



IAS INTERVIEW 2012

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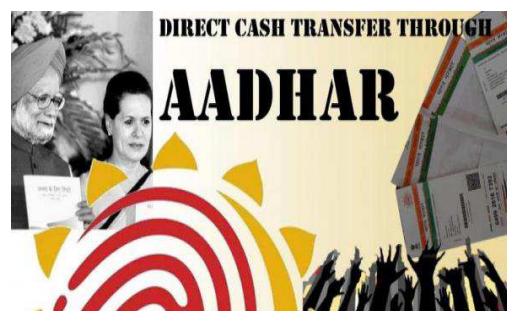
Current Affairs (National & International Issues)

- Direct Cash Transfer Scheme
- Governance Deficit in Country
- Freedom of Speech vs Regulation of Internet
- Rationalisation of Subsidies
- Leadership change in China

DIRECT CASH TRANSFER SCHEME

Why was it in news recently?

The government's ambitious scheme of direct cash transfer of subsidy to bank accounts of beneficiaries began on 1st January, 2013 across 20 districts of the country for seven schemes. The money is being transferred through the direct benefit transfer system using the UIDAI platform. The slogan of the scheme is *Aapka Paisa, Aapke Haath* (your money in your hands).



Subsidies relating to cooking gas (LPG), kerosene, diesel, food and fertilisers were not included in the first phase of the roll-out. The scheme will be rolled out across 11 more districts Feb 1 and 12 more districts March 1, taking the total to 43 districts over the next two months and will be rolled out across the country by the end of 2013.

What will DBT do?

The DBT programme aims that entitlements and benefits to people can be transferred directly to them through biometric-based Aadhaar-linked bank accounts, thus reducing several layers of intermediaries and delays in the system. The last-mile of the initiative is the most important — the system will allow actual disbursements to take place at the doorstep of the beneficiaries through a dense, interoperable network of business correspondents (BCs) using biometric microATM machines. Thus, the yardstick of success is not going to be that the money has reached a bank account, but that it has reached the hands of the intended beneficiary — a student, a pensioner, a widow, an elderly person, a disabled person, a poor family.

Why is DBT a paradigm shift?

1. First, the link to Aadhaar and the use of biometrics ensures that the problems of “duplicates,” i.e., the same person getting the benefit more than once, and “ghosts,” i.e., a non-existent person getting the benefit, are addressed.
2. Second, it makes it possible for money to reach the intended beneficiaries directly and on time — so, for example, pensions, which reach the beneficiary once every four to six months in many parts of India, can now reach her bank account on the first of every month.
3. Third, a dense BC network on the ground with microATMs will allow payments to happen at peoples’ doorsteps, ensuring that the poor get the same level of service that the rich and middle-class in India get.

4. Fourth, as it is a platform based on an open architecture, State governments can use this platform as much as the Central government. This is important, because the government views this programme as a cooperative endeavour between the Centre and the States, and the States will have a critical role to play (in fact, many chief ministers, including of the Opposition-ruled States, are strong champions of the programme).
5. Fifth, the potential benefit to internal migrants who send remittances to their homes is huge. It is estimated that Rs.75,000 crore worth of within-country remittances are made in India every year — many of these are lifelines for their families. Seventy per cent of these remittances are today channelled through informal (and illegal) channels which impose high costs on them. The Aadhaar-based microATM network can ensure that remittances take place instantly and at much lower cost to migrants.

Concerns/Challenges

1. Link to Aadhar- There are serious reservations about the government's rush to link these cash transfers to "Aadhaar," the unique identity (UID) number. This is because the linking of these schemes can cause huge disruption — think of an old man who is currently getting his pension from the local post office, but will now have to run around getting his "UID-enabled" bank account activated and then may find his pension held up by fingerprint problems, connectivity issues, power failures, truant "business correspondents," and the rest.
2. Cash in lieu of food-People are also firmly opposed to the introduction of cash transfers in lieu of food and other commodities supplied through the Public Distribution System, for many reasons. One, subsidised food from the Public Distribution System (PDS) is a source of food and economic security for millions of poor families. In 2009-10, implicit transfers from the PDS wiped out about one-fifth of the "poverty gap" at the national level, and close to one-half of it in States like Tamil Nadu and Chhattisgarh. Recent experience also shows that it is possible to further revamp and reform the PDS without delay.
3. Banking System-The banking system in rural areas is not ready to handle large volumes of small transfers. Banks are often far and overcrowded. The alleged solution, banking correspondents, is fraught with problems. Post offices could possibly be converted into useful payment agencies, but this will take time.
4. Business Correspondents- in the adverse circumstances some beneficiaries find themselves in, they could still be deprived of money that reaches their bank account. This is now to be addressed through a system of Business Correspondents (BC) who will deliver the money at the doorstep. Only time will tell us whether a dense network of BCs will prove to be less corrupt than the current network. But the older generation that used to be dependent on money-orders may be a little more sceptical.
5. Undeserving beneficiaries- Aadhaar can provide a unique identification to the individual, but the fingerprints and iris it relies on tell us nothing on whether the individual is poor or deserving of

the subsidy in any other way. It cannot therefore stop the leakage that occurs when the undeserving are identified as the poor.

6. Distributional effects of different kinds of benefits within the family- There is a good deal of empirical evidence to suggest that direct access to food tends to favour children rather than only the adults, and also girls rather than only the boys, working against biased social priorities, common in the subcontinent, favouring adults over children, and boys over girls, which is a long-standing problem in Indian society. If the cash transfer is not additional to food subsidies, and is given “instead of” food subsidies, it would be important to make sure that the money given would be used for nutritional purposes and, equally importantly, that it would be divided within the family in a way that addresses the manifest problems of undernourishment and deprivation of young girls.
7. Problem of Transition-Further, even if it is made sure that cash transfers will work in a way that meets these difficulties, there may still be a serious problem of transition, especially if there is a time lag in opening an account in a bank, or in a post office, to receive the cash transferred. If, meanwhile, the subsidised food disappears, the poor who fail to open an account adequately fast, for one reason or another, will lose doubly through not having the cash yet, and through the fact that others will have the cash to buy food which would keep the food prices high. The transition problem need not be impossible to handle, but attention will have to be paid to that, bearing in mind that many of the poorer Indians lead a life of hand-to-mouth existence, and any delay in the period of transition may plunge some people into extreme hardship.
8. Special Groups- there are concerns of special groups such as single women, disabled persons and the elderly who cannot easily move around to withdraw their cash and buy food from distant markets.
9. Inflation-It is argued that when subsidies in kind are converted into cash transfers there is a multiplier effect that would be inflationary in the present economic situation.

