Minimum income guarantee: A game changer?

No way Congress' 'next big idea' will work without raising taxes

YOGENDRA YADAV

Congress President Rahul Gandhi's announcement about minimum income guarantee (MIG) is the first big idea introduced in the run-up to the 2019 Lok Sabha elections. But Rahul Gandhi's speeches in Raipur and Kochi were woefully short on any substance to back this big idea up. All we know is that the Congress is committing itself to some kind of income transfer to benefit the poor, should they fall below a minimum level.

For all its limitations, the announcement about MIG has already achieved something: It indicates the direction this election is likely to take. The Congress has already all but committed to a nationwide farm loan waiver.

Add to this the idea of MIG, and it is clear that the Opposition is pushing this election towards economic agenda. It is also clear that the Congress is going to focus on the economically poor, socially marginalised groups like Dalits and adivasis, plus neglected sectors like agriculture and rural India.

Other non-National Democratic Alliance (NDA) parties are ideologically vacuous and are likely to follow the lead given by the Congress. This leaves the Bharatiya Janata Party (BJP) with little option except to match or better this proposal in the interim Budget.

Will MIG become the game changer that the Congress has been perpetually waiting for? It all depends on the design behind this idea.

We know that this is not a proposal for Universal Basic Income (UBI), a flat cash handout to all citizens irrespective of their means. This is also not one of the modified basic income supplement proposals recently put forward by economist Pranab Bardhan or former chief economic adviser Arvind Subramanian et al.

This is in the nature of top-up cash support for any family that falls below a bare minimum income threshold. Yet, there are several issues that need some clarity. First, will the MIG be a government scheme, a discretionary budgetary item, or a statutory right like rural employment guarantee under Mahatma Gandhi National Rural Employment Gurantee Act or the right to food under National Food Security Act? The way it was presented, it appears to be a proposal for a guarantee backed by a statute. That is how it should be, but we need to know this for sure.

Second, what is the minimum amount that would be guaranteed as income? Assuming that it is family income that we are talking about, we should be looking at something around ₹18,000 per month. This is the minimum monthly salary fixed by the seventh pay commission for the junior-most government employee, after taking into account the living costs. Logically, the bare-minimum standard of living for the government employee should also hold for every other citizen.

You could arrive at this figure through another route. If you think of a family of two adults who work at ₹300 a day — the prevailing average minimum wage — it adds up to ₹18,000 per month.

Third, what is the mechanism for selection of the 'poor' eligible for this support? Identifying the poor is one of the most difficult exercises, notoriously prone to errors and frauds.

Finally, would MIG supplement or substitute some of the major schemes that target the poor such as the Public Distribution System and the Integrated Child Development Scheme?

But more than direction and design, a proposal like MIG is about determination or political will. Money is what it would boil down to. Any form of MIG would cost the government big time. Subramanian has calculated that a miserly version of his UBI scheme would cost 1.3 per cent of the GDP. Professor Bardhan estimates that if his version of UBI is given only to women, it would cost 1.6 per cent of the GDP. I cannot imagine how any serious MIG could cost less than 2 per cent of the GDP. That amounts to about ₹3.5 lakh crore a year, over one-seventh of the budget of the central government.

This cannot be funded with current revenue level or with some additional surcharge. A recurring payout like this cannot be met with one-time disinvestment etc. No matter how you do your Budget maths, something like this cannot be implemented without raising tax revenue.

This could take the form of doing away with unnecessary tax exemptions for the rich, higher rates for upper income brackets, or levies like a turnover tax, or a wealth tax, or inheritance tax et al.

Is the Congress willing to commit itself to such a policy? If it is, and is willing to say so publicly, that could indeed be a game changer.

By special arrangement with ThePrint

The author is one of the founders of Jai Kisan Andolan, farmer wing of Swaraj Abhiyan, a constituent of AIKSCC

Time to improve the fiscal architecture

To chip away at the fiscal dominance of monetary policy, it is important to focus on institutional design and process improvements

A PRASANNA

The critics of the Reserve Bank of India's (RBI) monetary policy fall in two camps. One camp casts monetary policy as powerless while the other side vests it with omnipotent powers. Needless to say, both the camps get it only partly right. The missing piece is the fiscal dominance of monetary policy.

In economics, fiscal dominance has a specific connotation and it may seem odd to talk about it when the key macro indicators are within bounds. CPI inflation has averaged less than 4 per cent over last four years and general government deficit has fallen by nearly 1 per cent of GDP over last six years. With the RBI barred from directly funding the government's fiscal deficit, textbook conditions for fiscal dominance are not present. However, I argue that fiscal dominance is hidden but pervasive in India and has affected institutional design, regulatory choices and market development. Thus, indirectly, fiscal policy has constrained the role of monetary policy in India.

