A much-needed code

The biggest beneficiary of the self-regulatory code of conduct for online curated content companies will be the user

SUBHO RAY

Recently, most large and popular online curated content (OCC) companies have agreed to a self-regulatory code of conduct. The code aims to; empower consumers to make informed choices on age-appropriate content; safeguard creative freedom of content creators and artists; provide a mechanism for complaints redressal in relation to content made available by respective OCC Providers.

The signatories to this code pledge to prohibit:

- Content which deliberately and maliciously disrespects the national emblem or national flag;
- Content which represents a child engaged in real or simulated sexual activities or any representation of the sexual parts of a child for primarily sexual purposes ;
- Content which deliberately and maliciously intends to outrage religious sentiments of any class, section or community;
- Content which deliberately and maliciously promotes or encourages terrorism and other forms of violence against the State (of India) or its institutions; and
- Content that has been banned for exhibition or distribution by online video service under applicable laws or by any court with competent jurisdiction.

In my opinion the restricted contents are just a reiteration of various limitations that the Information Technology Act, 2000, Indian Penal Code, 1860, Emblems and Names (Prevention of Improper Use) Act, 1950, Indecent Representation of Women (Prohibition) Act, 1986, Scheduled Castes and Scheduled Tribes (Prevention of Atrocities) Act, 1989, Protection of Children from Sexual Offences Act, 2012, Copyright Act, 1957, put on free speech and expression and do not in any way exceed them. To that extent, the self-regulation code as adopted by OCCs is not self-censorship as has been claimed by some groups.

The concept of self-regulation or code of conduct is not new to the world of media and advertising. The Press Council of India (PCI), for instance, under The Press Council Act of 1978, set up a code of conduct for newspapers, news agencies and journalists to meet its overall objective of preserving the freedom of the press. As a quasi-judicial body, PCI has the same powers throughout India as are vested in a civil court while trying a suit to enforce the code.

The Indian Broadcasting Foundation set up the Broadcasting Content Complaints Council in 2011, which adopted with suitable modifications the Ministry of Information & Broadcasting's Self-Regulation Guidelines for Broadcasting Sector (Draft 2008).

The centralised Consumer Complaints Council under Advertising Standards Council of India (ASCI) enforces the Code for Self-Regulation and investigates all complaints. In 2017, the Supreme Court of India affirmed and recognised the self-regulatory mechanism of ASCI.

These bodies and the codes have evolved in different ways, depending on the context in which these industries operate. However, they have one crucial advantage over hard coded laws – they can evolve and change with times. Such flexibility and openness is necessary, especially for mass media "regulations" since sentiments and notions of morality change every five years in a fast-paced society such as India.

Like many other self-regulatory codes, the present one too has its genesis in avoiding hide-bound inflexible government regulations that cannot be changed with the changing times. It also builds consumer confidence. OCC players are not broadcasters since they rely on "pull" to attract customers and are not governed by the broadcast laws. It is, therefore, a positive step since it reassures customers that these services do not operate in a lawless environment but abide by some guidelines. Finally, it is also assuring to the courts who are often asked to deal with public interest litigation against many of these companies on specious grounds such as a destruction of morale of the youth of the country.

The biggest beneficiary of the code is going to be the public who will find a recourse to answer queries on the nature of content and do not have to run to LEAs or the courts to write to the PMO to have their grievances redressed.

While the OCC service providers with innovative and creative content are testing the norms of the society, as responsible businesses they are aware that content creativity and innovation needs to be guided by a loosely defined code. It is for this reason that the code has been widely accepted by large and small as well as Indian and multinational companies. We are hopeful that many more companies will embrace the code soon.

The author is president, Internet and Mobile Association of India. Views are personal

New RBI governor a cheer leader for growth

Das is distinctly dovish as RBI's inflation projection is benign and he wants to seize the opportunity to support growth. And, this may not be the last rate cut

BANKER'S TRUST

TAMAL BANDYOPADHYAY

Almost every analyst was expecting a change in the Reserve Bank of India's (RBI) monetary policy stance from "calibrating tightening" to "neutral", and all six members of the central bank's Monetary Policy Committee (MPC), in its last meeting of the financial year on Thursday, obliged them.

As a bonus, the MPC also cut the policy rate by a quarter percentage point to 6.25 per cent — the first such cut since August 2017.

