THE HINDU

The rupee problem

Ad hoc steps to check the currency's decline must not deflect from the deeper problems

The rupee, which is currently the worst-performing currency in Asia, is finally receiving some help from the authorities. The Union government, after a meeting with Reserve Bank of India Governor Urjit Patel, on Friday announced a list of measures to arrest the sharp decline in the currency, which has lost about 12% of its value since the beginning of the year. These include steps to curb the import of non-essential goods and encourage the export of domestic goods, which will help in addressing the country's burgeoning current account deficit that hit a five-year high in July. Other steps such as removing restrictions on foreign portfolio investments and encouraging Indian borrowers to issue rupee-denominated 'masala bonds' were also announced to facilitate the inflow of dollars and de-risk the economy from fluctuations in the exchange rate. Further, the term limit imposed on borrowings of manufacturing companies is to be shortened further in order to curb dollar demand. The response to the move from the markets will need to be carefully tracked. Even before the official announcement on Friday, the rupee witnessed some recovery against the dollar amidst hopes of favourable government intervention, while stocks and bonds also recovered.

These steps to strengthen the rupee in the short term are welcome, given the large-scale outflow of capital from emerging markets to the West. These *ad hoc* steps to avoid an immediate crisis in the external sector, however, should not deflect attention from the more fundamental reasons behind the decline of the rupee. India has been unable to boost exports over the years for various reasons. At the same time, it has been unsuccessful in finding sustainable domestic sources of energy to address the over-reliance on oil imports. This has meant that the rise in the price of oil has traditionally exerted tremendous stress on the current account deficit and the currency, as is happening now. The government needs to think of a long-term plan to boost exports, preferably through steps that remove policy barriers that are impeding the growth of export-oriented sectors, in order to find a sustainable solution to the problem of the weakening rupee. The depreciating rupee is also a symptom of persistently higher domestic inflation in India over many decades. For example, in line with vastly different inflation rates in India and the U.S., the rupee has lost about 60% of its value in the last 10 years against the dollar. So this problem cannot be addressed without drastic changes in the style of monetary policy conducted by the RBI, which is an unlikely proposition. Until then, the best that can be hoped for is a steady drop in the value of the rupee without any drastic shocks to the economy.

Lethal filth

The law should be enforced vigorously to eliminate manual scavenging in its entirety

The death of five young men who were employed to clean a septic tank in an upmarket residential community in New Delhi is a shocking reminder that India's high-profile sanitation campaign has done little to alter some basic ground realities. Around the same time as the Delhi incident, five workers died in a septic tank in Odisha. The law is not being enforced, and there is no fear of penalties. The workers in Delhi were apparently asked to perform the task in violation of Section 7 of the Prohibition of Employment as Manual Scavengers and their Rehabilitation Act, 2013; a violation can be punished with two years of imprisonment or fine or both. Under the provision, no person, local authority or agency should engage or employ people for hazardous cleaning of sewers and septic tanks. Mechanised cleaning of septic tanks is the prescribed norm. But in spite of a well-funded programme such as the Swachh Bharat Abhiyan in operation, little attention is devoted to this aspect of sanitation. The requirements of worker safety and provision of safety gear for rare instances when human intervention is unavoidable are often ignored. Mere assertions by the Centre that it is pressing State governments to prosecute violators, therefore, ring hollow. More and more incidents are being reported of workers dying in septic tanks. In the absence of political will and social pressure, more lives could be lost because more tanks are being built in rural and urban areas as part of the drive to construct toilets.

If the law on manual scavenging is to be effective, the penalties must be uniformly and visibly enforced. It is equally important for State governments to clean septic tanks. The Ministry of Drinking Water and Sanitation in its manual of 2016 on toilet design acknowledges that in rural areas, mechanical pumps to clear septic tanks are not available. In the southern States, sanitation has expanded along with urbanisation, but it has brought with it a higher number of deaths as workers clean septic tanks manually. For instance, Tamil Nadu recorded 144 fatalities of workers engaged for septic tank cleaning in the past three years, according to official data. On the other hand, toilet designs proposed by the government include those in which fully composted waste must be removed from pits every two years. The Centre must ensure that this does not become a fresh avenue to oppress members of some communities who are expected to perform such work, reflecting social inequalities. India's sanitation problem is complex, and the absence of adequate toilets is only one lacuna. The Swachh Bharat Abhiyan should make expansion of the sewer network a top priority and come up with a scheme for scientific maintenance that will end manual cleaning of septic tanks. The law should be enforced vigorously to eliminate manual scavenging in its entirety.

Where goes the rupee?

There are several moderate but effective instruments available to the government to help the rupee find an equilibrium

BHASKAR DUTTA

The travails of the rupee have dominated newspaper headlines over the last fortnight. Its value has fallen precipitously against the dollar, and is now hovering around the 72 level; it was just under 64 at the beginning of the year. There is now intense debate in the media on whether the Reserve Bank of India (RBI) should step in and take steps to defend the dollar.