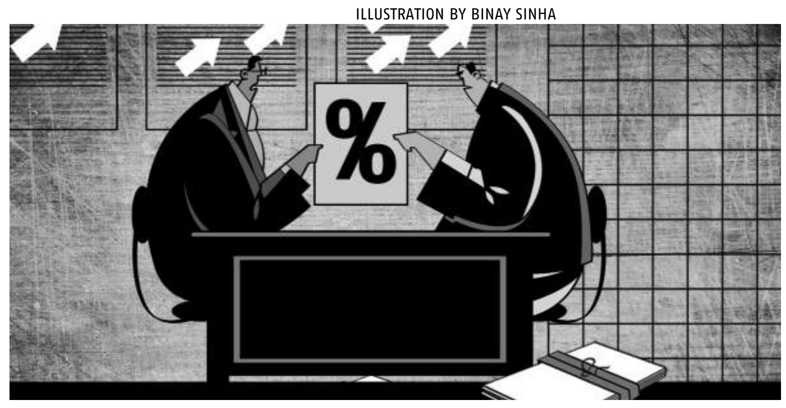
India's fiscal deficits and debt/GDP remain large and could be understated. In recent years, the central government has been able to shift some spending off Budget by tapping small savings funds, guaranteeing PSU bonds and issuing recapitalisation bonds. Similarly, states' fiscal management has also become profligate and opaque. Properly accounted 'true' general government deficits may be closer to 7.0-7.5 per cent of GDP, rather than the 'official' 6 per cent over the last three years. One can say an optical illusion or 'maya' of fiscal consolidation has been built up even as the reality is different. Investors, analysts, rating agencies, the government and the RBI all have been participants in this illusion.

Once we realise that fiscal dominance is indeed a reality, then the question is how to mitigate the problem. The answer is to think in terms of institutional and process improvements to ensure a sustainable solution. The government and the RBI will both have to strike a bargain to come up with improvements. Since the problem originates in government finances it is up to the government to take the first step. The FRBM Act has been rendered toothless and even the new debt and deficit rules drawn as per the FRBM committee recommendations don't inspire confidence. I propose three steps to effect structural changes to the fiscal consolidation process.

The first is the creation of a Fiscal Council as recommended by the FRBM committee. This would be an independent body akin to the Congressional Budget Office in the US and the Office for Budget Responsibility in the UK. Crucially, in India, the Fiscal Council should be set up as an adjunct of the Comptroller and Auditor General and made accountable solely to Parliament. The council should be tasked with evaluating the central government's Budget proposals and to issue quarterly fiscal evaluations. This will bring some rigour and credibility to the budgeting process and its analysis. The council should also be made to draw five-year and 10-year fiscal sustainability projections at least once a year. Such projections should also be made whenever the government announces any large spending proposals (for instance: Food Security Act, Ayushman Bharat) or tax proposals. The Council can serve as an independent sounding board for the government, Parliament, the RBI and other stakeholders to analyse and debate fiscal issues. The council should be staffed with experts in public policy. Once the council is well established it can also be tasked with evaluating fiscal positions of the states by creating regional offshoots.

The second is the adoption of a 'deficit neutral' rule by the government. This will prevent the government from committing to any new spending or tax cut proposal unless it is deficit neutral, whenever fiscal deficit is above the FRBM mandated long-term target. That is, when the deficit is above the target, the government of the day voluntarily accepts to find matching spending cuts or revenue sources before announcing any new outlay. To make the rule reasonable it can be made binding only above a certain threshold, say 0.1 per cent of GDP. Such a rule would be akin to the 'PAYGO' rule that has been in vogue in the US since the nineties. Committing to such a constraint would improve the credibility of the fiscal targets. It would also check the propensity of political parties to promise new entitlements or announce farm loan waivers. Further this rule will incentivise governments to pursue countercyclical fiscal policy during booms.

ILLUSTRATION BY BINAY SINHA



Lastly, at the time of presenting the Budget the government should propose a ceiling on market borrowings for the year. This would be a variant of the debt ceiling which is in vogue in some countries. By doing so, the government would send a signal to the financial markets that the borrowing schedule is sacrosanct. In case of major fiscal deviations and recourse to extra borrowings, it will be incumbent on the government to take Parliament approval before approaching the market.

Taken together, these changes amount to placing significant restrictions on the government. But these changes embody the spirit of India's fiscal legislation, which, after all, is a self-imposed restriction on the sovereign. Should the government, after bipartisan consultations, carry out these changes, it would be incumbent on the RBI to reciprocate with substantive reforms of its own. These could include stripping away debt management from the RBI, a roadmap for deep SLR cuts and greater transparency about its bond holdings. The groundwork for some of these reforms is already in place.

When the government and the RBI agreed to inflation targeting, the implicit deal was to chip away at the fiscal dominance of monetary policy. To achieve that, it is important to focus on institutional design and process improvements in addition to numerical targets. Such improvements would speed up the journey towards a credible and sustainable fiscal situation and a smaller footprint of the government in the bond market. This will go a long way in tempering the fiscal dominance of the monetary policy and the banking sector and make monetary policy truly effective.