Learning from experiences- Case Studies

1. Pilot Scheme in Kotkasim(Rajasthan)

Kotkasim in the Alwar district of Rajasthan was chosen for a pilot experiment with “direct cash transfers” of kerosene subsidies. According to the district administration, the scheme led to net savings of 79 per cent in kerosene subsidies after it was launched in December 2011, by weeding out “fake users.” The administration further claims that if this were replicated in Rajasthan as a whole, it would lead to annual savings of about Rs. 920 crore for the State government. However, are these savings really driven by a reduction in the illegal diversion of subsidised kerosene? A quick investigation, based on discussions with residents and Fair Price Shop (FPS) dealers in three gram panchayats of Kotkasim, revealed a different story.

Investigation suggests that the main reason for the reduction in subsidy is *the involuntary dropping out of legitimate buyers.*

The direct cash transfer of kerosene subsidies works as follows. Instead of getting kerosene from the local FPS at a subsidised price of Rs. 15 a litre, as they used to do, households now pay the full market price (initially Rs. 45 a litre, later raised to Rs. 50). The subsidy, that is, the difference between the market price and the subsidised rate of Rs 15 a litre, is deposited into their bank accounts. The subsidy payments are supposed to be made every three months, with the first three-month instalment paid in advance when the scheme is launched.

One major reason was the erratic payment (or even non-payment) of subsidies, due to lack of coordination with the banks. Even a year after the scheme was launched, many households have not been able to open a bank account. Since the subsidy transfer requires Core Banking Solutions (CBS) enabled bank branches, the post office accounts of MGNREGA workers were not considered. Many households are yet to receive any subsidy, despite shelling out Rs 500 to open a (supposedly “zero-balance”) bank account — for instance the SBI account holders of Bilahedi gram panchayat. Another major hurdle is the time and effort required to go to the bank and check whether the subsidy has been credited. Quite often, people have to visit the bank many times just to get this information. Even a single visit can take a full day because of the distance, long queues, and uncooperative bank staff. This is a major hassle, particularly for poor households.

Because of this erratic and cumbersome transfer of subsidies, the effective price of kerosene has actually shot up, leading to a dramatic decline in FPS purchases. Since the launch of the pilot in December 2011, some households have received two subsidy instalments (for three months each) and some have received one — but many others are yet to get any subsidy.

Pilot surveys are initiated to learn lessons from ground realities. Before scaling up, the shortcomings need to be rectified. However, till now there has been no objective assessment whatsoever of the scheme by the government. On the contrary, the administration is projecting the scheme as a grand success on the sole basis of reduction in total subsidy, without analysing (or revealing) its cause

2. *SEWA model of cash transfers*

If, as with the ill-advised Kotkasim model, the intention is simply to substitute cash payments for a subsidy, many people will become worse off in the first few months.

This is why SEWA and Unicef have been implementing a cash transfer pilot scheme in which the *cash provided has been a small top-up to existing subsidies*. As a result, nobody in the villages is worse off than before. There have been teething problems associated with opening bank accounts and with learning how to use the cash. But these have taken place in an atmosphere of net gain for the recipients. As people have learned to adapt, support has grown not only for the idea of cash transfers but for substitution for rationed items. As a result, planners could now implement a substitution scheme in those villages that would be welcomed, would improve welfare and save government money.

The biggest mistake the government is making in rolling out the Kotkasim model is trying to save money in the short-term rather than treating the rollout of cash transfers as a measure with upfront net spending that will reduce public spending in subsequent years, once the scheme has been legitimised. Cutting budget deficits is necessary, but it must be a medium-term objective, not a short-term one that jeopardises the longer-term.

3. Case of Brazil

Also, cash transfer has an international gloss about it. It has worked in Brazil. Even the World Bank has certified it as an ace instrument for poverty alleviation. However there are differences between Brazil and India.

- Only about 15 per cent of Brazilians live in villages while nearly 70 per cent do in ours.
- So what if only 6.1 per cent of Brazil's population earns less than \$1.25 a day compared to a crushing 32.6 per cent in India
- The fact that in Brazil it is not cash transfer but "conditional" cash transfer is a little detail that can be ignored. For the record, "conditional" cash transfers are linked to several human development issues which is why they are more than simple anti-poverty programmes. In Brazil, poor families have to satisfy strict conditions before they qualify to receive cash transfers. They must make sure that their children have a high 85 per cent attendance in school and that their nutrition and growth charts are climbing up the right slope. In addition, all children under five must have the full complement of vaccines and no excuses. Mothers too must submit to pre- and post-natal checks. Failure on any of these counts, and the cheque will not be in the mail.

Tackling the challenges of implementation

Having said all this, the government has admitted that there will be numerous challenges of implementation that lie ahead. That is why the government is proposing to move ahead only gradually and with caution.

1. First, the programme proposes only a modest beginning in Phase I, covering 34 schemes — largely scholarships, pensions, and other benefit payments — in only 51 (of the over 600) districts. It will be ensured that at least 80 per cent residents in each district have an Aadhaar number and an Aadhaar-linked bank account before any payments are started. And no one who does not have an Aadhaar number will be denied benefits. Only based on the learning from this phase, would the programme be expanded.
2. Second, a system of independent concurrent evaluation is being embedded, to ensure that we get objective feedback on the challenges of implementation. There already are useful lessons from five Aadhaar pilots in different parts of the country.