The U.S. honeypot

Finance Minister Arun Jaitley has rightly observed that external factors are the cause. In particular, global capital and perhaps currency speculators have been flocking to the American economy. This is not really surprising because the U.S. economy has become a very attractive option. Some months ago, U.S. President Donald Trump announced a massive decrease in corporate tax rates. More recently, the U.S. Federal Reserve has also increased interest rates. The icing on the global investors' cake is the booming U.S. economy.

Not surprisingly, the dollar has appreciated sharply against practically all other currencies too. For instance, it has moved up against both the euro and the pound. Developing economies are typically even harder hit since global portfolio investors tend to withdraw from these markets, perhaps because their economic or political fundamentals are relatively more unstable. Countries such as Turkey and South Africa have experienced significantly higher rates of devaluation than India.

A long time ago, the 'standard' or textbook prescription for countries with severe balance of payments deficits was to devalue their currencies. The underlying rationale was that devaluation decreases the price of exports in foreign countries and so provides a boost to exports by making them more competitive. Correspondingly, imports become more expensive in the domestic economy, in turn reducing the volume of imports. Unfortunately, this seemingly plausible reasoning does not always work. For instance, if several countries are devaluing at the same time – as it seems to be happening now – then none of these countries benefit from their exports being cheaper abroad. In other words, there may not be any surge in Indian exports following the current round of devaluation. Neither will there be a huge fall in imports. Crude oil is by far the biggest item in the list of Indian imports, and this is price-inelastic. Imports from China now constitute a tenth of overall imports. Since the yuan has also depreciated against the dollar, there is not much reason to believe that Chinese imports will be costlier than earlier.

Ripple effects

Fortunately, the RBI has a huge stock of foreign exchange reserves and so the balance of payments situation is not (at least in the immediate future) the main cause of anxiety for the steady decline in the value of the rupee. What must concern policy-makers is that the slide in the rupee can have adverse effects on the domestic economy. For instance, the surge in the landed price of crude oil has already resulted in a steep rise in the prices of petroleum and diesel. Diesel price hikes increase the cost of transportation of goods being transported by road. Unfortunately, many food items fall in this category. Obviously, any increase in food prices must set alarm bells ringing in the Union Finance Ministry. The devaluation will also increase prices of imported inputs, particularly those for which there are no alternative domestic sources of supply. This can have some effect on output expansion. Many domestic companies that have taken dollar loans will also face significantly higher servicing costs.

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Corrective options

What are appropriate policy responses in such a situation? Should the monetary and fiscal authorities sit tight, hope and pray that self-correcting mechanisms will gradually cause the rupee to appreciate against the dollar? Or should the RBI and the government come out with guns blazing? Certainly, neither the government nor the RBI can afford the option of inaction. The other extreme of knee-jerk, overkill options must also be avoided. Luckily, there are several moderate but effective instruments available to the government.

Consider, for instance, the problems caused by the spiralling prices of petroleum products. Both the Central and State governments earn huge revenues from excise duties and value-added tax (VAT) on petrol and diesel. In fact, excise duties were raised in the recent past by the Central government when crude oil prices were low, merely as a revenue-gathering device. Now that the rupee cost of crude has shot through the roof, the Centre should certainly lower duties. Rates of VAT should also be lowered by State governments. A small reduction in VAT may even be revenue neutral since VAT is levied as a percentage of price paid by dealer. Some State governments have done so. However, the Centre and most States are busy passing on the buck, because no one wants to part with tax revenue.

The RBI has several policy options. It could, of course, take the most direct route – of offloading large amounts of dollars. This would increase the supply of dollars and so check the appreciation of the dollar, but at the cost of decreased liquidity. Clearly, this weapon has to be used with caution. Of course, the RBI does intervene in the foreign exchange market from time to time to manage a soft landing for the rupee, and this has to continue.

The Central bank now has an explicit inflation target of 4%, a level that is almost certain to be breached if the rupee remains at its current level. This is very likely to induce the Monetary Policy Committee (MPC) of the RBI to raise interest rates again in order to dampen inflationary tendencies. But, the MPC must moderate any rate increase. Any sharp increase has an obvious downside risk to it – any increase in interest rates can have an adverse effect on growth. This can actually backfire if profitability of companies goes down. Any 'big' negative change in profitability may make foreign portfolio investors pull out of Indian stocks and actually exacerbate the rupee's woes.

The NRI route again

Perhaps the best option for the government would be to borrow from non-resident Indians (NRIs) by floating special NRI bonds that have to be purchased with foreign exchange, and with maturity periods of at least three years. Interest rates have to be attractive, and investors must of course be protected from exchange rate fluctuations. Since interest rates in countries like the U.K. and even the U.S. are quite low, the promised interest rate does not really have to be very high by prevailing Indian levels.