The author is head, fixed income research, ICICI Securities PD

CHINESE WHISPERS

Priyanka's many avatars

Two Uttar Pradesh sisters have set up a mini shrine in their home to "worship" Priyanka (*pictured*) and Rahul Gandhi and pray for their electoral win. Barabanki's Tripathi sisters want "Rahul Gandhi to be our next Prime Minister" and his sister Priyanka to "help him just like Lord Krishna helped Arjuna in the battle of the *Mahabharata*". The pictures of the two Congress leaders appear alongside images of other Hindu gods and goddesses in their shrine. This isn't Priyanka's first godly elevation. Congress supporters in Prayagraj had put up posters in which she was seen as an avatar of Durga. The posters had said, "Congress *ki* Durga, *shatruon ka karegi vadh*" (Congress' Durga will slay enemies). Posters had also come up in the prime minister's constituency, Varanasi, and UP Chief Minister Adityanath's hometown, Gorakhpur, urging Priyanka to contest the Lok Sabha polls. The Varanasi posters had declared, "*Kashi ki janta kare pukar*, Priyanka Gandhi *ho sansad hamaar*."

JAY or JAA?

It would seem no one in the government conveyed to the Rashtrapati Bhavan it had changed the name of its health care scheme from Pradhan Mantri Jan Arogya Abhiyan to Pradhan Mantri Jan Arogya Yojana. The change had much to do with their respective abbreviations. The initial name abbreviated as PMJAA, which in Hindi translated into "PM go", while the changed name abbreviates to PMJAY, or victory to the PM. However, in his speech before the joint sitting of Parliament on the first day of the Budget session on Thursday, President Ram Nath Kovind used the earlier name PM Jan Arogya Abhiyan. "My government which empathises with this pain has launched the 'Ayushman Bharat Yojana' last year. Under the world's biggest health care scheme, 'Pradhan Mantri Jan Aarogya Abhiyan', 500 million poor are eligible for availing treatment up to ₹5 lakh per year per family in case of a serious illness. In a short period of four months, more than 1 million poor have already availed free treatment from hospitals under this scheme," the president said.

Tribal face to save face?

The Bharatiya Janata Party (BJP) is finding it difficult to appoint a full-time president for its Chhattisgarh unit. Currently, Dharamlal Kaushik holds two posts — that of the leader of the Opposition in the Assembly and the state head of the party. Since the defeat in the Assembly elections, the party has been desperately looking for a tribal face as its state unit president. The reasons are not far to seek. In the 90-seat Assembly, the party won just 15 and lost almost all tribal belt seats. Those in the know say names such as Ramvichar Netam, Vishnu Deo Sai and Vikram Usendi are being discussed for the post as no 'big' leader has stepped forward to take up the challenge.

RUSSELL WAYNE BAKER (1925-2019)

Observer of absurdities

SHREEKANT SAMBRANI

In the summer of 1966, I was running simulations of a model I had developed for my master's dissertation at Northwestern University. The computer centre accepted only one run daily, giving me ample free time thereafter. I spent it on the Lake Michigan beach adjoining the campus, reading *The New York Times*. The first Monday that summer I read Russell Baker (who died last week) for the first time, describing the ordeal he subjected himself to of reading Marcel Proust's *Remembrances of Things Past*. He confessed to making a resolution every summer to finish it, but never going beyond the first hundred pages of the seven-volume doorstopper of a novel. This immediately struck a chord in me since I was struggling at that time to teach myself Bengali to read in the original the Sarat Chandra Chattopadhyay novel I was named after (I have not completed that task either). I never missed his thrice-weekly offerings, aptly titled "Observer", in the next five years I spent in the United States.

The American press has had a long tradition of humour and wit, bordering on the sarcastic. Mark Twain and H L Mencken were among the pioneers (they both wrote on India, with the Mencken take being the more biting). James Thurber had a gentler touch. Art Buchwald was the Baker counterpart at *The Washington Post*. They both traversed more or less the same ground, with Buchwald being the more conventional humourist. Now Dave Barry of the next generation keeps the flag flying at *The Miami Herald*.

Baker stands out even in this exalted company. He celebrated the ordinary and the everyday life, championing the little men and women considered of no consequence by the system. He found the world abounded in absurdities, be it government procedures or forms, pompous and opaque ways of social and political organisations, airs of superiority assumed by purveyors of haute cuisine and uber fashions, pageants such as beauty contests and post-season football bowls, not to speak of high literature that few read and even fewer understood.

He was at his best critiquing politicians who never walked their talk. The post-Kennedy era of American politics was a fertile ground for his imagination, especially the Nixon presidency and its handling of the Pentagon Papers and the Watergate break-in. One of my all-time favourites from this period is his "Dance of the Hemlock Drinkers". He had imagined a meeting of sombre Republican bigwigs worried about their likely win with Nixon. They hit upon nominating Spiro Agnew as the vice-presidential candidate, whom they considered a sure-fire loser. The title alluded to Socrates willingly drinking poisonous hemlock as his punishment after he was convicted of corrupting the minds of the young and impiety in ancient Athens. I borrowed that title recently to comment on our own political scene after the November-December state assembly elections.