3. Third, subsidies on food and fertilizer have not been included in the first phase, recognising that these are highly complex and require considerable thought. Chief ministers seem to have varying views on this issue, with some supporting the linking of DBT with fertilizer and food (and other Public Distribution System commodities), while others oppose it. Such issues will best be left to the discretion of the States.
4. Fourth, the issue of mobile connectivity, a major challenge in backward areas and essential for online authentication, is being addressed in parallel, by adding more mobile towers (especially in backward districts) and through the ambitious government programme of taking broadband internet connectivity to every panchayat within two years.
5. Fifth, the existing discredited BC model is being fundamentally changed, with an open architecture replacing monopolies. This would enable anyone —kirana shops, women’s self-help groups, primary agricultural cooperative societies, post offices, Accredited Social Health Activists and anganwadi workers, etc. — to become BCs. The business model for BCs is also being revamped to make it more lucrative. The post office network (a key payment channel, especially for pensions and Mahatma Gandhi National Rural Employment Guarantee Act payments) is also being reformed with the postal department committing to upgrading to a core banking solution (CBS) system across all its post offices within the next 18 months.
6. On the Kotkasim experiment, two main concerns that were identified from a user perspective — erratic and delayed payments due to a lack of coordination, and the time and effort required to go to and deal with banks. Absence of an objective assessment of the programme by the government was also noted. Each of these is being addressed in the government’s proposal.
 - a. Bank accounts are going to be Aadhaar-linked that will ensure duplicates and ghosts are eliminated. Beneficiary accounts are going to be linked to Aadhaar and bank account numbers before any payments are made, and payments will be made instantly using the Aadhaar Payment Bridge — this will ensure that payment delays don’t happen.
 - b. An interoperable BC network with microATMs is going to be put in place so that beneficiaries have access to banking at their doorstep, which will reduce the hassle and delays involved in dealing with bank branches. And as mentioned, a concurrent evaluation system is being embedded to ensure that we get objective feedback.

Conclusion- Cash Transfer is not a magic bullet

Cash transfer can be a very useful system to supplement other ways of making India a less unequal society, but it is not a magic bullet, and its pros and cons have to be assessed and scrutinised with an open mind. It is, more realistically, a first step in re-engineering its very foundations. We should neither be evangelical or dogmatic about DBT. Instead, we should believe that rather than having endless ideological discussions “for” or “against” DBT, it is better to be pragmatic and try it out seriously and systematically, albeit in a cautious and phased manner.

GOVERNANCE DEFICIT

Governance is an outcome of a system. It is a yardstick to measure the performance of a system/organ of a body. Performance and governance-deficit of a system are inversely proportional to each other.

India today is a deficit-ridden nation: governance deficit, harmony deficit, transparency deficit, and trust deficit. And if we continue at this rate, we're unsure how long we'll remain stable, even united as a sovereign entity. Here is a glimpse at the core issues related to governance deficit.

1) Corruption/Scams

Nowadays, the buzz word in different media is corruption in India. Front page headlines in print and prime time news in visual media are scam related. Every other day, everybody have their unique, foolproof solutions to resolving this problem. And they all get their five seconds of fame in the media while we all go home glad and thinking the nation has not yet come to a really sorry pass. But we awake the next day to the news of yet another mammoth scam and we resume talks of said deficit.

India was ranked 72 among 180 countries in Corruption Perception Index (CPI) for the first time in 2007 and since then the country's rankings have been showing a decline. While India was placed at 87 in 2010, the position was 95 in 2011. India's image on tackling corruption has not improved with Transparency International's Corruption Perception Index (CPI) placing it at 94th rank out of 176 nations this year.

Adarsh housing society, illegal mining, Commonwealth games, 2G spectrum allocation, coalgate scam etc are just few names in the list. Recently, the former Haryana Chief Minister and his son Ajay Chautala, who is also a legislator, were among 55 people who were convicted on corruption and other charges by a Delhi court for illegally recruiting 3,206 junior teachers 12 years back.

According to a 2010 report, unofficial estimates indicate that Indians had over US\$1456 billion in black money stored in Swiss banks (approximately USD 1.4 trillion).

2) Policy Paralysis

It took the government 10 years to increase rail fare even after knowing the poor condition of Railway finances. An announcement was made in 2007 to introduce GST from 2010. However, till date, consensus has not been reached on various issues related to it. Similarly Direct Tax Code has remained only on papers. Even when the government was able to introduce "FDI in Multi-brand retail", it was marred by the allegation that Wal-Mart has lobbied for the same. 'Policy paralysis' seems to reflect the shortcomings of the extant political system, public policy making processes and corporate practices.

The Indian economy is currently going through a rough phase. The real growth, at 6.5 per cent, has slumped close to the decadal low. Inflation, which averaged over 9 per cent over the past 30-months,



is the worst in nearly two decades. During the last fiscal, India's foreign trade and external current account deficits were 56 per cent and 70 per cent higher than their respective previous all-time highs. Public finance in India is at disarray. In the past eight years, government borrowing has jumped 600 per cent. Meanwhile, India's sovereign credit rating outlook has been downgraded.

Currently, there is a broad-based despondency that the situation in India is going to get worse and it would perhaps be quite some time before things start improving. The near consensus view is that India's fall from being the shining example of high growth to the current comatose state is largely due to public policy inaction, or in popular terms 'policy paralysis'.

3) Parliamentary logjam

Many Indians are dismayed at the logjam in Parliament, and disgusted at what they see as politicians' self-serving attitudes. Constructive discussions and debates on issues of paramount national importance seem to have become a thing of past. Surely, a dysfunctional Parliament does not augur well for a mature democracy. It is very unfortunate that entire sessions are lost without conducting any business. All the rules under the Parliament's function are the creation of the members of the Parliament. If the creators themselves violate their own rules then where is the remedy?

Recently, MP Mayawati took the House by surprise when she stood up in the middle of the question hour and asked Chairman Ansari why proceedings were being disrupted at noon everyday to prevent the taking up of the bill on quota in promotions.

All sections of the house should introspect on the record of this session to seek the distinction between dissent, remonstrance, agitation and disruption.

4) Protests

If we had to pick the single most important achievement over the last two weeks, it would have to be the cementing of India's tentative new discovery of public protest. Over centuries, the average Indian citizen has been famously recognised for his complete apathy, feted as extremely tolerant or slammed as shockingly indifferent. The absence of any real and active involvement of the masses has significantly diluted public discourse over the years, undermining the quality of our much-vaunted democratic institutions.

