

Recognition for the bravehearts

Setting up and running budget private schools isn't for the faint-hearted



OUT OF THE BLUE

ANJALI BHARGAVA

As I learn more and more about India's school education sector, I have to say I am happy not to be directly a part of it. In the last four years, I have met several people involved in attempting to run better quality schools across the country and I am constantly amazed at how thankless a task it is. It's almost as if the authorities are determined to make sure someone trying to

deliver quality in the budget private school (BPS) space can't.

India's ideological intransigence is at its peak when one looks at the elementary and secondary school education sector. Although education in India remains not for profit, it is common knowledge that one of the businesses quickest to break-even or start making money is running a school. The sheer number of schools that the country has added and continues to add every year is an evidence of how profitable this business is and can be. This also explains why some of the biggest names in business now run schools in India, ostensibly not for profit.

What is interesting is that BPS can be as profitable as an elite school almost from day one. But running a BPS in India, trying to offer quality and expand slowly across states is not everyone's cup of tea and can be quite a headache as I am slowly learning.

Most BPS schools start without recognition from the official authorities

and then apply for it since doing it the other way round could mean never getting off the ground. But applying for recognition and actually getting it are two very different things. Of course, many continue to operate without official recognition as that's just easier and mostly nobody keeps track anyway.

Now someone I know is currently in the process of trying to get recognition and I got chatting with him the other day. As he described what all he needs to produce to convince the municipal corporation that his school ought to exist, I listened nonplussed.

To start with, the authorities want all teachers to have a diploma in education and a central teacher eligibility test (CTET) certificate. This is rather absurd since most teachers at BPS are usually housewives who just want to get out of the house for a few hours everyday and teaching is something their families don't object to as they don't interfere with all their other duties as wife, mother, daughter-in-law and so on. Many,

however, have both the aptitude and temperament to do the job efficiently and some even excel and are better than their more qualified counterparts in nearby government schools.

Then, for some odd reason, male teachers cannot be over 30 years of age when joining the school and female teachers cannot be over 40. What sense does this make? I don't see any harm in employing teachers who are even over 60 years. What if I have retired and don't mind teaching everyday at a local neighbourhood school? What about the wisdom and wealth of experience only age can bring? And why pray the difference between men and women?

Moreover, a BPS promoter is expected to pay teachers at the same absurd rate as the government pays its own teachers to not teach and, at times, to not even show up, making it one of the most coveted jobs in the country. That too by cheque — something almost all schools flout. In reality, BPS teachers earn between ₹7000 and 15,000, far lower than any government teacher. No BPS can make money if it adopts and adheres to government pay scales with its regular pay commission revisions.

In an era where most rent leases are for 11 months, the authorities need evi-

dence of a lease agreement for 20 years, no less! Even with a 200 yard space, you need to provide proof of a playground (it appears basement playgrounds are permissible). To top it all, the school needs to produce a certificate that it is harvesting rainwater on its premises!

Requirements are fairly open to interpretation. For instance a school applying for recognition needs to provide a certificate from the corporation that it is "safe to run classrooms" and that the "health facilities are adequate". But the latter is if and when one manages to prise the health certificate form from the corporation. One has to submit seven documents to get hold of the form: The map of the building and site plan, a structural stability certificate, a fire NOC, a staff medical report from an MBBS holder, a lease agreement, a water test report along with all details of staff and children with details of toilets, rooms and so on.

By asking for this plethora of documents and placing absurd conditions, the authorities ensure a few things. One, entry into the space is tough. Two, running the operation cleanly is almost impossible. And last but probably why things are designed the way they are: It opens up plenty of avenues to earn a quick buck (read: petty bribes).

CHINESE WHISPERS

New Year resolution

On Monday, the last day of 2018, Lok Sabha Speaker Sumitra Mahajan urged all members of the House to resolve to not enter the Well of the House and work in accordance with the rules in 2019. Amid sloganeering by Congress and All India Anna Dravida Munnetra Kazhagam members, Mahajan requested MPs of both parties to go to their respective seats for her sake, following which the MPs from both parties sat down. "Today is the last day of the year...it should be the last day when you enter the Well of the House..." Mahajan said. She also indicated that there was a rule which prohibited members from entering the Well of the House and they should comply with it. While Mahajan was making these remarks, members listened to her patiently. Later, Mahajan announced that January 1 will be a holiday and the House would assemble on Wednesday. The Rajya Sabha also decided that the New Year's Day will be a holiday.