Baker is supposed to have remarked that whenever he was stuck for an idea for a column, all he had to do was to look at the headlines of papers. That was, of course, becoming modesty for one who had the sharpest eye for spotting the abnormal in what is otherwise considered routine. He stuck to simple prose, eschewing the then fashionable use of polysyllabic words and long sentences. He called his columns ballets in a telephone booth, since he had to pack all his punch in the inviolable confines of 750 words and work with the tight schedule of thrice weekly appearance. The seeming artlessness of his writing was in fact the work of a great wordsmith. His colleague at *The New York Times*, William Safire, the word maven nonpareil (who coined Agnew's infamous "nattering nabobs of negativism," recently recycled by Arun Jaitley), acknowledged this.

Baker was to the American print media what R K Laxman was to the Indian press. Laxman ploughed the same field under similar compulsions of deadlines and space. His ever-mute common man's bemused expression said it all about incongruities of our lives and times.

How significant were Baker's contributions? He was the first humour columnist to be awarded the Pulitzer Prize for his columns. He set the trend; Buchwald and Barry were also similarly honoured later. But Baker insisted that he was not a humourist; he was a serious writer who observed humour in the absurdity of politics and pretension.

The author is an economist

LETTERS

Underlying problem

This refers to your article "The textile package suffers delivery failure" (January 31). The problem lies in the lack of coordination in policy planning between various departments of the government. The overall economic impact is not taken into account while deciding policies. This is with special emphasis to the textile sector that, like agriculture, is a core contributor to economic growth. Further, the annual Budget is more fiscal than policy oriented. Sudden shocks like demonetisation should also have taken into account its impact on essential economic segments like textiles. The consequent impact on economic progress is reduction in employment in this sector which increases the percentage of unemployment. This contradicts the earlier draft proposal on fixed term employment.

Further, the restrictions on cash withdrawals in the process of demonetisation has focused only on unaccounted for money without taking into account its impact on daily wage earners and temporary wage earners especially in this sector. The textile sector thus experienced a reduction in the workforce that experienced loss of income for basic sustenance. It led to a reduction in labour participation and in the process an increase in unemployment. A financial allocation of Rs 6,000 crore to the textile sector planned earlier leads to, apart from a fall in productivity, a waste of allocated funds. Marketing for the textile sector also impacts export trade which is already under stress due to global market stagnation. The administrative delays in getting tax refunds paralyses functioning in the textile sector.

C Gopinath Nair Kochi

Harmful step

It is quite apparent now that the Bharatiya Janata Party-led National Democratic Alliance (NDA) government at the Centre is hell-bent on passing the Citizenship Amendment Bill, 2016, in the Rajya Sabha, despite protests and agitations across all the states in north eastern parts of the country. Even NDA partners like JD(U), Shiv Sena, and Akali Dal have opposed this Bill, besides BJP's regional partners in Assam, Meghalaya, Nagaland, Mizoram, and Nagaland. The aim is to consolidate the Hindu votes. These moves would have serious adverse consequences in the future.

Prime Minister Narendra Modi, in one of his election speeches earlier, had ridiculed Ram Vilas Paswan (incidentally, now his partner at the Centre) for proposing similar moves of allowing minorities in Bangladesh to get Indian citizenship. He had stated then that if this is allowed, these foreigners one day would become the MLAs, MPs, chief ministers, and even prime minister of the country. The sad tragedy is that in order to retain power, the BJP is bent on taking steps that could be harmful for India.

A Bhuyan Assam

Proactive action must

This refers to "Cobrapost stings DHFL" (January 30). While one does not doubt the veracity of the news report, it is time that the regulator of non-banking financial corporations (NBFCs), the Reserve Bank of India, carries out a comprehensive assessment of asset portfolios of the big NBFCs to check for adherence to regulatory guidelines and prudence in lending and investment. This is imperative considering the intricate mesh of interconnectedness among banks, NBFCs, mutual funds and corporations. The country can't afford to have NBFCs with such large asset portfolios springing unpleasant surprises on the financial system, especially with a large part of the banking system hamstrung by large non-performing assets and losses. The country cannot afford to have the public confidence in the financial system shaken up. Pre-emptive and proactive actions is better than picking up the pieces after things break.