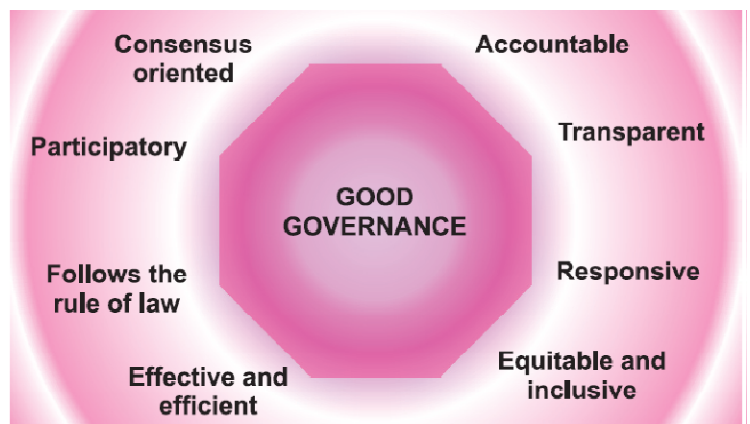
It started roughly five years ago when Jessica Lal's killer was acquitted by a trial court. Probably for the first time, Indians across the board were mobilised into protest through a massive SMS and e-mail campaign and relentless media focus, which finally led to the conviction of Manu Sharma. The next overwhelming mass protest came when Anna Hazare launched his anti-corruption campaign, which saw unprecedented public support. And now, the country has rallied together again for the rape victim. What sets these protests apart is that none of them was initiated or controlled by political parties. They have been spontaneous combustions into which students, homemakers, office-goers, writers and musicians

have jumped in. There were no leaders, except for Anna and that to only in Delhi, no politicians amassing the people, shouting slogans or telling them what to do. In that sense, these episodes have possibly given us the most unfiltered sense of what the ordinary citizen is feeling — the anger, frustration and outrage.

What should be done- Good Governance

To bridge all these deficits what India needs today is good governance.

Good governance aims at providing an environment in which all citizens irrespective of class, caste and gender can develop to their full potential. In addition, good governance also aims at providing



public services effectively, efficiently and equitably to the citizens. The 4 pillars on which the edifice of good governance rests, in essence are:

- Ethos (of service to the citizen),
- Ethics (honesty, integrity and transparency),
- Equity (treating all citizens alike with empathy for the weaker sections), and
- Efficiency (speedy and effective delivery of service without harassment and using ICT increasingly). Citizens are thus at the core of good governance. Therefore, good governance and citizen centric administration are inextricably linked.

In these days of growing mistrust towards the government, good governance is not a choice but a necessity.

FREEDOM OF SPEECH v/s REGULATION OF INTERNET

Why was it in news recently?

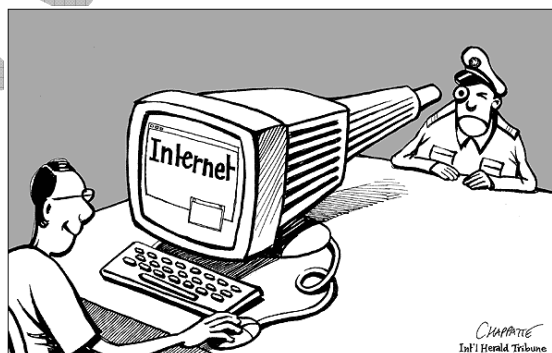
Last month has seen a lot of catharsis – in the form of people pouring out on the streets, or pouring their emotions out on the internet. We saw how two girls were booked under Section 66A of the Information Technology Act for a Facebook post. The arrest of a Puducherry activist for alleging on Twitter that the Union Finance Minister's son had "amassed more wealth than Vadra" is a disturbing reminder that the Information Technology Act is serving as a convenient tool to curb free speech.

The law states that people can face up to three years' jail for electronic communications that "grossly" offend or cause "annoyance or inconvenience", or, in case of information known to be false, cause "danger, obstruction, insult, injury, criminal intimidation, enmity, hatred, or ill will".

The question that arises is that in such situations can we still exercise our fundamental rights? Are we being trapped in legalese? How much control is too much control? In what spheres is this control justified in the first place? Should the Government and DoT just be more open about the controls they exercise?

Mechanisms for Internet Censorship in India

- In June 2000 the Indian Parliament created the **Information Technology (IT) Act** to provide a legal framework to regulate Internet use and commerce, including digital signatures, security, and hacking. The act criminalizes the publishing of obscene information electronically and grants police powers to search any premises without a warrant and arrest individuals in violation of the act. A 2008 amendment to the IT Act reinforced the government's power to block Internet sites and content and criminalized sending messages deemed inflammatory or offensive.
- Internet filtering can also be mandated through **licensing requirements**. For example, ISPs seeking licenses to provide Internet services with the Department of Telecommunications (DOT) "shall block Internet sites and/or individual subscribers, as identified and directed by the Telecom Authority from time to time" in the interests of "national security".
- In 2003 the Government of India established the Indian **Computer Emergency Response Team (CERT-IN)** to ensure Internet security. Its stated mission is "to enhance the security of India's Communications and Information Infrastructure through proactive action and effective collaboration". CERT-IN is the agency that accepts and reviews requests to block access to specific websites. All licensed Indian ISPs must comply with CERT-IN decisions. There is no review or appeals process. Many institutions, including the Ministry of Home Affairs, courts, the intelligence services, the police and the National Human Rights Commission, may call on it for



specialist expertise. By stretching the prohibition against publishing obscene content to include the filtering of Web sites, CERT-IN was empowered to review complaints and act as the sole authority for issuing blocking instructions to the Department of Telecommunications (DOT).

Arguments in favour of Regulation of Internet

1. **Maintenance of Harmony**-There can be little question that the internet has opened up new commons for the exchange of ideas and information. But can it be exempt from the application of laws any more than the press and the broadcast media are? Obviously not — in principle. Hate speech, defamation, and incitement to offences can be proceeded against under the law irrespective of whether the medium involves ink or digits transmitted through fibre-optic cables.

