Election blues

New e-commerce norms are also a reflection of the BJP's growing concerns for both local traders and e-commerce firms

RAISINA HILL

A K BHATTACHARYA

The government's flip-flop on its policy on marketplace e-commerce companies seems to be an indication that the country is heading towards a general election and the power of lobbying by influential sections in the country would be on display more frequently in the coming days. Within weeks of its circular that barred marketplace e-commerce companies such as Amazon and Flipkart from entering into exclusive deals for merchandise sales, the government on Thursday clarified that those restrictions did not cover the sale of private-label products through the marketplace.

With over 30 private labels covering more than 200 different categories under their belt, the government's order on Thursday comes as a relief for both Amazon and Flipkart. But not all their worries are over and the implications of the fine print of the modifications in the policy would be known only a little later.

On the face of it, the earlier government decision was aimed at creating a level playing field for all small retailers who want to sell their products through companies such as Amazon and Flipkart in India. The role of politics was also quite obvious in that decision barring online marketplace platforms from selling products of companies in which they own equity stakes. Marketplace e-commerce is a sector where 100 per cent foreign investment is allowed, but the condition imposed on such retailers is that they can only be a platform for sale of goods from other retail companies.

Foreign investment in retail has always been a controversial political issue in India. The United Progressive Alliance (UPA) government, led by Manmohan Singh, decided to allow 51 per cent foreign direct investment (FDI) in multi-brand retail and 100 per cent FDI in single-brand retail, in late 2011, but not before introducing a unique condition.

India's FDI policies have never been subjected to state-level clearances. Thanks to stiff opposition from the Bharatiya Janata Party (BJP) and the Left parties, the UPA government incorporated a condition that foreign companies wishing to set up multi-brand retail or single-band retail outfits would have to secure the permission of the states where they would like to operate.

Thus, when the BJP formed its government at the Centre in 2014, there was no hope of any relaxation in the FDI policy for the retail sector. Traders constitute a powerful lobby in the BJP's vote bank and the fear was that some of the FDI policy relaxations introduced by the UPA may actually be rolled back.

But contrary to all that, what happened in 2016 surprised everyone. One hundred per cent FDI was allowed in the marketplace e-commerce sector. The biggest beneficiaries of this move were Amazon, which had opened an e-commerce outfit in India, and Flipkart, a large company in the online retail space. It was this policy again that encouraged Walmart to consider investing in Flipkart early this year. It invested close to $16 billion in acquiring controlling stakes in Flipkart.

That was also the deal that created a political storm in the BJP. A few senior leaders including the head of the Rashtriya Swayamsevak Sangh, Mohan Bhagwat, questioned the logic of allowing an American company to acquire Flipkart, which was operating in India and had been promoted by Indians. The electoral reverses in three Hindi heartland states of Chhattisgarh, Madhya Pradesh and Rajasthan only helped fuel the internal BJP fire against policies that hurt the party's vote bank. Organisations representing small traders also raised their voice to demand a change in the policy. With general elections to be held after a few months, the curbs on marketplace e-commerce firms were only to be expected.

A few weeks ago, the government had come out with a policy package to help the micro, small and medium enterprises (MSME) with easier norms for sanctioning loans and a relaxed regulatory framework. A promise was made to grant loans to MSMEs within 59 minutes. Similarly, MSMEs were spared the trouble of approaching the courts for compliance of many routine regulations. Expeditious loan clearances and easier regulatory compliance have of course given rise to a different set of problems. But the government succeeded in sending out a message that it was mindful of the woes of the MSMEs, particularly after they were badly hit by demonetisation.

After Thursday's circular, large market-place e-commerce companies are now busy re-engineering their businesses to comply with the new norms. The government may still continue to attract foreign investments in new businesses. But the word is out that India is going in for elections and the government would not hesitate from taking steps to address the concerns of electorally significant lobbies in industry and trade, even if such measures mean changing the rules of the game mid-way or a policy flip-flop. As the elections come closer, foreign investors are likely to get a little more wary about committing fresh capital or expanding their business operations till the elections are over. The countdown for the elections has begun.

CHINESE WHISPERS

The next move

Is Bhanwar Jitendra Singh from Alwar going to be the one to replace Ashok Gehlot as Congress President Rahul Gandhi's most trusted advisor? To be sure, Singh lacks Gehlot's experience and connect with the masses. But he was among the most influential leaders of the party in convincing Sachin Pilot that he should make way for Gehlot as Chief Minister and serve as his deputy. Singh has worked with Gandhi earlier as his secretary when the latter was a general secretary in charge of the youth wings. Gandhi has his own compulsions. Having promoted the old guard in Rajasthan and Madhya Pradesh, he needs to send a signal to the younger people in the party that the top posts won't always be the monopoly of the old and experienced.