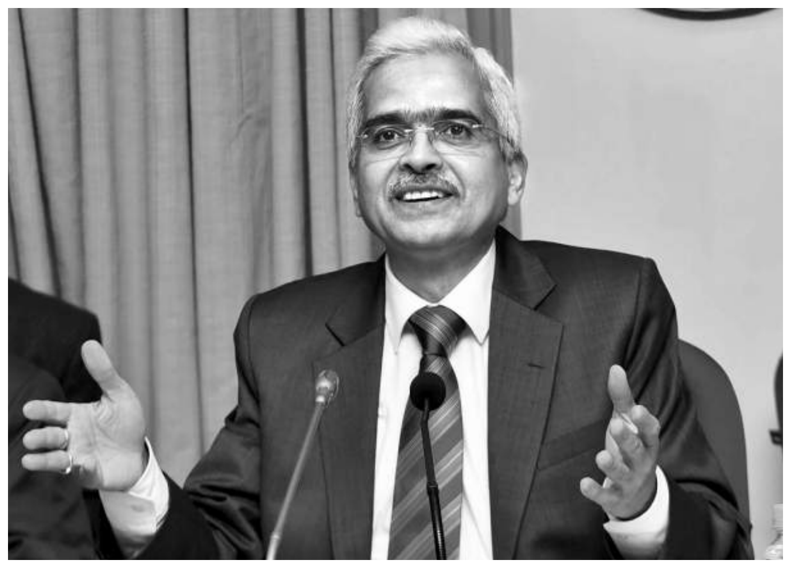
The reading of the current macroeconomic trends by the new RBI Governor Shaktikanta Das clearly suggests there could be at least one more rate cut, bringing the repo rate or the rate at which commercial banks borrow money from the central bank, to 6 per cent. And, that can happen as early as in April.

After the RBI's policy announcement, the bond market staged a muted rally but the curve in the one-year overnight indexed swap, a derivative gauge where investors exchange fixed rates for floating payments, started indicating another rate cut. So, a new cycle has begun even though it could turn out to be a shallow rate cut cycle.

The retail inflation projection has been revised downwards to 2.8 per cent in the March quarter of the current year — 3.2-3.4 per cent in the first half of fiscal year 2020 and 3.9 per cent in the third quarter of 2020 with risks broadly balanced. The downward revision takes into account the continuing deflation in food items, larger than anticipated moderation in fuel prices and an assumption of normal monsoon in 2019.

Since, it is all the way below 4 per cent, which MPC has been trying to achieve on a durable basis (with a plus/minus 2 per cent band), the focus has shifted to growth. Das is distinctly dovish as RBI's inflation projection is benign and he wants to seize the opportunity to support growth. Hence the rate cut — and this may not be the last one.

At the post-policy interaction with the media in December, former RBI governor Urjit Patel had said that if the upside risks to inflation would not materialise, there could be a possibility of space opening up for appropriate RBI action. Das has seen this "opened up" and the MPC acted on it. "..the path of inflation has moved downwards significantly, and over the period of next one year, headline inflation is expected to remain contained below or at the target of 4 per cent. This has opened up space for policy action..".



A DIFFERENT APPROACH **The new governor's first monetary policy is different from his predecessors. In his scheme of things, the monetary policy does not necessarily need to be tight when fiscal policy is rather loose**

In that sense, there is no surprise but most analysts (including this commentator) expected that sticky core inflation, a strong dollar and extreme volatility in the oil price would influence the MPC to be cautious. Besides, the fiscal slippage and a semi-inflationary interim Budget would queer the pitch. The MPC admits that the Budget proposals might boost aggregate demand by raising disposable incomes but does not see any imminent risk to the inflation outlook.

Das feels "the favourable macroeconomic configuration that is evolving" underscores the need to act now "when it is most opportune". "..it is vital to act decisively and in a timely manner to address the objective of growth once the objective of price stability as defined in the (RBI) Act is achieved," he said, adding, "the decisions of the MPC will be data-driven and in consonance with the primary objective of monetary policy to maintain price stability while keeping in mind the objective of growth".

"The shift in stance of monetary policy from 'calibrated tightening' to 'neutral' also provides flexibility and the room to address challenges to sustained growth of the Indian economy over the coming months. As long as the inflation outlook remains benign," he said. Incidentally, the RBI has revised its forecast for GDP growth in 2020 to 7.4 per cent from 7.6 per cent earlier.

While the decision to change the stance was unanimous, two MPC members voted against the rate cut —Chetan Ghate and deputy governor in charge of the monetary policy Viral Acharya. Interestingly, Michael Patra (the third RBI representative on the MPC beside Das and Acharya), a known hawk, has also voted for a rate cut. This is as much a surprise as the rate cut itself. Had Patra stuck to his known stance, there would have been a tie and Das, at his first MPC meeting, would have been required to exercise his casting vote.

The new governor's first monetary policy is different from his predecessors. He is in favour of pushing for growth and not overawed by the risks of rising inflation. He also does not seem to be overly perturbed on fiscal slippages. In his scheme of things, the monetary policy does not necessarily need to be tight when fiscal policy is rather loose. In that sense, he seems to be a cheerleader for growth.