In support of the above argument prominent figures like Kapil Sibal and Justice Markandey Katju have said that "The pictures and other contents show religious figures of certain communities in a highly offensive manner. Such material is bound to create religious hatred and lead to most undesirable consequences".

Katju said that as per section 153A of the IPC, it is a criminal offence to promote, or attempt to promote disharmony, feelings of enmity or hatred or ill-will between different religious communities or groups, or do an act which is prejudicial to the maintenance of harmony between different religious groups or communities, and which is likely to disturb the public tranquillity.

Proponents of this belief also argue that Article 19(1)(a) of the Constitution which provides for freedom of the media, is subject to Article 19 (2) which states that restrictions can be placed on this freedom in the interest of public order, decency and morality. No freedom is absolute, and all freedoms are subject to reasonable restrictions in the public interest.

2. **Terrorism**- Terrorists use the Internet as their major point-of-contact medium where it is manipulated and controlled to do their bidding. With regulations on the Internet, there would be a way to control and thus minimize the threat that the Internet causes because of terrorist activity. Regulating the Internet would mean putting a stop to content and activities linked to social unrest, and racial hatred among men and women.
3. **Human Trafficking**- The abuse of women and young children when it comes to human trafficking is a shocking dilemma that we have to face in the world today, and the Internet doesn't protect them from such acts of violation and abuse. Regulating the Internet would keep a check on such activity, narrowing it down quite immensely with stiffer laws.
4. **Fraud and defamatory activities** spread like wildfire throughout the Internet, where businesses and individuals would be protected against such viciousness if regulating policies were passed.
5. **Piracy** which poses as a threat to those who see free material as a way of harming their chances of being supported financially, is at an all-time high in our day and age. Banning or restricting such websites would steer consumers towards actually buying services and products, as opposed to getting these for free.

6. Plagiarizing copyright material would be put to a stop since many companies that run their work over the Internet have illegal portals copying their content, without giving due credit to the writer / expert / website they obtained the information from.

Arguments against Regulation of Internet

1. Government's vested interest-The question then comes down to what restrictions on free speech are reasonable, and who will make this determination. Unfortunately, the government's track record here is not edifying. In fact the report published in *The Hindu* on December 8, "India wanted 358 items removed," reveals that 255 of these requests made to Google fell in the "government criticism category," with the biggest chunk accounted for by a single request from "a local law enforcement agency to remove 236 communities and profiles" from the Google-owned social networking site, Orkut, which were "critical of" an unnamed "local politician." This strengthens widespread suspicion that the inflammatory content argument is really a cover for censoring political attacks and uninhibited criticism circulating in the social media. So the aim here appears to be not just to censor the dangerous stuff, but to polish the government's image, too.
2. Mobilising people-Moreover no one can forget the role played by social media in Arab uprisings. Social media has been helpful in: a) mobilizing protesters rapidly; b) undermining a regime's legitimacy; or c) increasing national and international exposure to a regime's atrocities. If protesters in these countries would have given up under censorship laws, we wouldn't have witnessed the toppling of archaic and authoritarian regimes in these nations.
Last year, social networking sites played major role in spreading the awareness about Lokpal bill in India and helped in mobilising people in the support of social activist Anna Hazare resulting in the movement being a huge success.
3. Freedom of Speech as fundamental right-Some say that India is becoming a censored state, just like China. China employs over 40,000 people just to block content on the Internet. But the difference is, it has a vibrant and free media. The freedom of speech and expression is the mortar that cements the bricks of democracy in India. If the Centre goes ahead by banning the Twitter, Facebook and Google, it will be a sad day for democracy as the measure is totally uncalled for. Unlike China, we live in a democracy.
4. Unintended Consequences-Peer-to-peer technologies on the internet mimic the topology of human networks and can also precipitate unintended consequences when subject to regulation. John Gilmore, a respected free software developer, puts it succinctly: "*The Net interprets censorship as damage and routes around it.*"

In India, and even when the government has had legitimate reasons to regulate speech, there have been unintended consequences. During the exodus of people from the North-east, the five SMS per day restriction imposed by the government resulted in another exodus from SMS to alternative messaging platforms such as BlackBerry Messenger (BBM), WhatsApp and Twitter.

In these cases the circumvention of censorship by the users has resulted in a worsening situation for law-enforcement organisations as "VPNs and applications like WhatsApp are much more difficult to monitor and regulate.

How government should approach regulation of speech

Speech is regulated across the world. Even in the US contrary to popular impression in India speech is regulated both online and offline. However, law is not the basis of most of this regulation. Speech is largely regulated by social norms. Different corners of our online and offline society have quite complex forms of self-regulation.

The legal scholar Alan Dershowitz tells us, "*The best answer to bad speech is good speech.*" More recently the quote has been amended, with "more speech" replacing "good speech".

Censorship by the state has to be reserved for the rarest of rare circumstances. This is because censorship usually results in unintended consequences. *The "Streisand Effect"*, named after the singer-actor Barbra Streisand, is one of these consequences wherein attempts to hide or censor information only result in wider circulation and greater publicity. The Maharashtra police's attempt to censor the voices of two women has resulted in their speech being broadcast across the nation on social and mainstream media. If the state had instead focused on producing good speech and more speech, nobody would have even heard of these women.

In short, if your answer to bad speech is more censorship, more surveillance and more regulation, then as the internet meme goes, "*You're Doing It Wrong*".

However, one idea that could be explored is bringing in *an independent regulator* empowered by law to deal with complaints about internet content, with the threshold for the admissibility of complaints raised high.

India is, as things stand, readying a sledgehammer to swat some flies: the blow, when it falls, could end up undermining one of our most cherished freedoms.



RATIONALISATION OF SUBSIDIES

Why was it in news?

The Government of India recently announced an increase in the diesel price and new quotas for subsidized LPG cylinders in a bid to reduce its mounting fuel subsidy budget.