Same difference

The Winter session of Parliament ends on Tuesday. The big question, however, is whether the government would hold a separate Budget session to present its interim Budget or extend the Winter session. According to sources in the government, the session would begin on January 30, and would last for a week. It would involve presentation of the interim Budget. The Economic Survey will not be presented. But there are two views within the government on whether it should prorogue the ongoing Winter session, and call a separate Budget session, or treat the break between January 8 and 30 as recess and count the last few sittings of the current Lok Sabha as an extension of the Winter session. In 2009 and 2014, the UPA governments had combined the Winter and Budget sessions.

Last minute change

The Communist Party of India (Marxist) planned to organise a press conference in Parliament on Thursday. Most political parties, including the CPI (M), hold routine press conferences, if not every day, then once in two days, inside Parliament when it is in session. The CPI (M) press conference was likely to focus on the violence related to the Sabarimala issue allegedly perpetrated by the Sangh Parivar. Usually, the CPI (M) press conferences are addressed by the party's leaders in the Lok Sabha and Rajya Sabha. In the Lok Sabha, the party's leader is Mohammed Salim, and Elamaram Kareem is its leader in the Rajya Sabha. However, since the issue related to Sabarimala, the party thought it wiser that one of its Hindu member of Parliament from Kerala should address the press conferences, and the CPI (M)'s Lok Sabha MP from Palakkad, M B Rajesh, was roped in at the last minute.

Seven banking trends to watch out for in 2019

The evolving RBI-government relationship, a reversal in the interest rate cycle and return to profitability will dominate bankers' conversation this year

BANKER'S TRUST

TAMAL BANDYOPADHYAY

The latest financial stability report of the Indian central bank, a biannual health check-up for the banking system, should be music to the ears of the CEOs of banks and the investors in bank stocks.

The proverbial light at the end of the tunnel is, finally, in sight. The pile of bad assets, under which a few public sector banks (PSBs) have almost got buried, has started showing signs of erosion.

As a percentage of the overall loan book of the Indian banking industry, the bad loans in September (10.8 per cent) declined from the March 2018 level (11.5 per cent). The Reserve Bank of India (RBI) expects it to come down further in March 2019 (10.3 per cent), signaling that the Indian banking system is on course to recovery.

Banks are also setting aside more money to provide for their bad assets, improving the provision coverage ratio, adding to the resilience of the system. As the year progresses, this will gain momentum and be the most significant trend in Indian banking in 2019.

Banks won't have to set aside as much money as they had been doing for bad assets in the past few years. Coupled with the aggressive recovery drive, this will add to their profitability. How? It's simple arithmetic. For a particular bad loan, if a bank has made, say, 80 per cent provision, even if it recovers 25 per cent, it is "in the money" as anything beyond 20 per cent (100 per cent minus 80 per cent) adds to its bottom line.

More banks are expected to make profits this year and the relatively strong banks that have gone through a rough patch in the past few quarters — such as State Bank of India and Bank of Baroda — could bounce back firmly on the growth path.

Twelve of the 21 PSBs were in losses in September 2018. Since December 2015 — when the bad loans of the banking system started rising, following the RBI's first-of-its-kind asset quality review — the government-owned banks recorded ₹1.84 trillion losses.

The drop in bond yield will also help the banks return to profitability. The bond yields rose till September 2018 (10-year yield touched 8.23 per cent), leading to treasury losses of all banks. The RBI allowed them to stagger the hefty mark-to-market or MTM losses, first in March and later in June 2018.

MTM refers to the accounting practice of valuing assets — in this case, government bonds — in accordance with their prevailing market price in every quarter-end and not the price at which they are bought. When the yields of bonds rise and prices drop, banks need to set aside money to make good the difference in prices. With the drop in bond yields (7.21 per cent on December 31) and the rise in prices, those banks that chose to take the hit and not stagger their MTM losses, will get the benefit by reversing the provision.

So, the return to profitability, for more PSBs, will be the second theme of the year.

The third could be the reversal in the interest rate cycle. With retail inflation dropping to a 17-month low of 2.33 in November, much below the RBI's target, the clamour for a rate cut will get louder under the shadow of the general elections. If crude prices remain low (from $86.74 a gallon in the first week of October, it dropped to 49.93 in December), a rate cut as early as February cannot be entirely ruled out.

Will the pace of recovery of bad loans gather momentum? Ideally, it should. Fighting every default case, banks are learning the tricks of the trade even though some companies are smart enough to find ways of gaming the system.