The writer, a consulting editor of Business Standard, is an author and senior adviser to Jana Small Finance Bank. Twitter: @TamalBandyo

CHINESE WHISPERS

Hail Gadkari

Union Minister for Road Transport, Highways and Shipping Nitin Gadkari (*pictured*) was the flavour of the day in New Delhi on Thursday. In the Lok Sabha, it was the day for members to ask questions on Gadkari's ministry. Nearly every member, including those of his own party, the Bharatiya Janata Party (BJP); the ally Shiv Sena; and Opposition party members praised Gadkari for listening to their demands, and taking action on them. "I must say here that all MPs, cutting across political affiliations, have been appreciating me for the work being done by my ministry in their respective constituencies," said Gadkari, with a big smile. Madhya Pradesh BJP MP Ganesh Singh stood up and told Speaker Sumitra Mahajan that the House should appreciate the "wonderful" work being carried out by the minister. At this, UPA Chairperson Sonia Gandhi smiled and started thumping the desk as a sign of appreciation, which made other Congress members laud the minister. Later in the day, Apna Dal Member Kunwar Harivansh Singh said Gadkari had done such tremendous work that he was now called "Roadkari".

New ties

Congress President Rahul Gandhi met Jharkhand Mukti Morcha (JMM) leader and former Jharkhand chief minister Hemant Soren. Party sources said the Congress had sealed its alliance with the JMM in the state, and other regional parties. The parties, however, are yet to announce the number of seats each would contest among the 14 Lok Sabha seats in Jharkhand. Sources said the Congress could contest seven seats, while the JMM might contest four, Jharkhand Vikas Morcha two and Rashtriya Janata Dal one seat. The JMM had refused to support the Congress in a recent Assembly by-poll held in that state, and it was former Union minister RPN Singh, in charge of Congress affairs for the state, who worked to convince Soren to agree to the formula to make the alliance work, and ensure other allies also kept faith. In 2014, the BJP had won 12 of the 14 seats in the state.

Fund collection

The Madhya Pradesh unit of the Bharatiya Janta Party (BJP) has run out of luck, especially after losing the Assembly elections last year. Sources say the unit is facing a severe shortage of funds and hence has been forced to stop the publication of its mouthpiece *Charaiveti* since January. To arrange for some funds, the party has decided to issue coupons of ₹1,000, 2,000, 5,000 and 10,000. This fund will be called *Aajivan Sahyog Nidhi* (lifetime contribution fund). The campaign to arrange for this fund will run from February 11 to 28 and is expected to generate approximately ₹14 crore.

INFRA DIG

Kalka to Shimla by road

BIBEK DEBROY

In the new national highway numbering, Kalka-Shimla road is part of NH-5. "The highway connecting Firozepur, Moga, Jagraon, Ludhiana, Kharar in the State of Punjab, Chandigarh, Kalka in Haryana, Solan, Shimla, Theog, Narkanda, Rampur, Chini and proceeding to the Border between India and Tibet near Shipkila in the State of Himachal Pradesh." This is the definition of NH-5. If you have travelled to Shimla and are not attached to the toy train (and now airlines), you will have done this 90 km stretch by road. After the Anglo-Nepalese War of 1814-16 and the Sugauli Treaty, Shimla passed to the East India Company. Shimla became the summer capital in 1864 (decision was taken in 1863). Therefore, twice a year, the government machinery shuttled back and forth, between Calcutta and Shimla. The Kalka-Shimla Railway was triggered by the need to have better connectivity between Shimla and the rest of the country, via Kalka. The oldest major train that still runs in India is Kalka Mail. At one point, this had pride of place. The old numbering system of trains reflected this. Kalka Mail used to be 1 UP and 2 Down. In 1866, it started as "East Indian Railway Mail" between Calcutta and Delhi and was then extended to Kalka in 1891.

But Kalka-Shimla road predated the summer capital decision. In 1888-89, there was a District Gazetteer for Simla (as it was then spelt). This said, "The Grand Trunk Road from Kalka to Simla is practicable for carts and traffic of every description. The gradients are easy, and the dak bungalows are completely furnished and provided with servants. The old road is practicable only for jhampans, ponies and coolies, and the road is very steep in many places. The Hindustan and Thibet road commences from Simla and extends as far as Karin Khad, six miles beyond Chini in Bashahr territory -- distance 166 miles altogether." To make it explicit, there was the old road and there was Grand Trunk Road. "The roads from Kalka to Simla are two in number: (1) The old road, via Kasauli and Sabathu; passable by foot passengers, horses, mules, ponies, or cattle, but not intended for wheeled conveyances... (2) The new cart road which takes a more circuitous route, via Dagslaai and Solan." The distance via (1) is given as 41 miles, that via (2) as 57 and a half miles. Along (2), "In the season of 1874, two-wheeled carriages, called tongas, similar to those in use in the Central Provinces, were started upon this line for the conveyance of passengers. By these carts the journey is performed in about eight hours." Today, on the Kalka-Shimla drive along NH-5 (aka Grant Trunk Road or new cart road), you are likely to take just over 3 hours. With the ongoing widening of the highway, it is hard to imagine tongas.