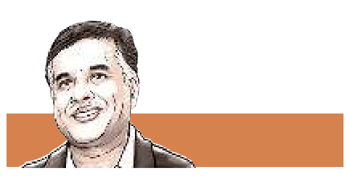
This has been tried before, the last time being in 2013 when too the rupee was under stress. It worked then and there is no reason why it should not work again.

Hopefully, the storm will pass over and the rupee will soon find an equilibrium. In the near future, the rupee is unlikely to return to anything below 70 to the dollar. This should not be cause for much concern because the economy will adjust to the lower value of the rupee. What must be avoided is any sharp fluctuation in the exchange rate – in either direction. Much will depend on whether the economy can continue to grow at a reasonably high rate, for this will steady the nerves of portfolio investors and prevent them from pulling out of the Indian stock market.

Bhaskar Dutta is Professor, Ashoka University. The views expressed are personal

Covering the last field

Reinvigorate the crop insurance scheme to provide social protection to every farmer



PRAMOD AGGARWAL

Excess rains and floods in Kerala, deficit rainfall in eastern and north-eastern India, and associated large-scale crop losses have again highlighted the need for providing social protection to poor farmers. A highly subsidised Pradhan Mantri Fasal Bima Yojana (PMFBY) was launched in 2016 to provide insurance to farmers from all risks. Aiming to reduce basis risk and premium burden of the farmers, the scheme's total expenses today are almost ₹30,000 crore. In comparison to earlier schemes, the PMFBY is more farmer friendly, with sums insured being closer to the cost of production. The scheme's linkage with parallel programmes like the 'Jan Dhan Yojana' and 'Digital India' makes it a truly inclusive and welfare-based scheme. The scheme therefore led to increased coverage of 5.7 crore farmers in 2016 and the sum insured crossed ₹200,000 crore. However, notwithstanding its ambition and intent, the scheme since its operation has been scrutinised more for its misses than its hits.

Some handicaps of the scheme are: outmoded method of crop loss assessment; inadequate and delayed claim payment; high premium rates; and poor execution. Consequently, in 2017, the expansive coverage of the scheme suffered some setback as seen in a drop of nearly one crore farmers in enrolment (about 17%). Such shortcomings have inspired recent announcements such as that of Bihar to start its own scheme, the "Bihar Rajya Fasal Sahayata Yojna".

Giving it teeth

In order to make the PMFBY a sustained developmental action for a comprehensive climate risk protection for every Indian farmer, the following action points are suggested.

Faster and appropriate claim settlement: Timely estimate of loss assessment is the biggest challenge before the PMFBY. The Achilles heel of the PMFBY (and most likely for the Bihar variant) is the methodology deployed for crop loss assessment: the crop cutting experiments (CCEs). CCEs are periodic exercises conducted nationwide every season to determine crop yields of major crops. Sample villages are chosen through scientifically designed surveys, and crops are physically harvested to determine yields. These experiments require huge capital and human resources and have to be done simultaneously all over India in a limited time. Therefore, they have large errors.

To improve the efficacy of the PMFBY, technology use must be intensified. With options such as available today, such as detailed weather data, remote sensing, modelling and big data analytics, the exercise of monitoring crop growth and productivity can be not only more accurate and efficient but also resource saving. Hybrid indices, which integrate all relevant technologies into a single indicator, are good ways to determine crop losses. Their deployment can assist in multi-stage loss assessment and thus provide farmers with immediate relief for sowing failure, prevented sowing and mid-season adversity apart from final crop loss assessment.

The whole process of monitoring can be made accessible and transparent to farmers, policymakers and insuring agencies alike through an online portal. Immediate claims settlements can be made once this is linked to the process of direct benefit transfers.

Universal and free coverage for all smallholders: Farmers' awareness about the scheme and crop insurance literacy remain low in most States, especially among smallholders in climatically challenged areas in most need of insurance. The complicated enrolment process further discourages farmers. To increase insurance coverage we should think of a system whereby farmers do not need to enrol themselves and every farmer automatically gets insured by the state. This will provide social protection to every farmer if the full premium of smallholders is also paid by the state. It is not an expensive proposition. Currently, farmers pay a capped premium rate of 1.5-2%, while the rest is shared equally between the States and the Centre. At this rate, if today all 14 crore farmers were to be insured under the PMFBY, they would need to pay the premium close to ₹10,000 crore annually. If no premium is charged from marginal and small farmers (who own less than 2 hectares and account for 12 crore out of 14 crore) and only partial subsidy on actuarial premium is given to others, almost the same revenue can be collected, but in the process, coverage can go up almost 100%. Such differential subsidies are already applicable in urban areas for water and electricity.