Reel versus real



For actor-turned-politicians, as Congress leader Raj Babbar (pictured) discovered on Monday, their reel life personas can continue to chase them into their political lives. As the Narendra Modi government prepared to introduce the triple talaq Bill in the Rajya Sabha (RS) on Monday afternoon, RS member Amar Singh asked his friend Babbar to support the Bill. Singh is an independent MP who, in the last couple of years, has gravitated towards the Bharatiya Janata Party (BJP). Singh requested Babbar to recall the hit Hindi film *Nikaah*, which dealt with the travesty of instant triple talaq. Babbar, along with actors Salma Agha and Deepak Parashar, had played the lead roles in the 1982 film, directed by B R Chopra. Babbar told Singh that his party opposed the Bill as it criminalised instant triple talaq.

Dos and don'ts

The reception at Shastri Bhawan in the Capital, which houses the offices of several Union ministries, has recently put in writing the dos and don'ts for visitors. Irked by people who want entry passes to be issued by the receptionists and tired of telling them that merely a previous visit does not qualify one to get a pass every time they come, the reception has put it out in writing that the passes will not be issued without the authority concerned informing the front desk.

Cycling to the ultimate mobility solution

It is the humble bicycle that can change the way Bharat moves, with many benefits to the economy and environment



INFRA TALK

VINAYAK CHATTERJEE

Will driving a car one day become as unacceptable as smoking? It seems highly unlikely but it was exactly this comparison that the vice-mayor of Oslo, Hanna Elise Marcussen made in a comment to the *New York Times* recently. The city is planning to make its city centre completely car free in 2019. It is already close to eliminating all parking spots in the city centre. "A couple of decades ago, it was perfectly normal to smoke cigarettes inside," Marcussen told the *New York Times*. "Today, very few would do that. I think it's the same with cars in the city centre."

Oslo may have taken its car-free policies the furthest, but it is hardly an outlier. Across Europe, the entry of cars into key areas of main cities are becoming increasingly restricted. Madrid has barred all non-residents' cars from its city centre — a policy that is likely to be rolled out across the rest of Spain. Other cities are planning a heavy crackdown on vehicles which violate pollution emission norms which are even stricter than European Union guidelines.

Enter the humble Bicycle. Even

apart from its obvious benefits as a means of transport which has no dependence on fossil fuels and has zero emissions, it has huge social benefits. Government programmes giving free bicycles to girls have played an important role in ensuring higher female enrolment, not just in India but around the world. While Bihar's scheme of giving cycles to schoolgirls is famous, West Bengal has gone one step further and offered cycles to all students of class X to XII in government schools across the state.

The economic benefits of expanding cycle use are huge. Those who live in remote areas can more easily reach markets and other economic centres to sell agri produce or do other kinds of business. There are no longer limited to immediate local areas.

Yet in India, bicycles are becoming less important as a means of transportation, not more. As a report by TERI released last year (2018) pointed out, bicycles as a form of transport are increasingly becoming the domain of only poor households who cannot afford any other means of mobility. Between 2001-2011, the share of households owning bicycles increased only by 1 per cent to about 45 per cent; in urban areas they actually declined, even as some low income households shifted to using motorised two-wheelers which became more affordable.

There are two ways to increase cycle use — getting commuters who currently use motorised two-wheelers to use cycles, and getting those who walk to work, to switch to using cycles. In rural areas, even now, 49 per cent of workers who travel upto 10



The economic benefits of expanding cycle use are huge. Those who live in remote areas can more easily reach markets and other economic centres to sell agri produce or do other kinds of business

kilometre for work, do so on foot. In urban areas, that number is 39 per cent. The TERI report, which was supported by the All India Cycle Manufacturers Association, estimates that if half of such commuters could be induced to shift to bicycles, the annual benefits to the economy could be of the order of ₹11,200 crore. A further ₹1.43 trillion of benefits would be gained by getting two- and three-wheeler owners to shift to cycles. Total benefits of such shift in use —

from fuel savings, to improved health to reduced air pollution to improved economic activity, would be of the order of about ₹1.8 trillion, according to TERI. This is equivalent to 1.6 per cent of GDP.

But major obstacles lie in the way of getting commuters to make such a shift. The TERI report highlights concerns such as the simple fact that urban transport infrastructure, with its lack of cycle lanes and its focus on accommodating motorised transport,

is simply not friendly toward cycles. In rural areas, there is a deeper problem. Jagdish Khattar, ex-MD of Maruti, has recently become a cycle-evangelist. He pointed out in a recent interview, even though a cycle may cost as little as ₹3000-5000, it still represents a major expense for a person who makes no more than ₹100 a day. Because of the small ticket size, the financing that banks are so willing to give for two-wheelers and motorcycles, are not available for cycles. Enabling cheap loans, or subsidies, for the purchase of cycles could go a long way toward enlarging the pool of commuters who cycle to work.