There is an interesting 1857 House of Commons document, titled, "Minutes and correspondence in reference to the project of the Hindostan and Thibet road, with reports of Major Kennedy and Lieutenant Briggs relating thereto". There were multiple reasons for building this road – possible trade ties with Tibet, strategic cum defence reasons, connectivity to hill stations. (It now seems odd that a lot of the interest in trade was because of pashmina.) A letter written to the Governor General (Dalhousie) in 1853 said, "The plan for the construction of this road was regarded by us with great interest when it first came under our notice. Not only did we warmly approve of the Governor-general's object of putting an end to the "Begaree system", by the formation of that portion of the line lying between Kalka and Simla, and look with interest to the political and commercial advantages likely to result from the opening of a line with communication with Thibet by way of Chini, but we regard as highly important the question raised by Major Kennedy, when he laid out the line, namely, the possibility of constructing, through such a region as the Himalayas, a road which, while formed on correct and scientific principles, might yet be executed at moderate cost."

This quote is odd. Begar was a system of indentured labour. Irrespective of what this quote says, in and around hill stations, the British used a fair amount of such labour, including in building initial stretches of Hindustan-Tibet road, such as the Kalka-Shimla stretch. If costs were moderate, it was also because of this. That same letter states, "By the aid of the tribute labour due by the hill chiefs, the road of 12 feet in width has cost only 1,237 rupees a mile, and the road of six feet 690 rupees." There is a book (1870) by Edward Buck, titled Simla, Past and Present. For a tunnel (on the road) construction, this mentions use of 10,000 prisoners and 8,000 "free" labourers.

The author is chairman, Economic Advisory Council to the Prime Minister. Views are personal.

LETTERS

Tough to agree

The editorial "Welfarism and bias" (February 5) says "giving tax-free status to all those with an income of up to ₹5 lakh means that even those with an income just under five times higher than the mean income will no longer need to pay income tax". Surely, this statement does not make a comparison of the likes. The mean income is per person, while the taxable income is that of an individual who could have a family, not all of whom necessarily earn an income. Take for example, a typical urban middle class family with only one spouse working, earning the threshold income of ₹5 lakh, and two children who are yet to be employed. The average income of members of this family would be ₹1.25 lakh, or just under 15 per cent higher than the per capita income of ₹1.1 lakh as mentioned in the editorial. My contention is that while one could readily agree with the overall sentiment of the editorial, the reference to "five times" sticks in the throat.

Shreekant Sambrani Baroda

Interim relief for RBI

This refers to Somesh Jha's report "RBI to conduct its first half-yearly audit" (February 6). Last year, the Reserve Bank of India (RBI) had succumbed to the Centre's pressure to pay a 'token interim dividend' of ₹10, 000 crore before the close of FY 18, overlooking the provisions of RBI Act, 1934. Section 47 of the Act says that "after making provision for bad and doubtful debts, depreciation in assets, contributions to staff and superannuation funds and for all other matters for which provision is to be made by, or under this Act, or which are usually provided for by bankers, the balance of the profits shall be paid to the central government". Earlier, respecting the statute book, the government of India (GOI) was receiving surplus income of the RBI only after approval of the respective year's accounts by the central bank. In the fitness of things, pending amendment to the relevant section, the GOI could have resisted the temptation to register a win over the RBI, as the amount it was receiving as advance payment was not substantial in the context of the fiscal deficit.

The present move to arrive at the amount of interim dividend based on the audited accounts of the RBI for the half year ending December 31, 2018, should give the RBI some relief while making the advance payment for which there is no provision in the Act. Perhaps, the RBI or the GOI may consider regularising the position by incorporating an enabling provision in Section 47 of the RBI Act, 1934.

M G Warrier Mumbai

Invest in our children

Our children today are burdened with heavy study material, and at the same time we thrust negative things on them, about their future, career, etc. The media, specially the social media, augments such not so positive thoughts and emotions. Our children have also become physically weak. The situation is quite alarming. Unless society at large and parents take notice, and act proactively, children may have a bleak future as far as their physical and mental health is concerned. True, there would be a few brilliant ones who would make their impression, but others would fall apart.

Parents and guardians must take special care about their wards so that right upbringing is taught and children are encouraged to think positively and be active physically. The main focus of education has to be about inculcating good habits among children so that they can become good citizens. We must teach our children about values of life, environment, respect for other human lives and the poor, etc. Our country has to bring the best practices of education followed in Finland, Norway, Singapore and Japan. Parents are immensely dependent on schools and teachers about their children's education and thought process. The reality is that the primary training for being good humans and citizens has to be complemented by schools and at homes.

If India is to become a great nation, it has to invest in its children to make them great.

A Bhuyan Nagaon

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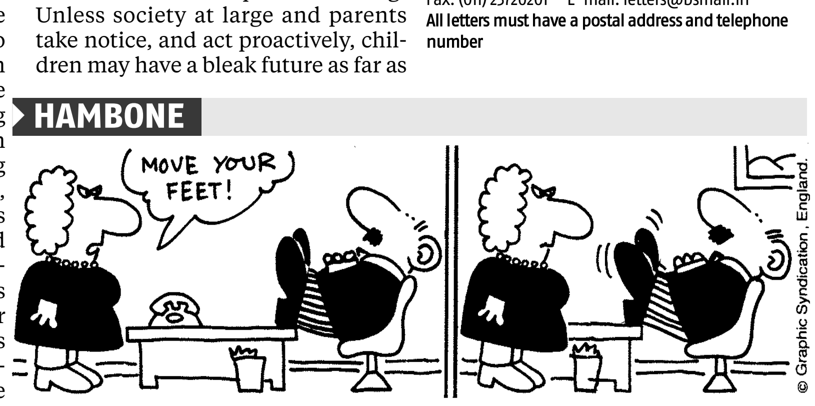
HAMBONE