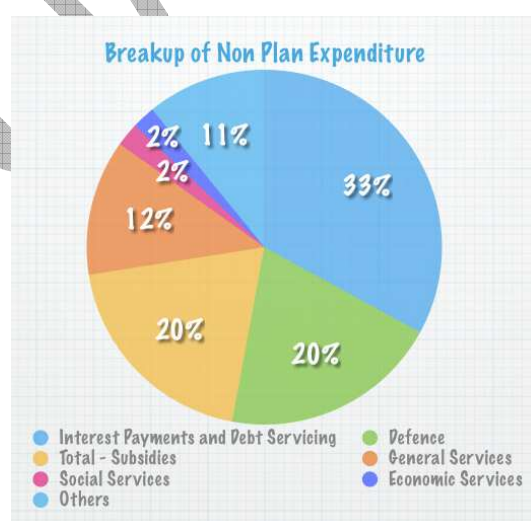
The reforms will see the following changes take place:

- **Diesel prices:** increased by INR 5 per litre in Sep 2012 and further in Jan 2013. This was the first diesel price adjustment in 15 months. Prior to the increase, oil marketing companies were losing between INR 10-15 per litre.
- **LPG cylinders:** a new quota introduced to limit the purchase of subsidized 14.2 kg LPG cylinders to 9 per consumer per year. Previously there were no limits on the number of subsidized LPG cylinders consumers could buy for domestic use.

Background

A subsidy, often viewed as the converse of a tax, is an instrument of fiscal policy. The government, since Independence has been subsidizing many industries and products, from petrol to food. Loss-making state-owned enterprises are supported by the government. Expenditure on subsidies is a major portion of Government expenditure and has witnessed major expansion in the recent past.

Of the overall subsidies, the subsidies on Petroleum, Fertilizer and Food make up more than 90 per cent. It was planned in 2012-13 to contain subsidies within 2 per cent of the GDP. However, with the depreciating Rupee and oil prices in international market remaining sticky, subsidies are projected to rise to 2.6 per cent of GDP.



Effects of Subsidies

Economic effects of subsidies can be broadly grouped into

1. **Allocative effects:** these relate to the sectoral allocation of resources. Subsidies help draw more resources towards the subsidised sector
2. **Redistributive effects:** these generally depend upon the elasticities of demands of the relevant groups for the subsidised good as well as the elasticity of supply of the same good and the mode of administering the subsidy
3. **Fiscal effects:** subsidies have obvious fiscal effects since a large part of subsidies emanate from the budget. They directly increase fiscal deficits. Subsidies may also indirectly affect the budget

adversely by drawing resources away from tax-yielding sectors towards sectors that may have a low tax-revenue potential.

4. *Trade effects*: a regulated price, which is substantially lower than the market clearing price, may reduce domestic supply and lead to an increase in imports. On the other hand, subsidies to domestic producers may enable them to offer internationally competitive prices, reducing imports or raising exports.

Why subsidies should be eliminated?

There has been growing concern over the issue of fiscal consolidation and complete elimination of subsidies is being considered as an urgent imperative to bridge the fiscal deficit. This viewpoint has emerged due to the following reasons:

1. Beneficiaries do not get the benefit

The distortions that arise from price controls are easy to see. First of all, to lower the price of a good by government diktat means subsidizing both the rich and the poor. Thus once we lower fertilizer price or the price of diesel, large farmers and large car owners also get the subsidy. If we try to prevent this by creating a dual price, a low one for the poor and for small farmers and a high price for the rich and the well-to-do, we promote bureaucratization and incentives for cheating and corruption are rife, since the one who gets it at a lower price can buy and then sell it to the high-price consumer. It is not surprising that the poor complain that when they go for their food rations to the PDS stores, they are often turned away or given adulterated food grains. The reason is that their share is often sold more profitably to the rich, who pay the market price. This is just a mild manifestation of a problem that was ubiquitous in some countries in the 1970s, 1980s, and 1990s, where price controls were widely used. Prices would be low but goods would vanish from the shelves—*low prices for no goods*'. Customers would be turned away or made to wait in long queues to buy limited quantities of basic goods like bread, butter, and soap.

2. Underrecoveries

Firms that produce these goods would end up making a loss; so the government has to subsidize these firms or pay for their 'underrecoveries', as this is euphemistically called, to make sure that these goods are manufactured. This in turn means, first of all, a larger fiscal deficit with all its attendant costs; and, additionally and in some ways more importantly, the incentive to be efficient and cut costs virtually vanishes, since the firms know that in the end they will be given a subsidy by the government to cover their costs, whatever they may be.

3. Price Distortion

Prices are signals to consumers and sellers and all those who deal in these products of shortages (or, equivalently, the rising cost of production) and abundance. Prices rise when there is a shortage and decline when there is a glut. Once prices are controlled, we effectively cut off these signals. Take petroleum products, for instance diesel. When the international crude price rises, for India, which has to import the bulk of this product, there is, effectively, a shortage. If prices were left to the market, diesel

price would rise in response to this, ordinary people would economize on their use of diesel, and demand would decline, as indeed needs to happen during a shortage. In India, this rarely happens, because the signal of shortages and rising cost of inputs in the area of many fuels and energy resources is not permitted to be transmitted to the consumers. All these costs add up massively, creating inefficiencies, large deficits, and extra-inflationary pressures.

Kelkar committee recommendation

- Subsidy on diesel has been a major contributor to fiscal slippage in recent years. Eliminate half of the diesel per unit subsidy during this year itself by March 31, 2013, and the remaining half over the next fiscal year.
- Eliminate the LPG subsidy by 2014-15 by reducing it by 25 per cent this year, with the remaining 75 per cent reduction over the next 2 years.
- For kerosene, the objective should be to reduce the subsidy by one-third by 2014-15.
- Smaller and more frequent price revisions should be taken as necessary subsequently to meet the goals specified in the previous paragraph, and left to the discretion to the OMCs, who should be duly empowered to make such revisions
- The most urgent reform required on the fertilizer subsidy front is revision in the price of urea. The Department of Fertilizers propose to increase the MRP of Urea by 10 per cent during the first year, with any further increase being limited to any increase in the pooled gas price and in fixed cost.
- On food subsidy, there is a need to increase the Central Issue Price (CIP). The Minimum Support Prices (MSP) are decided every year and it is advisable that every time the MSP is revised, the CIP should be revised in the same proportion as the MSP. Progressive reduction in food subsidy also needs to be achieved through reduction in administrative cost associated with economic cost
- Regarding subsidy on sugar, there is a need to remove the system of levy sugar, which is only about 10% of the total consumption of the sugar in the country, and to remove the existing controls on the flow of non-levy sugar

Government's View

The finance ministry is not in agreement with the Vijay Kelkar committee which has recommended the withdrawal of all subsidies. As per Finance Minister, in a country like ours where the number of poor is significant, subsidies cannot be done away with. In government's opinion, subsidies will always remain a part and parcel of India. FM has mentioned that policy reforms are the key to long term growth and the government has already embarked on the path to ensure the same.