In whatever form the relief packages for farmers come, banks will be wary of lending to them and the real issues will get discussed but not addressed

The pressure is mounting to fine-tune certain rules of the insolvency code, particularly one that disqualifies certain entities from bidding for distressed assets. If that is done, the code will lose its teeth, slowing down the recovery drive.

Another popular theme will be the bleeding hearts for farmers' distress. Describing the farm loan waiver by the Congress governments in three states as "political stunts" and "lollipops", Prime Minister Narendra Modi has promised to tackle the fundamental problems. The form may change but competitive populism is a reality in the world's largest democracy. In whatever form the relief packages come, the banks will become wary of fresh lending to farmers and the real issues of distress will get discussed but not addressed.

Another obvious theme of 2019 will be the pace of credit growth. Banks have already started feeling the pressure from their majority owner to lend to the segments they are either not comfortable lending to or don't have the expertise for risk assessment. Forced lending may sow the seeds of bad loans but that's a separate story.

The most important theme of 2019 will, of course, be the evolving RBI-government relationship. If the first three weeks of governor Shaktikanta Das are any indication, the seasoned bureaucrat knows his onions. Das made his first board meeting a non-event and the composition of the expert committee to look into the central bank's economic capital framework is a work of art.

Former RBI governor YV Reddy had spoken about the "creative tensions" between the RBI and the government. Frankly, there is nothing "creative" about it; it's a story of fiscal dominance over the monetary authority.

The latest announcement of capital infusion in the PSBs is a perfectly legitimate instrument being used by the government to strengthen the banks. But should it decide on the regulations? Take the call on how much capital a bank requires and which banks should lend and where? Since the government is also the majority owner of these banks, isn't there a clear conflict of interest? Shouldn't regulation be ownership neutral? The entire world is watching the RBI and its new governor.

Indeed, external developments, including slowing global growth, trade tensions and US interest rates will influence the Indian finance and banking turf, but in 2019, at least in the first half, internal risks are far higher. One-time restructuring of MSME loans is just cosmetic but there could be borrower-friendly, growth-inducing gestures that are not exactly good for the banks' health in the run-up to the elections and even after, depending on the results of the elections.

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INSIGHT

"It might have been"

Narendra Modi's popularity ensured that people would accept temporary pain for long-term gain. Some disappointment was inevitable. But the dismay is far more

RAHUL KHULLAR

In May 2014, there was an air of strong optimism; perhaps, India's time had come. The country's Prime Minister (PM) reputed for action, promised a vision of transforming India. A majority government could legislate and implement without the shackles that bound coalition governments. The ruling party and its MPs would rally around the PM and his development agenda.

Some disappointment was inevitable. But the dismay is far more. The transformation remains elusive. Crony capitalism is alive and kicking, as is corruption. Social divisiveness has become a serious problem with violent and murderous manifestation. The economic outlook is far from rosy and growth has certainly not been inclusive.

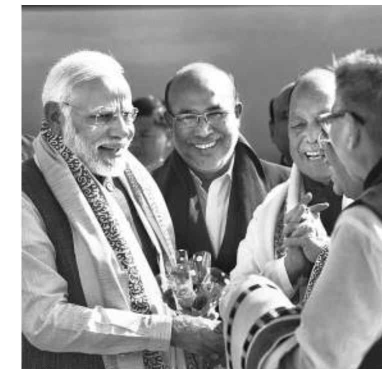
The missed opportunities have been many.

First, India badly needed a new agricultural strategy. It was widely accepted that major reforms were necessary. At the very least, a medium-term policy ought to have been announced and implementation commenced. The Ministry of Agriculture & Farmers' Welfare seems to have been blissfully unaware of the urgency. Even as signs of serious farm distress emerged, business as usual prevailed. The sector's problems are well understood and documented. Numerous solutions were proffered, to no avail.

Second, a manufacturing policy to boost industrial growth and employment was urgently needed to "transform" India. The Make in India (MII) initiative of September 2014 remained a slogan. Its policy content was never articulated — translating MII into actionable operational details. There was no flesh on the MII skeleton. (*Business Standard*, January 10, 2017). Yet later, MII was used to rationalise raising tariffs across the board for numerous items.

Third, the education sector was crying for reform. Successive ASERs have brought out the poor state of school learning outcomes. Schools continue to languish. Tertiary education is in trouble: Many central universities are in secular decline, engineering and medical colleges of dubious quality have mushroomed, and new IITs/IIMs are desperately short of staff. The government dissipated its energy in: Confrontations with universities and IIMs/IITs; planting political loyalists as vice-chancellors who rule by diktat; throttling voice at reputed seats of learning; and, farcically, bestowing a label of Institution of Eminence on an institution that does not even exist. Opportunity lost.