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A realignment

RBI gives primacy to growth concerns

In his maiden monetary policy review briefing, Reserve Bank of India Governor Shaktikanta Das outlined the Monetary Policy Committee's (MPC) decisions that would please almost everyone — from the average home loan borrower to the government. The MPC decided, by a majority decision of 4-2, to cut the repo rate by 25 basis points. What is equally important is that this cut was preceded by a change in the RBI's policy stance from "calibrated tightening" to "neutral". In other words, there is an opening for another rate cut by April 4, which could be crucial, given the timing of the Lok Sabha election. The significant shift in stance, as well as the cut, comes after a revision of the inflation outlook for the year ahead.

The retail inflation rate, measured by year-on-year change in the consumer price index, has declined from 3.4 per cent in October 2018 to 2.2 per cent in December, the lowest print in the last 18 months. Even the CPI inflation rate, excluding food and fuel, has decelerated to 5.6 per cent in December from 6.2 per cent in October. What's even more important is that the inflation outlook, too, has become more benign. Inflation expectations of households, measured by the December 2018 round of the RBI's survey, softened by 80 basis points for the three-month ahead horizon and by 130 basis points for the 12-month ahead horizon over the last round. Similarly, producers' assessment of inflation in input prices eased in Q3 as reported by manufacturing firms polled by the RBI's industrial outlook survey. As a result, assuming a normal monsoon in 2019, retail inflation, which is the key metric that the RBI is supposed to target and maintain at 4 per cent (plus/minus 2 percentage points), is expected to range from 2.8 per cent to 3.9 per cent in the coming 12 months.

Well-contained inflation has provided the RBI the space for policy action to focus on growth concerns. The governor listed some of these concerns — for one, within India, aggregate bank credit and overall financial flows to the commercial sector are not yet broad-based. Moreover, muted global growth and trade tensions can provide headwinds. As such, even though the RBI did not change its growth outlook for the year ahead, it did underscore that the need is to strengthen private investment activity and buttress private consumption.

Along with the monetary policy review, the RBI governor also unveiled a whole host of regulatory measures aimed at broadening and deepening the financial markets. In particular, there were sops for beleaguered non-banking financial companies (NBFCs), wherein the RBI took steps to facilitate the flow of credit to them by deciding that the rated exposures of banks to all NBFCs, excluding core investment companies (CICs), would be risk-weighted in accordance with the rating agencies' prescriptions. Overall then, the latest monetary policy statement appears to signal a closer alignment between the RBI's mandate for price stability and the government's concern for higher economic growth. This is a heartening development, especially since it comes after a fairly acrimonious phase between the two institutions. The only fly in the ointment could be the possibility of fiscal slippage, but by the look of it, the RBI wants evidence of it before acting.