There is another way to break the cost barrier and that is through bike rentals or sharing. Bike sharing schemes have been implemented in cities across the world, including India. Here, however, they remain limited to a few metros and even within those cities, remain confined to specific areas, limiting their usefulness to commuters.

But what if an imaginative government or entrepreneur could implement bike rental schemes in remote rural areas for people who really need it to travel and do business? Such schemes would then, over time, come to be seen as an essential part of the local rural economy. Much is made of the 'sharing' economy and companies such as Uber and Airbnb have built huge businesses around it, but it may well be the bike sharing economy which will have the longest and healthiest impact on the Indian economy.

Vinayak Chatterjee is the Chairman of Feedback Infra

ON THE JOB

Entrepreneurship or salaried employment?



MAHESH VYAS

In "A Bitter-sweet Success", *Business Standard* (December 25, 2018), we noted an increase in self-employed entrepreneurs over the past two-and-half years.

This growth of self-employed entrepreneurs notwithstanding, the most preferred employment of the average young educated man and woman is that of being a salaried employee. The greatest hope of a young Indian is to get a government job or a formal five-digit monthly salary in the organised private sector.

When we say that we need to create 12 million jobs every year (human development economist, Santosh Mehrotra would like to correct that number to a much lower ask) to absorb the influx of new entrants into the labour market, we mean jobs such as those described above. Self-employment is not a job in any sense that young aspirational educated India appreciates or even understands.

The emphasis here is on the educated young population. Uneducated and middle-aged employment seekers do not have many choices. They are driven by compulsions. So, when it comes to choices or preferences we must restrict our discussions to the educated. This is the aspirational India of today and tomorrow. They expect decent jobs.

CMIE's Consumer Pyramids Household Survey offers an opportunity to understand some of these choices and some related trends in employment.

Here is one piece of evidence of what the educated choose.

We consider the choice made by the qualified professionals. These are engineers, doctors, surgeons, dentists, physiotherapists, teachers, architects, accountants, lawyers, etc. These also include chemists, mathematicians, statisticians, meteorologists, geologists, biologists, etc.

This is obviously not a comprehensive list but it illustrates the kind of educated people we are talking about. These are not just High School graduates. These are a subset of college graduates.

During January-April 2016, there were an estimated 12.5 million such salaried employees. And, there were 1.6 million such entrepreneurs. Roughly, for one professionally educated person who chose to become an entrepreneur, there were nearly eight who chose to be salaried employees.

Evidently, reasonably well-educated people chose formal jobs over becoming entrepreneurs in the ratio of 8:1. And, this ratio is getting worse for entrepreneurship among the educated.

Professionally educated entrepreneurs are reducing in numbers. Between January-April 2016 and May-August 2018, that is, over about two-and-half years, their count declined from an estimated 1.6 million to less than one million. During the same period, the count of professionally educated salaried employees increased from 12.5 million to 14.8 million.

Possibly, the business of the professionally educated entrepreneurs was hit by demonetisation. Some doctors, lawyers, accountants, even teachers are known to earn a lot in cash which is often not declared in tax returns. Demonetisation must have hit such incomes hard enough to make the enterprise itself unattractive. Salaried employees, on the other hand, remained safe in their formal jobs.

An important factoid worth celebrating here is that the number of white-collar salaried jobs for the well-educated

increased by 2.3 million during this period. It is equally worth celebrating the bigger increase we see in salaried jobs for the non-industrial technically qualified employees. These jobs increased by 5 million — from 9.1 million to 14.2 million.

These are technicians, equipment operators, drivers, cooks, sales persons, assistants to other qualified professionals, etc who are engaged as salaried employees.

Industrial workers are a different class. They work in factories, mines, ports, docks, etc. There were an estimated 16.5 million salaried industrial workers in January-April 2016. By January-April 2017, their number had declined to 10.5 million. This fall is not entirely because of demonetisation. Interestingly, the count of salaried industrial workers has increased steadily after January-April 2017 to reach 16.8 million by May-August 2018.