Fourth, on macroeconomic management the two big misses have been the clean-up of the banks balance sheets and the unconscionable neglect of exports (*Business Standard*, September 27, 2018). Delayed action on recapitalising and reforming governance in public sector banks has led to mounting problems. The overhang will hamper credit creation for at least a few years more. The sharp reduction in the current account deficit nurtured complacency. There was little appreciation of the possible Dutch disease consequences. The real exchange rate appreciated and exports plateaued without eliciting any policy response.



The country's Prime Minister had promised a vision of transforming India. But the missed opportunities have been many

Fifth, growth (howsoever debatable its size) has been uneven and inequitably distributed. On-farm and off-farm employment have suffered. MGNREGA funding dried up 2017 onwards. The informal and MSME sector were pummelled by demonetisation and GST. Employment insecurity, feeble job growth, and poorly-paid informal sector employment are a throwback to the 1970s. The WIR 2018 (Chancel and Piketty) and Oxfam reports only confirm the worst fears about growing inequality. This is a setting for a perfect storm of social unrest.

The other disturbing trend has been the almost concerted effort to rent India's social fabric. Consider the evidence: Collective silence of senior ministers to wanton violence including lynchings and murder; ruling party legislators spewing communal hatred and inciting division; chief ministers whipping up a frenzy about cows to target members of a particular community; victims of violence are made the accused; individuals are trolled and socially persecuted by the loony-fringe with goons resorting to violence. And, in it all, the Prime Minister maintains a stony silence (remember *maunvrat*?). As argued elsewhere (*Financial Express*, October 17, 2017), the silence of those in authority is what gives license to such conduct.

The ruling party's "my way or the highway" has exceeded all bounds. Nationalism is defined as "our way". Anyone disagreeing with the ruling dispensation is branded anti-national. Dissenting Indians are told they may leave for Pakistan. Dangerously, nationalism so defined now amounts to communalism. Disingenuously, party spokesmen talk of India being a tolerant society. We don't need that reminder. They miss the point altogether; the complaint is that the state's apparatus is being used to foster intolerance. Following the recent violence in UP, a group of senior retired civil servants wrote a letter voicing grave concern about the "politics of hate, division and exclusion… nursed, aided and abetted" by those in power.

The PM's popularity ensured that people would accept temporary pain for long-term gain. Tragically, nearly five years have amounted to Missed Opportunities (MO) and Divisive India (DI). A reminder of John Whittier: For all sad words of tongue and pen, the saddest are these: "It might have been".

The writer is former commerce secretary, Government of India

LETTERS

Recapitalisation of banks

I refer to the article in your newspaper on December 24, "Bank recap no different from farm loan waiver" by Tamal Bandyopadhyay. He has concluded that "with general elections round the corner, there will be no end to the flow of public money down the drain — both for farm loan waivers and for PSB recapitalisation". So he considers bank recap as a populist expenditure which really is nothing but money going down the drain. I am writing to say that nothing can be further from truth than the view that recapitalisation is pouring money down the drain.

The recapitalisation is done by equity participation from where the government gets dividend. Otherwise also the banks gets money to give loan to industry with leads to growth. To say that the money is going down the drain, one must make an assumption that the money will be lent to the industry and the repayment is zero. Can anybody make such an assumption? Reserve Bank`s Financial Stability Report (FSR) says that in March 2018 the gross NPA ratio was 11.5 per cent and in September 2018 it has come down to 10.8 per cent. FSR also says that it will come down to 10.3 per cent by March 2019. It is well recognized and it has also been reported editorially by Business Standard that the actions through Insolvency and Bankruptcy Code is showing good result. Under the circumstances to assume that giving loans to industry will be nothing but pouring cash down the drain will shock even a layman, not to talk of those who laboriously studied monetary economics.

On January 4, C Rangarajan has written in his article in *The Hindu*, "Recapitalisation of public sector banks will partly solve the problem of banking sector… it should be completed soon."

So, the author's view is quite wrong.

Sukumar Mukhopadhyay
New Delhi

Tamal Bandyopadhyay responds:
Bank recapitalisation without conditions attached to improve performance and making the management responsible is a band-aid approach. Historically, the Indian government has been doing this. Has this in anyway improved the health of the PSU banks? It has just given temporary relief and a lifeline. The amount of money spent in the form of bank recap is far higher than what the government has received as dividends from these banks. In contrast, the money spent by the US to restore the health of its big private banks in the wake of Lehman Brothers collapse and financial crisis has already flowed back to the US treasury. It even made money! In our case, let me repeat, money is just going down the drain. Thanks for reading the column and the feedback.