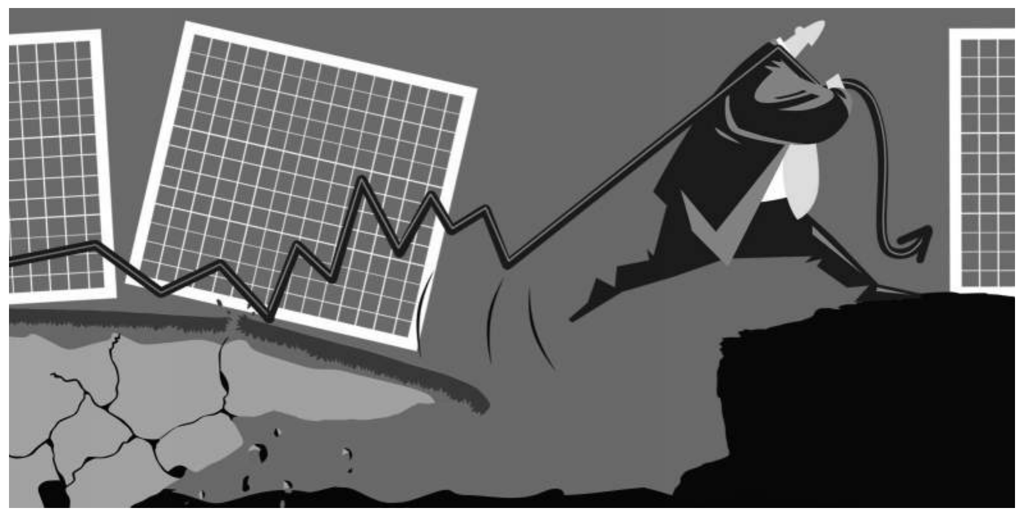
Long way to go

e-NAM's success depends on APMC reforms

The government's agricultural marketing initiative to create a seamless pan-Indian electronically linked national agriculture market (e-NAM) has taken close to three years to carry out its first inter-state trade deal in agri-products. Though 585 *mandis* operated by Agricultural Produce Marketing Committees (APMCs) in 16 states and two Union Territories have been linked with e-NAM, its platform has been used so far only to transact business within the same *mandis* or, in some cases, between the *mandis* of the same states. This had denied the farmers the opportunity to earn a higher income by selling their produce at the best prices available anywhere in the country — the prime objective of launching the unified farm market in April 2016. The agriculture ministry, while announcing the initiation of inter-state sale between parties in Uttarakhand and Uttar Pradesh and subsequently between Telangana and Andhra Pradesh through the e-NAM portal, described it as an inflexion point in cross-country agricultural marketing. However, the optimism seems largely misplaced. A good deal of spade work and agri-marketing reforms need to be carried out by the states before farm commodities can be traded freely across the country.

The pre-requisites for the success of e-NAM were clearly spelt out in the proposal for establishing a common agricultural market for the country. Unfortunately, most of these are yet to be fulfilled by the states by suitably amending their agri-marketing laws. The foremost among these pre-conditions is a single trading licence valid throughout the country and a single-point payment of *mandi* charges by harmonising the marketing levies of all the states. Only a handful of states have agreed to recognise the trading licences issued by other states. In many cases, the trading licences are merely *mandi*-specific. As a result, even within the states, online inter-*mandi* transactions are permitted only in 10 states. Besides, most states are unwilling to alter market levies because that would entail loss of revenue. There is also no uniformity in the quality standards of farm goods in different states. Moreover, not many *mandis* have put in place appropriate sorting, grading and assaying (quality testing) facilities that would enable informed bidding by buyers. Nor do they have proper warehouses for the safe upkeep of the sold items.

A fundamental flaw in the conceptualisation of e-NAM is that it mandates the business to be conducted only through the APMC markets' electronic platforms. These markets are known for their inefficiencies and malpractices, which may tend to creep into e-marketing as well. Besides, the APMC *mandis* are dominated by middlemen, who are quite capable of manipulating even online trading in the absence of an effective market regulator. The APMC monopoly over the marketing of all the agricultural produce needs to end to ensure fair price discovery. Online trading through the e-NAM platform should be permitted from any public or private sector market that meets the necessary conditions. Only then can the farmers benefit from e-NAM's online trading.



And now the inevitable pickup in investments

A 7 per cent GDP growth rate may be lower than what India aspires for, but over a five-year horizon this means 40 per cent higher demand

TESSELLATUM
NEELKANTH MISHRA

After a long period of weakness, investment activity in the Indian economy has been picking up. Gross Fixed Capital Formation (GFCF) as reported by the Central Statistics Office (CSO) remains the most broad-based estimate of this activity in India: The GFCF-to-GDP ratio fell steadily from 2012 to 2017 from 40 per cent to 30 per cent, but has since risen to 32 per cent. Many expect this recovery to be short-lived, but a deep dive suggests it could sustain, and reveals some surprises. As we will see, contrary to consensus views, the slowdown in investments till 2017 was not driven by weak private sector activity, and the recent pickup has not been driven solely by acceleration in government spending.

The CSO splits GDP statistics into three parts: Private corporate, public sector and household. The first is data from the MCA21 database, and is more or less the sum-total of half a million companies. Public sector data is the combination of state and central government budgetary expenditure as well as spending by public sector enterprises. The household sector is the 'residual', that is, whatever is left after the first two have been accounted for; it is so called because in most such informal enterprises, there is no separation between business and household accounts. Data availability for the formal economy, which is the private corporate and public sectors, is much better than for the household sector, where the CSO is forced to rely on proxies like cement consumption to track annual trends.

In 2017, 43 per cent of GFCF came from private companies, 25 per cent from the public sector, and the remaining one-third from the household sector. Interestingly, and much against popular belief, nearly two-thirds of the incremental investment between 2012 and 2017 was contributed by private companies, and a third came from the public sector. Households did not see any growth in five years even in nominal terms, mainly due to weak housing (most of this is self-built housing in villages and small towns). Corporate capital expenditure (capex) grew at 14 per cent a year in this period, faster than nominal GDP growth. Public sector investment growth was in line with nominal GDP growth of 11 per cent, and the pace has been maintained between 2017 and 2019, belying the view that the recent investment pick-up is all due to government spending. This pace of capital investment can last: Three-fourths of public sector capex now comes from state governments and central public sector enterprises.

The evidence of strength in private corporate capex in a period where corporate commentary was overwhelmingly negative is so counter-intuitive that one needs to validate it against other data sources. We took two approaches. In the first, we aggregated capital expenditure data for companies. We could only find capex data for about 12,000 companies, adding up to nearly ₹8.1 trillion(about half the total private corporate GFCF reported in 2016). Even this data was patchy, obviating any year-on-year growth analysis. However, the sectoral mix provides insights on major sectors that drive the overall investment number: Utilities (power generation, transmission and distribution), energy (such as production, refineries, distribution through pipelines), telecommunications and metals.