The story for other salaried employees however, is not as rosy. The category of support staff has taken a big hit. This category also has a big share in all salaried employees. In early 2016, they accounted for 37 per cent of all salaried employees. The count of the support staff has dropped by 9.6 million — from 34.6 million in January-April 2016 to just 25 million by May-August 2018.

Apparently, salaried jobs for peons, janitors, door-men, security-guards, drivers, sweepers, etc are vanishing. This looks like a major structural shift.

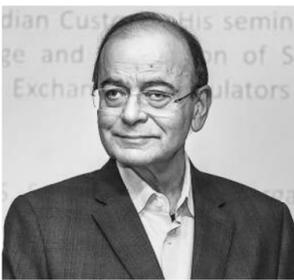
Since support staff has a large share in the total salaried employees count, this structural shift is causing a fall in total salaried jobs. The count of salaried employees declined from 92.4 million to 88.2 million between early 2016 and mid 2018.

Educated people prefer salaried jobs and such jobs are growing but, salaried jobs are vanishing at the lower end of the jobs spectrum.

The author is managing director and CEO, Centre for Monitoring Indian Economy P Ltd

LETTERS

Walking a tightrope



This refers to "Budget may stick to fiscal rectitude" by Arup Roychoudhury (December 31). It is going to be a tough challenge for the finance minister (FM) to continue the theme of fiscal consolidation in his February 1 speech. Even if it is an interim budget — the proverbial blind spot in terms of a future fiscal road map — the government will have no idea about the expected fourteenth finance commission recommendations by that time. It will be hard for the FM to balance the need to be fiscally conservative and electoral realities. Having said that, Arun Jaitley (pictured) — the wizard that he undoubtedly is — may just manage to combine the two.

Losses in state elections in Rajasthan, Madhya Pradesh and Chhattisgarh do demand the government to come out with some big lollipops — however irrational — for the electorate, especially the rural and lower middle class. The prime minister's recent criticism of the new Congress state governments' farm loan waivers precludes anything on this front. Dealing with agriculture distress will, therefore, be challenging. Perhaps higher support price may be the only way out. That small and medium-sized enterprises are hit by the goods and services tax is a myth. They are hit only because they have got used to paying no taxes. And yet, that is the segment the FM will be forced to pamper. Here's wishing the FM good luck.

Hope he sticks to what he had told you, about "going by past precedence in an election year", in the interview with *Business Standard* earlier this month.
Krishan Kalra Gurugram

Hasina's victory

The battle of the Begums in Bangladesh went horribly wrong for the Bangladesh Nationalist Party led by ex-prime minister of the country, Khaleda Zia, as the ruling Sheikh Hasina-led Awami League romped home to a landslide victory. Hasina has been lauded for boosting economic growth in the poor South Asian nation and for accommodating Rohingya refugees who fled from neighbouring Myanmar. The results will also be welcomed by India, which will be looking to further cement its ties with Bangladesh, besides investing in a friendly neighbour. It is unfortunate that the elections were marred by violence and charges of rigging by the Opposition leaving 17 people dead.
N J Ravi Chander Bengaluru

Risking lives

This refers to "Trapped miners not Conrad's problem?" by Aditi Phadnis (December 29). Had the Conrad Sangma government — in consultation with the Centre and others — made honest efforts from the initial stage itself, when the recent mining disaster in Meghalaya was reported, the odds of the trapped miners being rescued unhurt could have been very high. Now, a last ditch-

attempt is being made which may be too late, as mentioned in the piece.

However, certain facts need to be



brought to the fore. Lushai Hills is in Mizoram; in fact, Mizoram, was part of Assam earlier, as were Lushai Hills. May be the writer was referring to Jaintia Hills (not Lushai Hills).

Further, most people, more so those who contest elections in Meghalaya, belong to Scheduled Tribes category and need not pay income tax or file income tax, as per provisions in the Sixth Schedule of the Indian Constitution, and Income Tax rules.
A Bhuyan Nagaon

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HAMBONE

BY MIKE FLANAGAN



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An India of institutions

The nation has to strengthen its pillars of democracy in 2019

As India enters a new year, it is worth considering all that will be at stake for the country in 2019. There is little doubt that this will be one of the most consequential years in its history. The outcome of the next general election will not just shape India for the next five years but for the decades beyond it. Time is running out for India to reap a demographic dividend: If the young people now growing up in India's towns and villages do not pick up skills, or some sort of vocation, it is hard to see how India will ever become a decent, middle-class society. If the economic backbone of the country does not change to further enable entrepreneurship, protect investments and promote large-scale enterprise, it will miss its last chance at mass employment. And, most of all, if it does not protect its remaining institutions and re-invigorate those that have lost credibility recently, its decades-long status as a beacon of liberal hopes will be lost.