Arun Pasricha New Delhi

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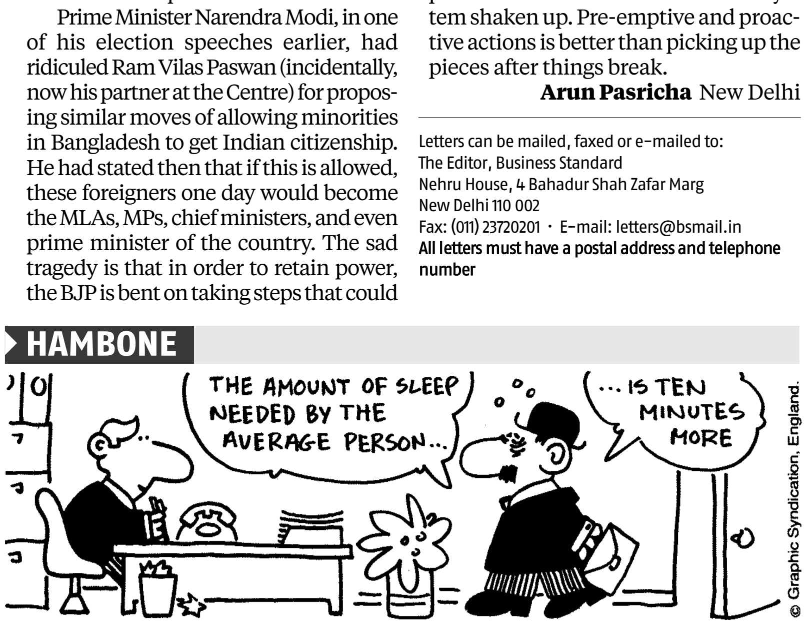
HAMBONE



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Real crisis

NSSO jobs data negates demographic dividend

Just a day after two senior members of the National Statistical Commission (NSC) resigned, alleging that the government had withheld the release of a survey on the status of unemployment in the country, a report in *Business Standard* said that according to the Periodic Labour Force Survey (PLFS), conducted by the National Sample Survey Office (NSSO), the unemployment rate stood at a 45-year high of 6.1 per cent in 2017-18. The joblessness rate among the youth was at a significantly high level compared to the previous years and, as the report stated, "much higher compared to that in the overall population". For instance, the rate of joblessness among rural males in the age group of 15-29 years jumped more than three times to 17.4 per cent in 2017-18 compared to 5 per cent in 2011-12. Similarly, the unemployment rate for the female youth in rural areas was 13.6 per cent in 2017-18 compared to 4.8 per cent in 2011-12. The situation got worse in urban areas, with the unemployment rates being 18.7 per cent for males and 27.2 per cent for females. The sharp drop in the employment rate, one of the lowest in the world, shows a real crisis, and completely negates India's demographic dividend if people are not in the labour force. This was the first time that the NSSO conducted the PLFS — an annual survey mapping unemployment. Earlier, the NSSO used to conduct quinquennial surveys, which the government decided to do away with and opted for the PLFS. This is a good move because annual surveys provide a closer trace of unemployment. Moreover, the five-yearly surveys used to come with a lag of over one or two years, thus marring timely analysis.

On Thursday, the government said it was just a draft report and further work needed to be done before release. But the point is that despite the change in duration, the concepts of unemployment used in the PLFS are the same as those in all the previous quinquennial surveys. That is why the draft report stacks the unemployment rates of the PLFS as well as all the quinquennial rounds going all the way back to 1972-73. To be sure, the unemployment rates — based on Usual Status (principal status + subsidiary status) — across rural and urban males and females have shown a sudden and spectacular spike in 2017-18. It is true that as the full report is not available, it is unclear if the methodological factors such as the sample size and sampling design have reduced comparability. For instance, the quinquennial Employment-Unemployment Survey had a single country-wide sample, involving 100,000 households. The PLFS, being an annual survey, could have been on a smaller sample. Indeed, the official website suggests that the PLFS will have two separate samples — one for rural and another for urban areas — which will be refreshed in differing time-periods.

However, none of this should take away from the broader point. The government has been stalling the publication of an NSSO survey, which, it now transpires, presents an alarming picture of joblessness in India. Given that the field work for the collection of data was done between July 2017 and June 2018, these findings are significant because they confirm anecdotal evidence that economic activity took a big hit in the wake of the demonetisation move in November 2016.

Good news or bad?

Revised estimates suggest GDP grew at 8.2% during note ban

The Union Ministry of Statistics and Programme Implementation has released its revised estimates of national income for 2017-18, in advance of the Union Budget due to be presented on Friday. Growth in real gross domestic product (GDP) at constant 2011-12 prices for that fiscal year is now pegged at 7.2 per cent as distinct from to 6.7 per cent in the advance estimates. Somewhat surprisingly, the second revised estimates of GDP growth at constant prices in 2016-17, the year of demonetisation, have been revised upwards by over a percentage point, from 7.1 per cent to 8.2 per cent. Relatively slow growth in 2017-18, when compared to 2016-17, is explained by the Central Statistics Office as due to a slowdown in manufacturing, communications, agriculture and mining.