Agenda for reform

The macroeconomic costs of unjustified subsidies are mirrored in persistent large fiscal deficits and consequently higher interest rates. In addition, unduly high levels of subsidisation reflected in

corresponding low user charges produce serious micro-economic distortions as well. Its prime manifestations include excessive demand for subsidised services, distortions in relative prices and misallocation of resources. These are discernible in the case of certain input based subsidies. These problems are further compounded where the subsidy regime is plagued by leakages which ensure neither equity nor efficiency.

This does not mean that we leave the poor open to the vulnerabilities of the market. However, in a developing country where a significant proportion of the population is poor, a certain level of subsidies is necessary and unavoidable, and measures must be taken to protect the poor and vulnerable sections of the society. It means that we should subsidize the poor, wherever possible, *directly*, that is by shoring up their income by making transfers to their bank accounts or giving them cash. With India's growing sophistication in information technology and ability to identify individuals by bio-markers, this is now entirely within the realm of the possible.

The agenda for reform should therefore focus on:

- Reducing the overall scale of subsidies
- Making subsidies as transparent as possible
- Using subsidies for well defined economic objectives
- Focusing subsidies to final goods and services with a view to maximising their impact on the target population at minimum cost
- Instituting systems for periodic review of subsidies
- Setting clear limits on duration of any new subsidy schemes

LEADERSHIP CHANGE IN CHINA

Why was it in news recently?

The Communist Party of China (CPC) in November 2012 selected a new Central Committee, marking the end of Hu Jintao's ten-year term as General Secretary and paving the way for new leadership. Vice-President Xi Jinping was named as the CPC's next General Secretary and next President of the country. Vice-Premier Li Keqiang, will succeed Wen Jiabao as Premier.



Electoral System in China

The country is ruled by the Communist Party of China (CPC), whose power is enshrined in China's constitution. The Chinese electoral system is hierarchical, whereby local People's Congresses are directly elected, and all higher levels of People's Congresses up to the National People's Congress (NPC) are indirectly elected by the People's Congress of the level immediately below. The political system is partly decentralized, with limited democratic processes internal to the party and at local village levels, although these experiments have been marred by corruption. There are other political parties in China, referred to in China as democratic parties, which participate in the National People's Congress and the Chinese People's Political Consultative Conference (CPPCC).

Impact on India

The new leadership in Beijing is likely to look for stability in relations with New Delhi. The expected retirement of Dai Bingguo — one of five State Councillors who function under the four Vice Premiers of the Cabinet, or the State Council — in March has received much attention in India, as he has served as the Special Representative (SR) on the boundary talks since the current format was initiated a decade ago.

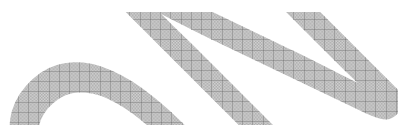
Chinese officials and strategic scholars have said that Mr. Dai's retirement will not have much impact on the boundary talks. Mr. Dai himself, as the SR, was only tasked with the mandate of following strictly the guidelines put in place by the Politburo and Central Committee for the talks. That role will be continued by his successor as the SR — the current Foreign Minister Yang Jiechi and Vice Foreign Ministers Fu Ying and Zhang Zhijun, who were all selected as members of the new Central Committee, have been mentioned as likely candidates.

Two other areas where a new approach by the Chinese leadership is likely to be of relevance to India are with regard to Tibet and trade. The CPC has appointed a new head of the United Front Work Department, the leading organisation in charge of Tibet policy and talks with the Dalai Lama, which have been stalled after the Tibetan spiritual leader's representatives resigned citing a hardening Chinese

position. The around 90 self-immolation protests by Tibetans have brought fresh accusations aimed at Dharamsala of a “separatist plot”. The Tibet policy will be under the charge of Ling Jihua, a protégé of Hu Jintao. Under Mr. Hu, China followed an approach to Tibet that emphasised stability and security, and stepped up pressure on the Dalai Lama internationally.

On the trade front, the past year has seen a more than 13 per cent decline in trade with India, as of October. Bilateral trade has been driven by Indian exports of iron ore and imports of Chinese power and telecom equipment. Iron ore exports are unlikely to recover as a result of a prolonged slowdown in China’s steel sector in the short-term and the government’s long-term target of rebalancing the economy. China has suggested boosting mutual investments as a way to bridge the imbalance, but its officials have voiced concern — most recently at the November 26 Strategic Economic Dialogue in New Delhi — at the investment climate in India after duties on the import of power equipment and restrictions in the telecom sector were imposed. The CPC’s Work Report highlighted health care reform and Information Technology as strategic priorities for the next five years, which may open up new possibilities for Indian pharmaceutical and IT companies. In both sectors, India is pushing for greater market access. But Chinese officials say Indian companies will, for their part, have to invest far more in the domestic market — in terms of boosting both their expertise and commitment — if they want to expand their presence in China as the country’s new leadership takes charge.

Foreign Policy Challenges



The once-in-ten-year leadership change in China is likely to usher in a new chapter on how the country conducts its foreign policy.

China under new General Secretary Xi Jinping will attach more importance on its relations with its neighbours than before. Chinese officials and scholars say the new leadership is acutely aware that the past year has been a difficult one for China’s diplomacy. There is renewed concern in the region — particularly among China’s neighbours — about increasing Chinese assertiveness, in the wake of recent territorial disputes with Japan over the East China Sea islands and in the South China Sea. There is also a perception in Beijing that its diplomacy has lacked creativity and nimbleness. To elevate the level of diplomatic decision-making, the CPC has considered appointing one of its 25 Politburo members as a new foreign policy “czar” who would also hold the title of Vice Premier .