The year just concluded has not been a good one from the point of view of the institutions that are the pillars of Indian democracy. It began with an unprecedented press conference by four of the senior-most judges of India's Supreme Court, who aired in public their dissent against certain actions by the then Chief Justice of India. Over the course of the year, other institutions found themselves tarnished. The Central Bureau of Investigation had its top leadership suspended after infighting spilled out into the open. Even the Reserve Bank of India had to deal with an attempt to force its hand with regard to the resolution of non-performing assets and the use of its reserves. As at the macro level, so at the micro: The murder by a mob of a policeman in Uttar Pradesh revealed the degree to which the authority of the institutions of the state has been eroded even in the heartland of the country. The simple ineffectiveness and lack of accountability of the grassroots organs of the Indian states — from the police to the lower judiciary — have contributed to this loss of authority. Police and judicial reforms have been off the table for too long.

No country can aspire to greatness without institutions that are strong, effective and continuous. No country can stay a liberal democracy without institutions that are independent, transparent, and accountable. For India, therefore, the challenges of 2019 will be severe. One institution that will have to step up is the Election Commission of India, which will be called upon to supervise what promises to be one of the most acrimonious and hard-fought elections in decades. It will do so at a time in which electoral processes worldwide have seen their integrity questioned. This is an extraordinarily hard task even for a body that has consistently over the past decades done the hard work needed to conduct free, fair and transparent elections in a country as complex as India. The politicians, and indeed the voters, of India will also have to make hard choices. The institutions of liberal democracy can often appear to be obstructive or, paradoxically, undemocratic. But these are the byproducts of a system that has evolved to give every citizen a voice and to prevent the dissolution of the social contract. In 2019, India has to ensure that its institutions are strong and independent.

Hat-trick for Hasina

Bangladesh's one-sided poll result poses new challenges

It did not take long for the results of the general election in the People's Republic of Bangladesh to become clear: It was a landslide in favour of the ruling Awami League, which won a record third consecutive term, taking, along with its allies, 288 of the country's 298 parliamentary seats on offer. The opposition coalition, led by the Bangladesh National Party, or BNP, was nearly wiped out. When the result was so one-sided, the exact numbers barely matter.

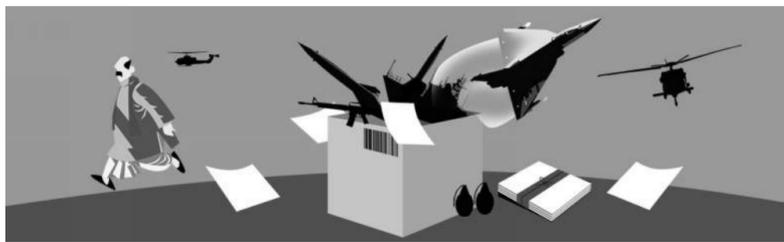
But, Prime Minister Sheikh Hasina's so complete a victory has strengthened the argument of those who argue that the elections were a forced walkover — that use of the state machinery compromised the integrity of the electoral process. The next days and weeks will be crucial. If Ms Hasina is not in fact as overwhelmingly popular as the results would suggest, then it is hard to see how there will not be widespread opposition on the streets to her continued reign as Bangladesh's supremo. For that is, surely, what she is now: An autocrat whose rule has been authorised by plebiscite, in a familiar pattern from the 20th century.

Many in New Delhi will be relieved that the BNP is not returning to power in Dhaka, and for good reason. The last time it was in power, under Ms Hasina's great rival Begum Khaleda Zia, the implications for regional security were severe. An alliance — part opportunistic and part ideological — with the most obscurantist elements within Bangladeshi society and politics caused the BNP government to become a thorn in New Delhi's side. The Hasina government's tough stance against Islamist terrorism is vital to India's security interests in the Northeast. But that does not mean that India should be overjoyed by this turn of events. A stable Bangladesh is in India's interests — but so is a liberal, democratic Bangladesh.

Ms Hasina has much to congratulate herself on. Under her government's stewardship, Bangladesh's economic growth has accelerated, and it almost touched 8 per cent last financial year. The country has human development indicators that outperform its income level, and a thriving garment exports sector. Under her watch, Bangladesh is on course to graduating from a least developed country to a middle-income nation. Poverty has been brought down to around 20 per cent and nearly 90 per cent of the country's 165 million people now have access to electricity.