Taken at face value, this data can be seen as both good news and bad news. On the one hand, it appears that growth immediately following the demonetisation exercise of November 2016 was not too badly affected. On the other hand, it appears there might have been something of a deceleration following high growth in 2016-17. Looking at the other side of the picture, gross fixed capital formation (GFCF)— a commonly used indicator of investment — as a proportion of gross domestic product went up marginally from 28.2 per cent to 28.6 per cent in the two years under consideration. However, much of this was driven by government spending, and the proportion of household investment in GFCF fell. In other words, it is not clear that private investment recovery had taken hold in 2017-18. It is also worth considering that this data suggests that the impact of demonetisation was far more staggered than previously believed. Anecdotal reports and qualitative studies suggesting that it is still having an impact on the availability of money and thus price-setting in rural areas should, therefore, be investigated with greater care.

While it may always appear good news that the economy has in the past been growing at more than 8 per cent a year, it is nevertheless necessary to examine this data carefully. The fact is that demonetisation was traumatic and all other forms of high-frequency data do not corroborate the notion that the economy was growing at 8 per cent during that financial year. Given the new and controversial back series for GDP data with 2011-12 as a base year, it is also worth considering that this second revision suggests that the economy during the year of demonetisation was growing at rates comparable to, and in cases higher than, the boom years of the 2000s. This does not completely pass the smell test. In December last year, the government announcement regarding the back series of GDP data with 2011-12 as the base year created a huge controversy. The back series, which provided the GDP growth data from 2004-05 to 2010-11, seemed to run contrary to all the other available evidence for the years in question, raising doubts on the ability of the back series to accurately reflect what happened during those years. With the latest GDP data, questions that were being asked about the credibility of official data will now become even louder and more pressing. The government must take these concerns on board.

ILLUSTRATION BY BINAY SINHA

What not to do in a corporate crisis

Putting out the right information in a crisis is not easy to do. But by being open and direct one can restore some of the lost credibility

REPLY TO ALL

AAKAR PATEL

One had assumed that corporate communications in India (world's fastest growing economy) had advanced beyond the pleading and begging of public relations. The latter is when firms try to sell a story to the media, usually about a product or a service. There is no exchange of money involved, at least officially, and so it is necessary to be in the position of a supplicant. Every PR person has had the experience of being kept waiting outside the editor's office.

The former, corporate communications, is more serious and aimed at creating a favourable view of the organisation in the minds of consumers and investors. The question is: Has it kept up with the pace of the economy and the size of it? I ask because it could be argued such communication is still executed by multi-billion dollar businesses in a crisis as if they were mom and pop shops.

Two examples from recent days will serve nicely to illustrate what is being discussed. On January 29, the investigative website, *Cobrapost*, published a report accusing Dewan Housing Finance Corporation's promoters of "siphoning off ₹31,000 crore of public money."

The sums involved are astonishing and to the ordinary person quite incomprehensible. However, our interest here is not on whether or not there was a crime but how the company responded. The allegations were made in a very detailed, extremely long report which one presumed the company would in turn rebut in detail. What it did instead was to issue to *Cobrapost* a note which was made public. Parts of it read:

"Kind attention: Team Cobrapost,

We received your captioned email at 8.27 am today, with a follow up reminder one hour later, seeking answers on 64 detailed questions containing not only false but also wholly unjustified innuendos and allegations. It is surprising as to why you have even sought explanations, considering that you had already arranged this press conference on Friday, 25th January 2019, with a pre-determined view that you are exposing a 'financial scam'. You have already planned to defame us with many false and scurrilous allegations and even possibly to disrupt the current financial market equilibrium. Your request for explanations a few hours prior to the press conference only shows that you do not heed to any ethical journalistic practices.

It is also curious that a few weeks ago we were informed of a complaint filed with a Magistrate Court by some unknown person containing similar scurrilous allegations, which is yet pending. Copy of this complaint was sent to us precognizance, for which we immediately filed a criminal complaint. Copies of this complaint have also been circulating in the system. And now your press conference makes similar allegations. Isn't the timing of the press conference curious? Just half an hour before the stock market closes. What is the real intent here? Expose? Or something else?

Obviously, your intentions do not appear to be in the spirit of investigative journalism. The allegations are mischievous and made with mala fide intent to damage the goodwill and reputation of DHFL, resulting in erosion of shareholder value, and to disrupt the market equilibrium, which is just about stabilising."

The note is signed by "Nodal Officer" and ends with a paragraph about DHFL's high rating and what I read as a mild threat to sue. Is this the sort of communication that a company accused of committing "India's biggest financial scam" ought to have put out? It is not sophisticated and actually quite crude. The markets gave their judgement and the stock has crashed (it lost another 17 per cent on Thursday).

The second crisis communication is from the chairman of the Zee group, Subhash Chandra. His company's stock lost 30 per cent on January 25 and touched ₹230 after a negative report on it. Again, our interest is not the allegation but the response to it. Mr Chandra put out a personal letter of over 800 words. To me, the interesting bits are the following paragraphs:

"Dear Friends,

At a very early stage of my life, I have learnt the most important lesson from my grandfather, Shri Jagannath Goenka, which taught me that a direct dialogue with creditors should be maintained, should you find it difficult to repay any sort of loans, and this message is my earnest effort in doing so.

