Over the next few decades, as it adds rapidly to its coal and gas capacities, and builds up a clean energy storage ecosystem (<https://mybs.in/2dWXEJg7T19945918>), it will also find its demand for dirty fuels like coal (<https://mybs.in/2dKQDQ779846001>) and hydrocarbons (crude and natural gas) increasing at a rapid pace.

In oil, India is already the third-largest importer and consumer in the world, and the International Energy Agency (IEA) projects that India's growing demand for hydrocarbons (oil and gas) will keep rising rapidly until 2050, though coal demand may come down by then. Given that India imports over 80 per cent of its oil requirements and 50 per cent of its natural gas requirements currently, the country's energy and its economy particularly vulnerable to any disruptions in the market. What is worse is that oil production in the country is falling because of ageing wells, which are yielding less crude than before. Over the next few years, oil production in India is likely to fall further unless new fields are discovered and production starts from these.

It is not that Indian policymakers are unaware of this vulnerability to external shocks that send oil and gas prices soaring. Apart from the Russia-Ukraine war, India has suffered from each global

oil shock. While India managed to get cheaper Russian oil despite the Russia-Ukraine war, the net disruption caused by another global strife may well work against it.

When global crude and gas prices increase, plans are typically made by Indian policymakers to reduce the Indian economy's vulnerability to such shocks but these plans are also often put into cold storage once the crisis abates.

The United Progressive Alliance-1 government had planned to build strategic oil reserves underground to store oil that could be used during emergencies. After the first oil price shock, it was well built, however, work practically stopped on building new storage facilities. During Prime Minister Narendra Modi's first term, global crude prices dropped sharply, presaging a great opportunity to build up strategic petroleum reserves, but this opportunity was not utilised.

Over the past few years, Indian policymakers have again voiced the need to reduce India's dependence on hydrocarbon imports and have started some work towards that — though the goals are typically more ambitious than the pace of decision-making and execution.

The plans to build strategic reserves of crude that can be used in case of production incentives in sectors it considers strategic to attract investors. Given that oil and gas are of strategic importance to the country, it could explore ways to tweak its policies and incentives to make oil and gas exploration more attractive to private investors. Otherwise, its goal of reducing oil and gas imports sharply will remain only on paper.

Perhaps more importantly, Mr Modi's second term had seen a push for exploration to discover new oil fields. In 2015 and 2016, the government

announced the Hydrocarbon Exploration Licensing Policy (Help) and the Open Acreage Licensing Policy (OALP) to replace the New Exploration Licensing Policy (Nelp) of 1997 in the expectation that it would attract more private players, particularly global oil majors, to the sector.

Unfortunately, the big global oil companies have shown limited interest in unproven Indian fields, given that there are plenty of proven reserves around the globe that offer less risk. The global oil companies that did show interest in India have largely taken the low-risk approach of either tying up with an Indian public sector company or with a private sector player (ONGC, OIL or private sector players (Reliance)). The few that chose to bid on their own have relinquished their fields and exited India. Global oil investors have complained in private that the risks are too high compared to potential rewards, even though Help and OALP are big improvements over the old Nelp. Other complaints have included bureaucratic red tape and uncertain tax measures. The "windfall tax", for example, while great for Indian government revenues, doesn't entice investors who can't see why they need to pay additional tax after taking the risk.

While Indian imports and exports, especially the public sector undertakings — plan to invest big in oil and gas exploration over the next few years, it is unlikely to be enough. India needs to attract more private investment, both domestic and global.

The Indian government under Mr Modi has shown that it can offer special production incentives in sectors it considers strategic to attract investors. Given that oil and gas are of strategic importance to the country, it could explore ways to tweak its policies and incentives to make oil and gas exploration more attractive to private investors. Otherwise, its goal of reducing oil and gas imports sharply will remain only on paper.

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## Democrat with an authoritarian streak



BOOK REVIEW

ADITI PHADNIS

Of all the politicians of this generation, the life and times of Biju Patnaik is among the least explored, by academics and political historians alike. His role both in the Congress and the opposition was pivotal. Yet books on him in English can be counted on the fingers of two hands. This is a man who merited an obituary in *The Economist* that said: "It is worth writing about Biju Patnaik for at least two reasons. His long life can be read as something of a history of India back to the time when the country was run by the British. And he gave Indian politics a rare flash of colour".