Yet the challenges she will face in her next term will be severe. She will have to diversify Bangladesh's economy and its export basket. Efforts are also required to building more resilient or transparent public institutions. She must also seize the opportunity provided by this mandate to renew the vibrancy of multi-party democracy in her country. A strong government needs a competent opposition to hold it to account if the country is not to be destabilised. Bangladesh's successes mean that its national story has emerged from the dark days of the 1970s and 1980s. It is time that its politics, too, left old tragedies behind.

ILLUSTRATION BY BINAY SINHA



Defence acquisition: Not yet in the fast lane

Whether for this government or the next, there is no avoiding reform

With the current National Democratic Alliance (NDA) government's five-year-long custodianship of national defence drawing to a close, the acquisition policy landscape is littered with grand initiatives that failed to reach a conclusion. When he was defence minister, Manohar Parrikar repeatedly promised a simplified defence procurement procedure (DPP) that would expedite weaponry purchases. Eventually issued after more than a year's delay, DPP-2016 turned out nine pages longer than its already gargantuan, 421-page predecessor, DPP-2013, and aimed no higher than reducing procurement time from 137 weeks to 126 weeks. Last March, Defence Minister Nirmala Sitharaman released a draft "Defence Production Policy 2018 (DPrP 2018)" that set wildly optimistic targets, such as catapulting India into the world's top five defence producers and creating 3 million jobs in the defence industry by 2025. By that year, India is to increase defence exports ten-fold to \$5 billion, while becoming self-sufficient in building fighter aircraft, helicopters, warships, armoured vehicles, missiles and other systems. This draft DPrP 2018 was attended by such urgency that stakeholders were given just one week to submit their responses. Nothing has been heard of it since then.

Then, in April, the Ministry of Defence (MoD) issued a draft offsets policy that proposed allowing vendors to discharge offsets by creating defence manufacturing infrastructure (such as testing laboratories, ranges and skill centres) through sponsoring projects that generate high-technology, and through transferring critical technologies that do not exist in India. It proposed special incentives for investments in Ms Sitharaman's hobby horse — two defence industry corridors she is pushing in Tamil Nadu and Uttar Pradesh. This draft policy too has sunk without a trace. In February, Ms Sitharaman set up the 13-member Raksha Mantri's Advisory Committee on Ministry of Defence Capital Projects (RMCOMP) to review critical weapon procurements and identify why they were facing delays. It was to submit an "initial status report" by March 31, 2018, but the committee has never once convened.

Given this depressing consistency, it should not be surprising that the initiative to establish an effective Defence Procurement Organization (DPO), too, has

made little headway. This failure is especially significant since it not just affects the military's effectiveness but could also be a political vulnerability for the Bharatiya Janata Party (BJP). Accusing the Congress-led United Progressive Alliance (UPA) of slothfulness in procuring weapons for the military, the BJP's 2014 election manifesto had promised to: "Modernise armed forces, and increase the R&D (research and development) in defence, to develop indigenous defence technologies and fast track defence purchases."

Even so, it took the NDA government almost two years to kick off procurement reform. After the Dhirendra Singh Committee in 2015 articulated the need for setting up a DPO outside the MoD structure, Mr Parrikar referred the question to another committee. Constituted in April 2016 under a respected former defence acquisitions chief, Vivek Rae, that committee quickly ran into a disagreement. While the MoD had directed the committee to envision a brand-new DPO, Mr Rae believed it would be better to refashion and strengthen the existing defence acquisition structure. Given this fundamental disagreement, Mr Rae resigned in September 2016 and Pritam Singh, who the MoD described as a "management expert", became chairman. In March 2017, the MoD told Parliament the committee had "recommended the creation of a central, autonomous, empowered professional organization to build up indigenous defence capability as a strategic imperative for long-term self-reliance". Since then, there has been silence. The report is said to be circulating from one MoD desk to another on a slow journey to oblivion.

However, whether for this government or the next, there is no avoiding DPO reform, for which four important aspects must be kept in mind. First, the new DPO must holistically focus on defence acquisition, not just procurement. While procurement involves the straight purchase of existing defence equipment from global or domestic "original equipment manufacturers (OEMs)", acquisition includes meeting the military's need through channels such as indigenous development. The Defence Research and Development Organisation (DRDO) is currently pursuing \$2 mission-mode projects (MMPs) involving an outlay of over ₹370 billion. But these rarely feature in the formal defence acquisition process since the



BROADWORD

AJAI SHUKLA

Why is the Fed still raising interest rates?