First and foremost, vide this message I would like to express my deepest apologies to our esteemed financial supporters. I have always been the first to accept my faults and we have been consistently accountable of the decisions taken, and I will maintain the same today as well. For the first time in my career of 52 years, I am compelled to apologise to our bankers, NBFCs & Mutual Funds, since I believe that I have not lived up to their expectations, despite the best of my intentions."

The meandering and loose composition and the errors ("up to" etc) tell us that this is all his own work and no corporate communication boffin was allowed to touch up the words later. He continues:

"I am extremely certain that there is no promoter in India Inc, who has dared to sell the jewel of his crown, to pay off the liabilities... That said, I am not indicating that there are no mistakes done from my end, and as always, I am willing to face the consequences of the same. I assure you, that I am not running away from the core issue and will do my best to repay each and every person. The best time for the same, however, is difficult to be mentioned at this stage. I would also like to state through this message, the key points which have gone wrong:

■ Essel Infra: As most of the infra companies, even we have made some incorrect bids. In usual cases, Infra companies have raised their hands and have left their lenders with non-performing assets, but in our case, My Obsession of not walking away from the situation, has made me to bleed 4000 Cr. to 5000 Cr. of Rupees.

■ Acquisition of D2H: My recommendation made to my brother Jawahar Goel to buy D2H from Videocon was one more key error, which costed me and Jawahar both, a fortune.

■ When our family business separation was implemented, as the eldest member of the family, I had taken the entire burden of the debts. I believe, it was my mistake to have told myself that 'Subhash you can earn and repay the creditors'. Post which, most of my bets on the new businesses have not worked, which led to the increased debt, due to the added interest levels."

He ends by asking the debtors not to panic else they and he will both be hurt. There is an attempt at openness and honesty in these words. They were written after the stock crashed, but in the days since they seem to have worked. Zee is today being traded at 380, having risen consistently since the crash, though clearly the group's debt problem remains exactly where it was on January 25th. Corporate communication in a crisis is not easy to do. The crisis may not go away through communication, but by being open and direct one can buy time and restore some of the lost credibility. It is amazing to me that companies that deal in thousands of crores do not seem to understand this.

There is no Sino-American trade war

MARTIN FELDSTEIN

The current conflict between the United States and China is not a trade war. Although the US has a large trade deficit with China, that is not the reason why it is imposing high tariffs on imports from China and threatening to increase them further after the end of the current 90-day truce on March 1. The purpose of those tariffs is to induce China to end its policy of stealing US technology.

The Chinese government refers to the conflict as a trade war because it hopes that buying large quantities of American products will lead the US to end its tariffs. The Chinese negotiators have recently offered to buy enough US products to reduce the trade deficit to zero by 2024. Tellingly, the US negotiators have rejected that as a way to end the dispute.

The US wants China to stop requiring American firms that seek to do business in China to have a Chinese partner and to share their technology with that partner. That policy is explicitly forbidden by World Trade Organization rules, which China has been obliged to respect since they joined the WTO in 2001. The Chinese deny that they are violating that rule, arguing that US firms are not being forced to share technology: they do so voluntarily in order to have access to the Chinese market and to Chinese production opportunities. But American firms regard China's behaviour as a form of extortion.

The US also wants China to stop using cyber espionage to steal technology and other industrial secrets from American companies. Chinese President Xi Jinping agreed to end such digital theft of US industrial technology after he met with President Barack Obama in 2015. Unfortunately, the agreement reached at the time was very narrow, referring only to theft by both governments. Although the agreement did lead to a temporary reduction in cyber theft of industrial technology, cyber-attacks on US companies, possibly carried out by Chinese state-owned industries and other sophisticated organisations, have increased again in recent years.

The Chinese use the stolen technology to compete with US firms in China and in other parts of the world. The US Trade Representative recently estimated that this technology theft is costing the US economy $225-600 billion per year. And the FBI has asserted that China's cyber theft of American technology is the "most severe" threat to US national security.

Likewise, a lengthy 142-page report on the US-China conflict by the US Chamber of Commerce and the American Chamber of Commerce in China emphasised the problem of technology theft. The report made no reference at all to the trade balance.

That, no doubt, is because the authors understand the basic economic fact that the overall US global trade imbalance is the result of economic conditions in the US —the excess of investment over savings. If the Chinese bought enough US goods to eliminate the bilateral imbalance, the US imbalance would merely shift to other countries, without reducing the overall imbalance.

The US tariffs are clearly hurting the Chinese economy. The Chinese stock market is down substantially, and the Chinese economy is growing more slowly. Annual real (inflation-adjusted) GDP growth in the fourth quarter of 2018 was down to just 4 per cent. The Chinese authorities are making statements signaling their eagerness to conclude an agreement with the US in order to stop the economic slowdown and reverse the decline in the Chinese stock market. The White House also makes positive statements about the negotiation, because doing so appears to boost the US stock market. But the reality is that there is no progress yet in dealing with the fundamental problem of technology theft.