In nearly all these segments, except thermal power generation and metals production, capex had not slowed, and is expected to continue. In metals and thermal power, construction and completion of projects had continued during this period even though new ordering activity fell sharply.

The second approach, of charting revenues of listed industrial goods companies, showed that the only company which saw a steep decline in revenues was an equipment provider for thermal power generation. The rest saw some slowdown in growth for a while, though no drop, and in the last several quarters, the reported sales growth rates have picked up. It is also worth pointing out that nearly a third of the incremental private GFCF between 2012 and 2017 was an investment in Intellectual Property (IP), which grew at a pace of 22 per cent a year. The IP investment, to our understanding, is mainly in software, for example, billing, supply chain or customer management. While it may not mean addition to machinery, its productive utility is significant: In many developed economies, intangible capex now exceeds tangible capex. Sales of construction equipment (like for earth moving during road-building) have picked up, and have stayed strong even though the demand slowed in recent months.

Rising utilisation levels are now triggering new investment plans: this is visible in sectors like steel, power, refineries, airlines and autos. After all, a 7 per cent growth in annual GDP may be lower than what the country aspires for, but over five years it means aggregate demand rises by 40 per cent. While the expansion of airports and new ordering of airplanes is now well known, even steel companies that have a viable balance sheet have already embarked on capacity expansion. India has again become a net importer of steel, as demand now exceeds domestic supply. In coal-based thermal power, where utilisation bottomed two years ago, if annual demand growth sustains at five to six per cent (it should), new capacity would be needed by 2024. Medium-term power tariffs are already at ₹6 per unit, having risen steadily over the last two years from ₹3.5.

There is no capex surge yet as was seen in the 2010 to 2012 period, possibly because stricter insolvency norms have obviated debt-fuelled adventures, making groups much more cautious in their planning, and also because we are still early in the investment cycle. Even if demand growth was to weaken a bit, the investment revival can continue in our view, but recent problems for Non-Banking Finance Companies (NBFCs) are a worrying prospect. Debt Mutual Funds are now also becoming less of a supplier of credit to the economy. Despite a pickup in bank loan growth, aggregate credit supply is slowing, and the number of business groups struggling for liquidity is rising even though the RBI continues to make record amounts of bond purchases in the open market. This can hurt not just informal (that is, household) capital expenditure, but also the formal sector. For now, though, the capital expenditure driven by competitive intensity as well as due to high utilisations should continue.

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The mirage of a global euro

DANIEL GROS

One of the great claims made for the euro was that it would rival the US dollar as a second global reserve currency. These hopes have failed to materialise. The euro's importance in global reserves and financial markets today is about the same as it was two decades ago, when the euro replaced the Deutsche Mark and 10 other national currencies.

But hope dies last, and in this spirit the European Commission recently published a Communication entitled "Towards a stronger international role of the euro" (sic). The European Commission, like most European policymakers, takes it as given that the eurozone would benefit if the euro played a more global role. But that is not necessarily true.

One such benefit supposedly derives from the widespread use of euro banknotes outside the single-currency area. On this measure at least, the euro has been a big success. Currency in circulation has more than doubled over the last 20 years, both in absolute terms and as a percentage of eurozone GDP, and the total value of euro banknotes in circulation amounts now to Euro 1.2 trillion ($1.3 billion). Furthermore, it is commonly estimated that a large fraction of euro cash is used outside the eurozone.

But the economics of banknote issuance have changed. Issuance was previously a profitable business for central banks, because they could invest the proceeds in government bonds with a decent yield. With interest rates at 5 per cent, and Euro 1.2 trillion of notes in circulation, the European Central Bank could have generated revenue of about Euro 60 billion a year. Though small compared to the eurozone's overall GDP of Euro 10 trillion, this sum is equivalent to almost one-half of the EU's budget.

At today's negative interest rates, however, currency issuance is no longer profitable. This might be another reason why the ECB decided to stop issuing the Euro 500 note, which is also much more convenient than the $100 bill for handling large amounts of black money. Providing a handy vehicle for underground transactions abroad should not be regarded as an advantage of the euro.

Another argument for having a global reserve currency is that foreign borrowing becomes cheaper. This is the "exorbitant privilege" that Valéry Giscard d'Estaing, when he was France's finance minister, famously said the United States enjoyed owing to the dollar's status as the world's main reserve currency. But while issuing dollar-denominated debt is an important advantage for the US (the world's largest debtor), the eurozone is a net creditor. And with real interest rates tending to be higher in dollar terms, it would be better for the eurozone's external assets to be denominated in dollars than in euro.

Furthermore, the consequences of being a major anchor currency would be particularly problematic for the euro. Fortunately, the countries that peg their currency to the euro have little economic weight. Imagine, for example, that China pegged its currency to the euro instead of to the dollar. The Chinese authorities would then determine the euro's exchange rate against the dollar — the currency of the EU's biggest trading partner and competitor. Being an anchor currency can actually entail a loss of control.