Earlier this month, the US Federal Reserve's policy-setting Federal Open Market Committee (FOMC) voted unanimously to increase the short-term interest rate by a quarter of a percentage point, taking it from 2.25 per cent to 2.5 per cent. This was the fourth increase in 12 months, a sequence that had been projected a year ago, and the FOMC members also indicated that there would be two more quarter-point increases in 2019. The announcement soon met with widespread disapproval.

Critics noted that economic growth has slowed in the current quarter and that the Fed's preferred measure of inflation (the rate of increase of the price of consumer expenditures) had fallen below the official 2 per cent target. Given that the Fed has long said that its interest-rate policy is "data dependent", why did it press ahead with its previously announced plan to continue tightening monetary conditions?

The FOMC statement announcing the latest interest-rate hike gave no explicit reason for it. Fed Chair Jay Powell's remarks at his press conference also gave no reason for maintaining the originally planned rate increase despite the economic slowdown.

Determining the appropriate level of the interest rate depends on balancing a changing array of considerations. So what considerations might the FOMC have had in mind in deciding to raise the rate this month and projecting a higher rate in 2019?

There are three possibilities. First, the current level of the real (inflation-adjusted) interest rate is remarkably low. The most recent annual inflation rate as measured by the rise in the Consumer Price Index was 2.2 per cent. Subtracting that inflation from the 2 per

cent nominal federal funds interest rate implies that the real interest rate was slightly negative before the recent increase and approximately zero even after it.

A zero real rate might be appropriate in a very depressed economy, but not in an economy in which real GDP was growing this year at more than 3 per cent and the unemployment rate was an exceptionally low 3.7 per cent. The Fed's own estimate of the sustainable level of the unemployment rate is considerably higher, at 4.4 per cent.

An extremely low real interest rate can cause a variety of serious problems. Businesses respond to the low cost of capital by taking on excessive debt. Banks and other lenders reach for yield by lending to low-quality borrowers and imposing fewer conditions on loans. Portfolio investors can drive up the price of equities to unsustainable levels. Governments are induced to run large deficits because the interest cost of servicing the resulting debt is relatively low.

A second reason for raising the interest rate is that the FOMC needs a higher level now so that it can reduce interest rates later, during the next economic downturn, when it needs to stimulate demand. The current expansion, one of the longest since World War II, has now lasted 114 months since the upturn began in June 2009. Although expansions don't die of old age, there are enough warning signs — including falling equity prices, weakness in the housing sector, downturns in major European countries, and the uncertain level of US exports — to indicate that the next recession could begin during the next two years.

In the last three downturns, the Fed cut the fed funds rate by five percentage points, 4.8 percentage points, and 5.3 percentage points. But with a starting

level of 2 per cent, it could reduce the federal funds rate by only two percentage points before hitting zero. Although the Swiss National Bank and the European Central Bank have reduced their key interest rates below zero, that has created problems for their banking and insurance companies. Moreover, it is not clear what additional problems will occur as these central banks raise normalize their rates.

The third reason that the FOMC might have wanted to raise the rate is to return the real rate to the "neutral" level. Some economists have said that the neutral rate, the level that neither increases nor depresses overall demand, often referred to as r^* , has declined substantially in recent years. But r^* is not a number to be calculated in a straightforward way like the rate of inflation. It must be estimated with a complex economic model. Powell and others have emphasised that it is difficult to know the value of this "neutral" level.

My own view is that the calculations implying that the estimated value of r^* has declined sharply in recent years really reflect the declining interest rate set by the Fed and other central banks. In the past, it was generally assumed that the real value of the neutral rate was equal to about 2 per cent. Because the current real rate is close to zero, substantial increases are needed to get back to the traditional neutral level.

These three reasons, and perhaps others, justify the view that the FOMC that the current interest rate is too low and needs to be raised. Unfortunately, if anything, the recent increases may be too little and too late.

The final, and perhaps trickiest, issue is the proposal to man the new DPO with a cadre of specialist acquisitions managers. On one hand, the Indian Administration Service will resist any proposal for senior acquisition posts to go to another cadre. And on the other, bright officers will resist prolonged tenures in acquisition, which is widely regarded as a high-risk assignment with little to recommend it in terms of power, influence or contact building. This is a "human resource" problem that the US system has grappled with unsuccessfully for half a century. An answer is not readily forthcoming.