The US government has no desire to stop China's economic growth or the growth of its high-tech industries. But stealing technology is wrong. It has gone on for too long and should not be allowed to continue.

The US is determined to stop it. If nothing is resolved by March 1, the US will raise the tariff on $200 billion of Chinese exports from 10 per cent to 25 per cent. That will hurt the Chinese economy further and cause the Chinese authorities to take the US demands more seriously — and to negotiate accordingly.

The writer is, professor of Economics at Harvard University and President Emeritus of the National Bureau of Economic Research, chaired President Ronald Reagan's Council of Economic Advisers from 1982 to 1984.

A victim's comeback

BOOK REVIEW

MANAVI KAPUR

When I picked up Nadia Murad's *The Last Girl*, I wondered if it would be any different from other books by refugees who fled from war-torn Iraq and Syria. It is oddly familiar yet distinct enough to make it a page-turner. Ms Murad's prose describes atrocities that have now become part of the refugee-crisis discourse. And yet, the social and cultural history of the perpetually marginalised Yazidi community is captured well through the extraordinary life of Ms Murad.

For the uninitiated, Ms Murad survived rape and torture at the hands of Islamic State militants to become a global human rights activist, who is now working towards bringing justice to victims of genocide and human trafficking. She became the first goodwill ambassador for the dignity of survivors of human trafficking for the United Nations, and won the Nobel Peace Prize in 2018. Her story is also retold in *On Her Shoulders*, Ms Murad's biography by Alexandria Bombach.

Ms Murad's is the bold voice narrating *The Last Girl*. Her account begins with her childhood in Kocho, a small village in the Sinjar district of Iraq. The personal is interwoven with the political and she places her family's commonplace challenges within the context of the conflicted Yazidi community. Both the Sunni Arabs and Sunni Kurds have looked at the Yazidis with suspicion and Kocho, Ms Murad's village, was surrounded by those who considered the Yazidis *kuffar*, or "unbelievers or worthy of killing". Ms Murad writes that she never thought there would be a home outside Kocho and this simplicity is beguiling especially when one looks at in context of the constantly looming violence and centuries of Yazidi persecution. And though there is simplicity, there is no room for naïveté in the narrative, a consequence of the unimaginable cruelty that Ms Murad faced at the hands of her captors.

The book is divided into three parts. Ms Murad talks about her childhood and life in Kocho in the first. This section is a priceless primer of Yazidi history and the author uses her simple filial ties to explain the traditions, superstitions and oral religious stories. Her brothers and sisters are humans first and players in the geopolitical drama later.

The second section is the most gruesome and heart wrenching. Ms Murad details how she and her sisters were taken by IS militants, sold from one soldier to another on the deep web as slaves, or *sabiyyas*, and were stripped of all sense of dignity, respect and belonging. The *sabiyyas*, though separated by these dehumanising circumstances, were united in their ghastly experiences. Ms Murad writes that every *sabiyya* has a story like hers. "You can't imagine the atrocities the ISIS is capable of until you hear about them from your sisters and cousins, your neighbours and schoolmates, and you realise that it wasn't that you were particularly unlucky... ."

Ms Murad doesn't shy from detailing her experiences. Voices like Ms Murad's help people understand the consequence of war. But more importantly, her account gives a spine-chilling insight into the workings of IS and their disturbed desire to gain power through sexual violence. Ms Murad's simple and direct prose only drives this point home more strongly.

The third section is devoted to her journey to freedom and how she escaped her captors. There is no suspense here and it is a well-established fact that she escaped safely. And yet, it makes for a page-turner, especially since she did not allow the atrocities she suffered to paralyse her spirit. In the middle of the second section, she writes, "The rape was the worst part. It stripped us of our humanity and made thinking about the future — returning to Yazidi society, marrying, having children, being happy — impossible. We wished they would kill us instead." And yet, she finds the courage to escape. She was left alone in the house of her captor with the door unlocked and with no guards only because he was sure he had broken her spirit. But, as Ms Murad says, "They thought they had me forever. They were wrong."

The third and final section is the story of Ms Murad's miraculous escape. She found the determination and the hope to find a better life for herself and her family. She eventually emigrated to Germany and became a human rights activist. It is here she met her lawyer Amal Clooney and together they have fought to bring world leaders to treat IS's crimes as genocide. Her, story, she writes, is her only weapon against terrorism. "I want to be the last girl in the world with a story like mine," Ms Murad concludes.

The third section leaves one wanting more detail and that is the one quibble with this book. Otherwise, Ms Murad's voice and tone never falter and every point in her life's story is nothing short of inspirational.

THE LAST GIRL:
My story of captivity and my fight against the Islamic State
Nadia Murad (with Jenna Krajeski)
Hachette India
₹499; 306 pages