Although he was chief minister of

Orissa (as it was then known) for one full five-year term and a second that lasted 27 months, it is he, not some of the longer serving CMs, who represents instant recall for all Odias, regardless of class or caste. Most Odias in the state's rural areas still refer to former chief minister Naveen Patnaik as Biju Babu's son, rather than the state's CM for 24 years.

Bhaskar Parichha's book is an attempt to correct this information gap. An updated version of one that came out a few years ago, it describes Patnaik's feats of derring-do, his internationalism, his passion for politics, his commitment to democracy and the breadth of his vision for his beloved state.

It could do with an editor. Biju Patnaik's lunch for Sir Stafford Cripps was meant to guide his mentor-turned-baib, Harekrishna Mahapatra, through social niceties and etiquette. Except that the editor has left out the entertaining description of the meal. Cripps is referred to as Sir Cripps and not Sir Stafford. Mahapatra's majority after India's

second general election is described as "pricky". Maybe the author meant to say "precarious". He describes the relationship between Mahapatra and Patnaik as "beyond reproach". Perhaps it should have read "beyond repair". Second, while the book is about Biju Patnaik, it lacks detail about the land that Patnaik was born to and ruled over. It would have been helpful to get some detail and colour about Orissa's socio-economic state in the years before he industrialised it and why it remained insulated by the happenings in neighbouring West Bengal where Congress and Communist governments undertook political and economic decisions that changed the landscape of the state. His breezy reference to Ganjam as a Communist stronghold does not explain how it became one nor how an avowed anti-Communist like Patnaik was elected from here.

The author also refers to the origins of the political faultlines between western and coastal Odisha and the impact the division of Seralika and Kharsawan had

on the psyche of Odisha. Patnaik's emotional and repeated threats that Orissa would be forced to secede from India if it did not get its due was all very well. But the state did not get its due and the author puts the blame for this on Patnaik's associates such as George

Fernandes and KP Umrikishan who did not keep their promise to expand railways and develop the Paradip Port. Did the Orissa government really press its case? In this aspect the book has you thirsting for more.

But the essence of Biju Patnaik — impatient, irascible, fraught with passion and the big picture man who didn't want to be bothered with detail — is captured beautifully. Enough to make one regret that the author's Legend has it that on his 79th birthday, when a journalist asked him about how he would choose to die, he answered: "I

BUJU PATNAIK: The Rainmaker of Opposition Politics  
Author: Bhaskar Parichha  
Publisher: Rupa Publications  
Pages: 153  
Price: ₹295

would like to die in an air crash rather than from prolonged illness. I would like to die instantly — just fall down and die". The book describes his childhood fascination for aircraft, his affection for the Royal Indian Air Force that won him the respect of the British, especially his efforts to evacuate British families from Rangoon (Yangon) when the Japanese invaded Myanmar during World War II. And, of course, his contribution to

Indonesia's freedom movement against the Dutch is the stuff of legend. Biju Patnaik and Jawaharlal Nehru held each other in great regard. But the author says Patnaik was aware that Indira Gandhi "hated" him.

This inability to get along with "Indu" would dog his politics even after Mrs Gandhi's assassination. It is well known that he was one of the moving spirits behind the Janata Dal. But the author reminds us that he stood with VP Singh and tried to prevent Chandra Shekhar from becoming prime minister because he had the Congress's support.

His style of dealing with political opponents was interesting. When state government employees assaulted him after he withdrew their perks, Patnaik did not hold the assault against them. However, younger members of the government and party saw this and used it to form pockets of dissent that Patnaik ended by the simple expedient of showing the door.

Because Patnaik was a businessman as well as a socialist, he knew both sides of the story. He set up an airline, a steel plant and wanted more of them. He did not hesitate to privatise even profit making state-run enterprises. But when privatisation was an unmentionable word. But despite protracted negotiations with Svaraj Paul, a second steel plant remained a dream for his state.

The author's summing up of Patnaik's personality is mastery. He says Patnaik was considered a patriot but he was also something of a jingoist. He was a democrat with an authoritarian streak. He was "perceived as a leader sworn to uphold social justice, but cast in a