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MARTIN FELDSTEIN

Bhagat Singh's real legacy



BOOK REVIEW

C P BHAMBHRI

Bhagat Singh has been one of India's most misunderstood freedom fighters, not only by the tyrannical and prejudiced colonial rulers but also by his contemporary nationalists, including the tallest among them, Mahatma Gandhi. The editor of this slim volume of 21 essays and articles written by Bhagat Singh has done yeoman's service in correcting stereotyped notions about the revolutionary's philosophy, apart from offering Singh's thoughts to a wider, English-speaking

audience.

Set against the context of the 1920s, when communal politics had become a serious divisive issue, Bhagat Singh's progressive ideas on religion deserve careful study. He talked of secularism as early as 1924. "All of us being one and none is the other," he wrote, and spoke of a campaign for equality and equity. International politics certainly influenced him, especially the Russian revolution of 1917, but so did the ideas of the French Revolution of 1789. As a young man under the yoke of the British, he felt the need for action and was attracted to the Leftist revolutionary ideal. Indeed, his views were radical enough for Singh and Lala Lajpat Rai to develop fundamental differences of outlook, especially after Rai joined the Hindu Mahasabha, an ironical development given that Singh was later implicated for participating in a (mistaken) revenge killing

of a British police officer who was thought to have caused Rai's death. In an article dated August 1928, Singh responded to Rai's allegation that he (Singh) was a "Russian agent". "Yes, we accept that the Russian Revolution has presented an altogether new set of ideas to the world," he wrote, which is why he admired Lenin, the Russian leader, and then went on to add: "Lalaji says that because of our communist ideas, the rich would align with the government? Very good! Which party is he in?"

Singh was projected as a believer and practitioner of violence because he bombed the Central Legislative Assembly on April 8, 1929, in protest against anti-people laws, such as the Public Safety Bills, the Trade Union Disputes and so on. Allowing himself to be arrested, he was tried and hanged on March 23, 1931, at the age of 23. Singh was certainly attracted to anarchist ideology, but it is worthwhile to understand his was a much more nuanced approach. He made a semantic distinction between "the use of force" and "violence".

If "repressed people react and use 'force', it cannot be called 'violence'," he argued. "If we could understand that repression of poor people is called violence and to prevent it is deemed good deed then all misconceptions would vanish," he wrote, adding that, "To consider this enemy as motivating an armed revolution is completely wrong and useless."

When he was arrested in May 1927 in Lahore, this highly evolved progressive young man's ideas were misrepresented by the British. He clearly stated that the "use of force [was] justifiable when resorted to as a matter of terrible necessity; [but] Non-violence as policy [is] indispensable for all mass movements". Singh's statement in the Session Court on June 9, 1929, is significant. "We hold human life sacred beyond words," he said, and the "bomb was necessary to awaken England..."

In his statement before his execution, Singh referred to the irony of General Dyer, who was "rewarded" in spite of the fact that he had massacred innocents at Jallianwala Bagh. The high court did not,

however, pay any heed to Singh's defence when he pointed out that "no one died when the bomb was thrown in the Legislative Assembly... (because) we gave the warning in the manner we thought proper".

Is Bhagat Singh a terrorist, as the British thought to project him? In his Manifesto of April 1928, he talked of mobilising of youth, workers and peasants, of secularism and fashioned the slogan "Inquilab Zindabad (long live revolution)". Along with his statements before the judges, excerpts from his jail notebook from pages 134 to 192 provide a mine of information about his thinking on multiple issues, including social reforms, the problem of untouchability and so on. Singh supported the mass mobilisation of the oppressed against the colonisers and sought to rely on youth power. His Hindustan Socialist Republican Association and other activities clearly show that he was a republican, a socialist and a committed freedom fighter above caste or community prejudices.

His essay, "Why I am an Atheist," repro-

duced in chapter nine, shows that he was fundamentally opposed to the mainstream politico-religious and religio-social ideas and ideologies of his times. "By the end of 1926, I was convinced about the baselessness of the theory of [the] existence of an almighty supreme being who created, guided and controlled the universe. I became open about this disbelief of mine."

The message of this edited volume is that an individual who is not in tune with the mainstream ideas of his own society is liable to be punished, and Bhagat Singh was no exception. But seven decades after the colonisers left India, Indian leaders who pay an annual ceremonial tribute to Bhagat Singh as a martyr would do better to read and absorb his ideas instead of reducing him to the status of an idol.

INQUILAB
Bhagat Singh on Religion and Revolution
S.Irfan Habib (Editor)
Sage Publications
220 pages; ₹295