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HAMBONE — BY MIKE FLANAGAN

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Starting trouble

Fund allocations under Start-up India falter

Fund allocations made under the government's Start-up India initiative show that the ambitious scheme is far from being a success. The start-up fund of funds, launched some three years ago by Prime Minister Narendra Modi to help early-stage entrepreneurs, has so far committed ₹1,900 crore, which is less than 20 per cent of its ₹10,000-crore corpus to venture capital firms. The estimates, given by the Small Industries Development Bank of India (Sidbi), which manages the fund of funds for the Start-up India plan, are an indication that the government has fallen short on delivering its promise to create a lively ecosystem for entrepreneurs. The government had wanted such an ecosystem to be an engine for job creation, a lack of which has turned into a major challenge for the current dispensation. While business and politics often go hand in hand, schemes such as Start-up India should have had a clear vision and goal, which it has lacked. It's not just Start-up India; several other government initiatives including Make in India and Swachh Bharat have also not turned into success stories despite their potential.

Although the government did well to set up a fund of funds to be managed by Sidbi so that allocations to start-ups could be routed through venture capital firms, the focus should have been on nurturing innovation as well, rather than just on disbursing money. The idea of just a money bag without any attention to innovation is out of sync with entrepreneurship. In other leading start-up destinations such as the UK, Israel and the US, institutional backing comes with the right focus on cutting-edge research and innovation. In the US, for instance, the federal government does not usually offer grants for starting or growing a business, but it plays an active role in technology development among other areas. In addition, business grants are available through state or local initiatives there. Also, there are competitive awards-based programmes, encouraging small businesses in the US to pursue R&D projects that can result in opportunities for commercialisation.

Despite the gaps in the Start-up India initiative, it's heartening to find a growing number of unicorns (start-ups reaching a valuation of $1 billion or above) in India. After all, eight of them became unicorns in 2018, which was the highest addition in a single calendar. India is the third-largest start-up destination with an estimated 7,700 tech start-ups. The question is whether these start-ups have grown with active help from the government or despite the government. It's a fact that funding slowdown is a worry, along with a lack of focus on innovation. Not only that, the recent demands made by the Central Board of Direct Taxes (CBDT) asking start-ups to pay the angel tax based on the valuation of firms have also adversely hit the mood in the sector, though the authorities have since assured promoters of no coercive action till the matter is looked into by an expert committee. Apart from that, the government proposal to stop cashback and deep discount sales by e-commerce firms has added to the overall gloom. Since a large number of new start-ups could get into the e-commerce space, such messaging from the government could act against the spirit of entrepreneurship. The silver lining is that Sidbi is now talking about hastening the process of fund disbursals through new technology enablers under the Start-up India initiative. The time has come to walk the talk.

Unfair levy

UP's cow cess penalises people for govt's faults

The Uttar Pradesh government has decided to impose a 2 per cent gau raksha (cow welfare) cess on excise items. This apart, a 0.5 per cent cess will be levied on state-operated tolls. The government has also increased the levy on the tax revenue of the UP Agricultural Marketing Board, or Mandi Parishad, from 1 per cent to 2 per cent. The money will be used to set up and run "gauvansh ashray asthals" (or cattle shelters). These shelters, to be made functional in all villages, panchayats, municipalities and municipal corporations, will be run by urban and rural civic bodies and are aimed at tackling the growing menace of stray cattle in the state. Additionally, money from the Mahatma Gandhi National Rural Employment Guarantee Scheme will be used to fund these cowsheds. Also, eight profit-making public sector undertakings such as Setu Nigam (Bridge Corporation) and UP State Industrial Development Corporation (UPSIDC) will now have to contribute 0.5 per cent of their corporate social responsibility (CSR) kitty towards the cow shelter scheme. The aim is to put in place a cowshed with a capacity of accommodating a minimum 1,000 animals in every district of the state.

The question is why the people of UP are being made to pay for what is essentially a policy misstep of the ruling regime. To be sure, UP is not the first state in the country to impose such a cess. Punjab levied a similar cess and Rajasthan imposed a cow surcharge under the BJP governments, without any real benefits to show for it. In UP, trouble started as soon as the BJP formed its government in March 2017. One of its first decisions was to shut down all illegal slaughterhouses and adopt a zero-tolerance approach to cow smuggling. While it is no one's case that illegal slaughterhouses should be allowed to carry on, the state government did nothing to find any alternative means of livelihood for these small and marginal businessmen and their employees. The illogical decision also completely upset the dynamics of the meat trade in the state with adverse backward linkages. One of the biggest downsides was that cattle owners, who in the past used to sell unproductive animals to slaughterhouses, found it more convenient to simply abandon them. What made matters worse was the rise of violence unleashed by the so-called gaurakshaks (cow-protectors), who often penalised even those who traded in buffaloes.