As far as U. S is concerned, Xi Jinping met President Obama during a visit to the United States last year, and toured the country with Vice President Joe Biden, with whom he is said to have a good relationship.

Personal chemistry aside, the issues and challenges facing the administration in its engagement with China are long and daunting. They include a gargantuan trade deficit, Chinese cyberespionage and theft of U.S. intellectual property, not to mention ever-increasing Chinese military expenditures.

But the relationship has become increasingly interdependent in today's globalized economy, and neither country is really in a position to let the relationship drift too far. While the economic policies of both countries have been focused in recent years on building and strengthening the domestic sectors of their economies, some analysts say a change in policy is in order.

Internal Challenges

Economic reforms have transformed China into the world's second-largest economy. But its 1.3 billion populations and continental size mean the problems these new leaders face are still daunting.

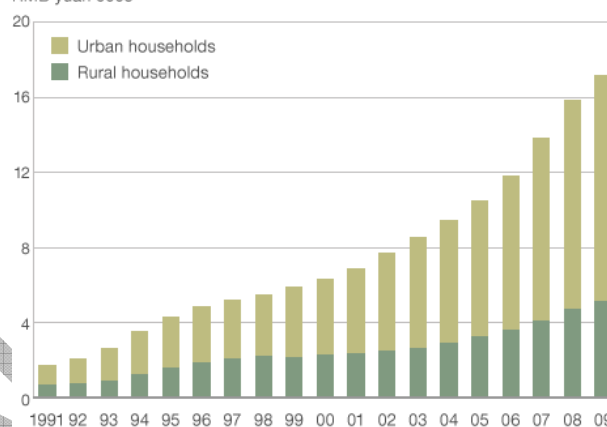
These are the issues set to be top of their agenda.

1. Change the model

China's economic success has lifted 500 million people out of poverty. Yet the economic model that worked so well during the early years of China's development now needs to change. Chinese and Western analysts say the economy must be rebalanced to give more weight to consumers instead of investment, much of which is government-led and wasteful. State-owned companies which dominate many sectors need to be opened up to competition.

Annual disposable income - urban and rural households

RMB yuan 000s



Source: Starmass

And, instead of championing these state-owned giants, the government must give more support instead to small and medium-sized companies, because these are likely to be the providers of future growth and jobs. China's government agrees with these goals, at least in its official pronouncements. The problem is it has done little to address them.

Critics argue China's one-party state is too compromised by vested interest groups, political concerns and corruption to introduce the needed changes. They point to the state-owned sector, which produces only half of China's GDP but gets the benefit of more than 70% of its bank lending, at artificially low interest rates.

2. Inequality

Everyone is much better off than when China began its economic reforms in 1978. But incomes in the cities have risen far faster than in rural areas, while rich coastal provinces have powered ahead of the poor interior. The Chinese Academy of Social Sciences says the gap between urban and rural incomes has jumped 68% since 1985, creating one of the widest wealth gaps in Asia.

The government is worried the gap could spark social unrest. It points to poverty eradication programmes in poor provinces like Sichuan and its abolition of a centuries-old agricultural tax as proof of its commitment.

Yet critics say much more needs to be done, and point out that China spends only about 6% of GDP on social welfare, about half the level of countries at a similar level of development.

3. *Environment*

China's explosive growth has created some of the world's most complex environmental challenges. It is now the world's biggest emitter of greenhouse gases, yet will continue to rely on coal as its main energy source for the foreseeable future. New wealth has seen the number of cars on the roads quadruple since 2003. Yet China is already home to 20 of the world's 30 most polluted cities.

The central government well understands the problems. It points to success stories like the restoration of the Loess plateau in the country's north-west, and the fact that wind turbine capacity has doubled every year since 2005. It has also put in place the legal and regulatory framework for tackling environmental problems, though implementation - especially at the local level - remains patchy. And, alongside the task of cleaning up a "high growth, high pollution" past, China still faces basic development challenges.

4. *Rising expectations*

As Chinese people have become richer and better educated, their expectations have drastically changed. They no longer just expect the next generation of leaders to run an economy that creates jobs and wealth, they want better services and greater freedoms too.

More than 6 million people graduate from Chinese universities every year, a six-fold increase since 1998. More than 500 million people use the internet, especially a micro-blogging site called Sina Weibo. Smart phones are helping drive social activism and, sometimes, environmental protests. There is conflicting evidence as to whether people are happier, as well as richer.

5. *Demographics*

China's fertility rate is one of the lowest in the world, in part because of the one-child policy. This restricts urban couples to having only one child, unless both partners are themselves only children. As a result, China has fewer and fewer young people to pay for the pensions and healthcare of more and more elderly.

The working-age population is set to start shrinking from 2015, adding to pressure on wages. China will also soon have more senior citizens than the EU. The one-child policy has also created anomalies. Some parents who want boys abort fetuses which ultrasound scans show to be female. China now has about 120 male births for every 100 female births, and there are estimates that by 2020, 24 million single men

will be left without potential partners. Academics and government think tanks have called for the policy to be scrapped, which would be popular with young Chinese and could help restore China's fertility rate.

But no senior leader has publicly backed any changes, which some officials appear to worry could lead to a population explosion.

6. Public Protests on Corruption

Another political development is the increasingly public display of anger. It is said there are more than a hundred protests in China every day. There is also an undercurrent of anger over what is seen as an increasingly corrupt ruling class. Just look at the two biggest stories out of China this year. Former Chongqing Governor Bo Xilai was a rising star one year ago; today he is under criminal investigation for alleged corruption. And just a few days ago, the *New York Times* ran a story detailing how Premier Wen Jiabao's family is worth nearly \$3 billion. No matter how the Communist Party tries to hide or spin these stories, there is a palpable sense of public rage - and it will need to be addressed.

Way Ahead

Whether China's incoming leadership strikes out in different and novel directions will depend only partly on the ability of Xi Jinping and Li Keqiang, to win over their PSC colleagues. Much more important will be whether the collective leadership decides, as Deng did, that the mounting challenges confronting the Party and the country are so pressing that embracing change is the only option.