GETTY IMAGES

Improved and transparent insurance scheme design: Insurance companies are supposed to calculate actuarial rates, and based on tenders, the company quoting the lowest rate is awarded the contract. We have seen rates quoted by companies for the same region and for the same crop varying from 3% to more than 50%. Such large variations are irrational. One reason for such inflated premiums is lack of historical time series of crop yields at the insured unit level. To minimise their risks caused by missing data and to account for other unforeseen hazards, insurance companies build several additional charges on pure premium. Science has the capacity today to characterise risks and reconstruct reasonably long-time series of yields. The premium rates, and hence subsidy load on the government, can come down significantly if we make greater use of such proxies and appropriate sum insured levels.

If such a comprehensive social protection scheme is implemented, there would be opportunities for further rationalisation of subsidies. The government today spends more than ₹50,000 crore annually on various climate risk management schemes in agriculture, including insurance. This includes drought relief, disaster response funds, and various other subsidies. Climate-risk triggered farm-loan waivers are an additional expense. All these resources can be better utilised to propel farm growth.

Pramod Aggarwal is Programme Leader-South Asia, of the CGIAR Programme on Climate Change, Agriculture and Food Security

LETTERS TO THE EDITOR

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

'Dystopic' vision

The article, "India's shrinking democratic space" (Editorial page, September 15), spells out the brazen attitude of the ruling dispensation in abandoning the basic structure of our Constitution, namely democracy and secularism. The main Opposition party, the Indian National Congress, is unable to perceive the explosive agenda of the right wing. This should be a wake-up call for all democratic minded parties to join hands in thwarting the evil forces that are threatening to cut though the secular fabric of India.

B.B. RAMANI,
Coimbatore

■ The choice before the electorate is now the "rest", which is the Congress and the regional parties. But can we trust the Congress, with its awful track record of a decade and where it was bogged down in alleged corruption charges? The Congress president still has a long way to go in becoming acceptable as a politician. Is the writer suggesting we accept regional parties with a weakened Congress as an alternative to the NDA? This experiment, on an earlier occasion, ended in disaster. And the moot question is, why has the right wing gained an upper hand? This is noticeable in Europe too.

VIJAY KUMAR CHADALVADA,
Bengaluru

■ Memory is not short as far as what the Congress government did is concerned, where appeasement created problems. The fact is that every political party pushes its agenda with a calculated certainty. There is also enough space in India's democracy for those who are aggrieved to start political parties of their own and propagate their views.

LAKSHMI PRASANNA,
Hyderabad

■ The delusion of democracy comes alive only at election time. We choose one or more 'family members', we applaud the 'wise electorate' and the media writes tomes about how mature Indians are as voters. If the greatness of the republic lies in its link to democracy, with "all citizens as equal stakeholders", there are lakhs of Indians who still do not know where and when their next meal will come from. A number of Indians still do not have the basics – food, shelter, education, health and security. How can we then say they are equal stakeholders? All political parties are guilty of ignoring their struggles to exist.

SAMPATH KUMARAN,
Mysuru

Restorative justice

The Supreme Court deserves praise for salvaging, to some extent, the lost dignity of former ISRO scientist S. Nambi Narayanan, who was framed in a spy scandal case (Editorial, "Beyond recompense", September 15). It is a watershed moment in the annals of human rights litigation.

However, no compensation would be adequate for the undue mental agony and stigma suffered by the traumatised scientist for almost a quarter of a century. This is a classic example of the wheels of justice grinding far too slowly.

P.K. VARADARAJAN,
Chennai

VP on English

"English is like an illness left behind by British," is the unkindest statement and least expected from Vice President Venkaiah Naidu, otherwise an affable and witty speaker (Page 1, September 15). Has he forgotten that his innumerable catchy one-liners are all in English? For example, who can forget his "MODI" stands for "Making of Developed India" and his condemnation of vote-catching using the four B's: "Bottle, Biryani, Bus and Batta"?

Mr. Naidu should remember that English will remain the foremost global language – from international business and science to the Internet and diplomacy. Even in China, people have become hugely enthusiastic learners of the English language. To get an idea of this, one has to read Martin Jacques's book, *When China Rules the World*.

C.V. VENUGOPALAN,
Palakkad

Hip replacement

The report, "Out of joint" ('Ground Zero' page, September 15), was heart-rending. My grandfather had hip replacement surgery in 2013 but began his battle with agony and severe pain a year later. The 'Ground Zero' report has now given us clues about his deep suffering. Medical negligence is a reality in India largely on account of the rapacious nature of some systems in the medical field.

SHUBHAM GAUR,
Meerut, Uttar Pradesh

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CORRECTIONS & CLARIFICATIONS:

In the Ooty Literary Festival story on Life page (Sept. 15, 2018, some editions), the photo caption had named the managing trustee of the festival incorrectly. Instead of T.J. Prints it should have said Gerard Pinto.

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