The end result is for all to see. While small traders associated with the meat industry got a severe jolt, farmers also suffered. Reports suggest that desperate farmers, especially in western UP, are locking up abandoned cattle in schools and government buildings for fear of crop damage. That is not to mention the plight of the cattle, many of whom are dying of starvation or asphyxiation. Instead of imposing a cess, the government should reconsider its policy, which has helped none. A cultural affection for cows has happily coexisted with trade in cattle for ages and restrictions on the cattle trade don't make any commercial sense. Why should people be forced to finance what ultimately is a token of one brand of politics?

ILLUSTRATION BY BINAY SINHA

Central bankers' fiscal constraints

The ones serious about preparing for recessions should be looking hard at proposals for how to pay interest on money, both positive and negative, which is by far the most elegant solution

If you ask most central bankers around the world what their plan is for dealing with the next normal-size recession, you would be surprised how many (at least in advanced economies) say "fiscal policy." Given the high odds of a recession over the next two years — around 40 per cent in the United States, for example — monetary policymakers who think fiscal policy alone will save the day are setting themselves up for a rude awakening.

Yes, it is true that with policy interest rates near zero in most advanced economies (and just above 2 per cent even in the fast-growing US), there is little room for monetary policy to manoeuvre in a recession without considerable creativity. The best idea is to create an environment in which negative interest-rate policies can be used more fully and effectively. This will eventually happen, but in the meantime, today's overdependence on countercyclical fiscal policy is dangerously naïve.

KENNETH ROGOFF

There are vast institutional differences between technocratic central banks and the politically volatile legislatures that control spending and tax policy. Let's bear in mind that a typical advanced-economy recession lasts only a year or so, whereas fiscal policy, even in the best of circumstances, invariably takes at least a few months just to be enacted.

In some small economies — for example, Denmark (with 5.8 million people) — there is a broad social consensus to raise fiscal spending as a share of GDP. Some of this spending could easily be brought forward in a recession. In many other countries, however, notably the US and Germany, there is no such agreement. Even if progressives and conservatives both wanted to expand the government, their priorities would be totally different. In the US, Democrats might favour new social programmes to reduce inequality, while Republicans might prefer increased spending on defence or border protection. Anyone who watched the US Senate confirmation hearings last September for Supreme Court Justice Brett Kavanaugh cannot seriously believe this group is capable of fine-tuned technocratic fiscal policy.

This does not mean that fiscal stimulus should be off the table in the next recession. But it does mean that it cannot be the first line of defence, as altogether too many central bankers are hoping. Most advanced countries have a considerable backlog of high-return education and infrastructure projects, albeit most would take a long time to plan and implement. If left-leaning economists believe that fiscal policy is the main way out of a recession in 2019 or 2020, they should be lobbying for the government to prepare a pile of recession-ready projects. Former US President Barack Obama wanted to create an infrastructure bank in part for this purpose; tellingly, the idea never got off the ground.

Likewise, many observers advocate bolstering "automatic stabilisers" such as unemployment benefits. Europe, with much higher levels of social insurance and taxation, has correspondingly stronger automatic stabilisers than does the United States or Japan. When incomes fall, tax revenues decline and insurance payments rise, providing a built-in countercyclical fiscal stimulus. But proponents of higher automatic stabilisers pay too little attention to the negative incentive effects that come with higher government spending and the taxes needed to pay for it.

To be clear, like many academic economists, I favour significantly raising taxes and transfers in the US as a response to growing inequality. But if there were a broad political consensus in favour of moving in this direction, it would have happened already.

A more exotic concept is to create an independent fiscal council that issues economic forecasts and recommendations on the overall size of budgets and budget deficits. The idea is to create an institution for fiscal policy parallel to the central bank for monetary policy. Several countries, including Sweden and the United Kingdom, have adopted much watered-down versions of this idea. The problem is that elected legislatures don't want to cede power, especially over taxes and spending.

One can appreciate why central bankers don't want to get gamed into some of the nuttier monetary policies that have been proposed, for example "helicopter money" (or more targeted "drone money") whereby the central bank prints currency and hands it out to people. Such a policy is, of course, fiscal policy in disguise, and the day any central bank starts doing it heavily is the day it loses any semblance of independence. Others have argued for raising inflation targets, but this raises a raft of problems, not least that it undermines decades of efforts by central banks to establish the credibility of roughly 2 per cent inflation.

If fiscal policy is not the main answer to the next recession, what is? Central bankers who are serious about preparing for future recessions should be looking hard at proposals for how to pay interest on money, both positive and negative, which is by far the most elegant solution. It is high time to sharpen the instruments in central banks' toolkit. Over-reliance on countercyclical fiscal policy will not work any better in this century than in it did in the last.

The writer, former chief economist of the IMF, is Professor of Economics and Public Policy at Harvard University
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Expediency & cronyism win. Again

Ever wondered how it would be to witness retrograde policies being implemented right in front of our eyes by netas and babus? Recent events in the financial sector offer exactly such a picture. Policy decisions over the past two months have allowed the government to preserve the status quo at public sector banks (PSBs), whose bad loans have repeatedly sunk humungous amounts of taxpayers' money, and also allowed crony capitalists to become very wealthy.

The story began sometime in 2017, but action picked up in the third quarter of 2018 as the cold war between the Reserve Bank of India (RBI) and the government escalated over two issues: The government's demand for the transfer of a higher portion of the RBI's reserves to the Centre; and to relax the prompt corrective action (PCA) norms imposed on some of the worst PSBs to get them to start lending again — even as many PSBs remained headless!

IRRATIONAL CHOICE

DEBASHIS BASU

In September 2018, the giant Infrastructure Leasing & Financial Services (IL&FS), defaulted on its commercial paper borrowings, creating a crisis of confidence about non-banking financial companies (NBFCs). They ran to the ministry of finance, crying for help. Now, there was a third demand from the government to the RBI — inject more liquidity to save overleveraged NBFCs. Apart from this, after the Swadeshi Jagran Manch ideologue S Gurumurthy joined the RBI board in August, he added his own demands to the policy agenda: Give micro, medium and small enterprises (MSMEs) a bailout package. All four ideas were straight out of the playbook of expediency and cronyism of the previous governments.

But the data showed there was no need for any of these measures and so the government was not having its way so easily. They were purely political demands with little benefit to the economy; perhaps with seriously negative long-term outcomes. So, on October 26, RBI Deputy Governor (DG) Viral Acharya warned in a speech that "governments that do not respect central bank independence will sooner or later incur the wrath of the financial markets, ignite economic fire, and come to rue the day they undermined an important regulatory institution". Three days later, another DG of the RBI, N S Vishwanathan, fired his own salvo: "[T]he job of banks is not to bail out borrowers whenever they get into difficulties as the primary commitment of lenders should be to depositors." This hit directly at the government's position that the RBI shower unconditional love on PSBs and NBFCs.

In a simple lesson in policy-making, Mr Vishwanathan pointed out "banks are not supposed to be shock absorbers of first resort of the difficulties faced by their borrowers, as banks do not have the luxury of delaying payments to their depositors". On relaxing PCA, he said "frontloading of regulatory relaxations before the structural reforms fully set in could be detrimental to the interests of the economy". But a strong "nationalist government" was in no mood to relent. Keeping the pressure on, ministry of finance (MoF) babus were openly critical about the RBI and seemed prepared to use their powers to make the central bank fall in line.

According to media reports, in mid-November, the prime minister (PM) met the then RBI governor, Urjit Patel, apparently to understand the issues first-hand. Subsequently Mr Patel quit the day before the assembly election results were declared. One day later, Shaktikanta Das, the MoF's own man, became RBI governor. In quick succession the "harsh" PCA framework was suspended, MSMEs got a relief package and there are plans to transfer a huge amount of money from the RBI's reserves for some pre-election scheme. The political expediency of the netas supported by babus won.

The government also prevented the collapse of the house of cards some NBFCs built. NBFCs have been among the hottest market segments in the past few years because they were playing a market-cap game: Borrow more short-term, lend more long-term, show huge business growth and raise more money. Most of them indeed have strong risk management and diversified portfolios. But a few large ones, in their desperation to play the market-cap game, recklessly lent to shaky real estate companies. These assets were made to look good by passing them through a couple of friendly private banks.

As the IL&FS crisis spread, the music stopped for these shady players and they were in deep trouble. They wanted a "liquidity window", which the RBI had refused under Mr Patel. On Wednesday, December 26, the prime minister, who is rarely seen with businessmen, met some of the panic-stricken NBFCs. This was a signal to the RBI to "help" them. The RBI, under the new governor, quickly agreed to do so.

It is quite likely that a particular segment will need temporary relief in an extraordinary situation. But that was not the case here. Most NBFCs did not need help. A few bad ones had created a problem for themselves, and to the system, due to their unbridled greed and ambition to grow at any cost. Instead of allowing them to be taken over by their more efficient competitors, as always, the government has let them off the hook.

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The Civil War's fugitive origins

BOOK REVIEW

SEAN WILENTZ

The Civil War began over one basic issue: Was slavery, the ownership of human beings, a legitimate national institution, fixed in national law by the United States (US) Constitution? One-half of the country said it was, the other said it was not. The ensuing conflict was the chief instigator of Southern secession, as the secessionists themselves proclaimed. It was, thus, the chief source of the war that led to slavery's abolition in the US.

The struggle over property in slaves focused largely on the fate of the Western territories, but it also inflamed conflicts Southerners insisted that the federal government was obliged to capture slaves who had escaped to free states and return them to their masters, and thus vindicate the masters' absolute property rights in humans. Antislavery Northerners, denying that obligation and those supposed rights, saw the fugitives as heroic refugees from bondage, and resisted federal interference fiercely and sometimes violently.

Mr Delbanco, an eminent and prolific scholar of American literature, is well suited to recounting this history, and not just because fugitive slaves have been a subject of American fiction from Harriet Beecher Stowe to Toni Morrison and beyond. A traditional critic in the historicist mode, Mr Delbanco has always thoughtfully rendered the contexts in which his writers wrote. He has offered fresh interpretations not only of how national politics shaped the writing of, say, *Moby Dick*, but also of what Melville's tragic awareness and moral ambiguities tell us about the temper of a nation hurtling toward civil war.

Mr Delbanco's skills as a literary critic also illuminate the contributions fugitive slaves made to the growing antislavery movement. Although the number of fugitives was relatively small — according to an 1850 survey, only about 1,000 per year reached the North — they disproportionally aggravated the sectional divide. In part, Mr Delbanco argues, the runaways were a continuing symbolic insult to the slaveholders' honour, as their flight contradicted Southern claims that slavery was a benevolent, paternalist institution. More important, scores of fugitive slaves either wrote or dictated their personal experiences in widely read narratives, most famously the *Narrative of the Life of Frederick Douglass, an American Slave*, which awakened Northern whites to the enormity of Southern slavery.

The War Before the War is mainly a straightforward account of events that, although familiar to professional historians, ought to be known by anyone who claims to know anything about American history. In 1787, Southern delegates to the federal Constitutional Convention obtained a fugitive slave clause that called for (albeit vaguely) the capture and return of successful runaways. Over the following six decades, persistent slave escapes tested the ramshackle machinery put in place to halt them. In time, alarmed but emboldened Northern free blacks and their white abolitionist allies formed vigilance committees to ward off slavecatchers, while Northern legislatures began approving so-called personal liberty laws to shield the fugitives.

In 1850, responding to slaveholders' outcries, Congress passed a Fugitive Slave Act that strengthened the federal mandate for arresting and returning escapees. In a series of shocking confrontations, antislavery Northerners intervened, either to prevent the capture of fugitives or liberate those already in custody. The uproar of these pitched battles — Mr Delbanco's war before the war — helped turn Northern moderates into abolitionists and temperate Southerners into fire-eaters. Enforcing the fugitive slave law thus placed the federal government emphatically on the side of slavery over freedom, which hastened the collapse of the political system, the rise of the antislavery Republican Party and the coming of the war.

Mr Delbanco aims to balance his antislavery allegiances with caution about the smugness that can come with historical hindsight. In some of his earlier writings, this wariness has led him, by my taste, to be a little too charitable to revisionist interpretations that present the Civil War as a product of political failure, a catastrophe, instigated by malcontents, that a more responsible national leadership could have prevented. This view has arisen from an admixture of pacifism and an insistence on diminishing the moral as well as political disaster of slavery; and it has sometimes led its advocates to demonise the abolitionists as the chief fomenters of an unnecessary war.

In this book, though, Mr Delbanco sticks to viewing the war as the ghastly but necessary price for abolishing slavery — what Abraham Lincoln described in his Second Inaugural Address as cruel justice meted out by the Almighty. Mr Delbanco now dispels sanctimony differently, by reviving forgotten figures such as the St Louis minister and educator William Greenleaf Eliot — not coincidentally, T S Eliot's grandfather — who hated slavery but tolerated the fugitive slave law and, until the bitter end, held out hopes for a conciliatory gradual emancipation. History usually plows such people under as equivocators and worse. Mr Delbanco restores to them their moral seriousness in brutally uncertain times.

Overall, Mr Delbanco makes a strong case for the centrality of the fugitive slaves to the sectional crisis; indeed, by emphasising the symbolism of the issue, he may have slighted the importance of its political and legal aspects. Without question, he has once again written a valuable book, reflective as well as jarring, concerning the most violent and enduring conflict in US history.

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THE WAR BEFORE THE WAR
Fugitive Slaves and the Struggle for America's Soul From the Revolution to the Civil War
Andrew Delbanco
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