True, there are other reasons why it might be in Europe's interest for the euro to play a larger global role. For example, the extra-territorial application of sanctions by the US makes it extremely difficult for European companies to maintain trade ties with Iran, because most of Iran's international trade is invoiced and settled in dollars. But the ability of the US to apply sanctions so widely is essentially due to its diplomatic and military power. Even if the euro played a much larger role in global finance, the US would remain dominant in terms of hard power.

Having a global reserve currency makes sense for a large economy that is not too exposed to the rest of the world. The US fits the bill. It makes less sense for the somewhat smaller eurozone economy, where trade in goods and services accounts for more than one-quarter of overall GDP. Moreover, the eurozone's share of the global economy has declined from about 25 per cent when the euro was born to 15 per cent today, and will soon fall below 10 per cent.

The relative weight of the US economy will of course also decrease as China and India continue to grow faster. But the dollar will retain its conventional role as the key currency for international trade transactions as long as China limits capital movements to keep control over its domestic economy. The euro, on the other hand, could increase its global role only by slowing the relative decline of the eurozone economy through rapid growth.

But, even assuming that the eurozone's relative decline continues, this would not necessarily mean a fall in living standards. The share of Japan's economy in global GDP has halved over the last 20 years, while living standards there have continued to improve, albeit slowly.

Either way, it is a good thing that early hopes for the euro to become a true global currency have not been realised. The eurozone currently is facing enough economic challenges without the additional burden of issuing a global reserve currency.

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The art of 'literary journalism'

BOOK REVIEW
SOURADEEP ROY

The latest book on the late Dom Moraes' writings, *Dom Moraes: Where Some Things Are Remembered: Profiles and Conversations*, carries a blurb by Amitav Ghosh, who declares Moraes the "greatest prose stylist". Superlatives aside, there is a curious phrase in the promotional material supplied by the publisher; it describes the book as a collection of the "finest literary journalism". Whether or not Moraes is the finest, there cannot be a more apt phrase than "literary journalism" to describe the essays collected in this book.

Moraes wrote striking profiles of the people he met but he staked his own identity in those pieces. This is what makes his writing, his journalism, so exquisite. At the end of the book, we realise we've read a profile of Mr Moraes as much as we have read profiles of Indira Gandhi or Lalu Prasad Yadav. This is also the difference between the journalism now — both objective and sensationalist — and the journalism Mr Moraes practised. There is no space for the vulnerability of the reporter in the former, and Mr Moraes' own vulnerability is at the centre of his writing. Sarayu Srivatsa, the editor of this book, writes that Mr Moraes had told a journalist that "[H]e was a stranger to the country, was an outsider" while she was "a complete insider" as they were promoting their co-written book *Out of God's Oven*. Mr Moraes' self-fashioning of himself as the outsider is the hallmark of his writing but there is something more than this projection of his personality. He did not simply ask how much he is an outsider to India, but how much of an outsider is India to itself? The portraits of his father, Frank Moraes, and his profile of Jag Pravesh Chandra, explain this.

Frank Moraes was one among the first two Indians to become the assistant editor in the British-owned *Times of India*. Neither of them were allowed to access the same privileges of "ingestion and excretion": they were not invited to lunches or given keys to the lavatory that the English editors used. But the staff wanted an end to this and the management apologised. "My father never forgot this as long as he lived," writes Moraes *fils*. When Frank became the Indian editor of the same paper after the British company was sold to the new Indian proprietor, Dalmia, they met for lunch but ate on separate utensils, one earthenware and the other silver. The former was then broken lest Frank polluted Dalmia's caste. "The incident with Dalmia was another incident he never forgot. It was the first indication he had of what independent India might turn out to be like."

Mr Moraes turned personal anecdotes about his father into the larger story of transformation from colonial power to independent nation, but one that transformed racial prejudice into caste prejudice. The portraits of those who gain power in the independent nation, from important journalist-proprietors like R P Goenka, or politicians like Indira Gandhi, offer a bleak vision. But in his profile of Jag Pravesh Chandra he saw some hope of a working democracy. Chandra believed that India can only be understood by those who have lived here. This is naive provincialism. "What he meant by Indian did not exclude Muslims or other minorities, but it excluded me. He felt affectionate towards me, but amused: exactly the way I did, the other way around."

Another quality of Moraes' own writing is his ability to bring out the tragedy of power and life. The last house that his father lived in as "the only monument left to my father's loneliness"; they met like "furtive lovers, at restaurants or hotels"; Indira Gandhi, having lost the election, is "the small, famous figure in a pastel saree, once ruler of the very dust churned up by these buses". The tragic is never too far away from the comic, and Moraes shines here as well. When Mrs Ali from the Congress explains how great the party has been for her constituency, Badayun Zilla, the details don't hold up. She says, "It is a Muslim village...my parents and grandparents were all born there and they had always done a lot of good work for the village... It is constantly flooded in the monsoon, it has no railway connection, no schools, no industries." The quote ends and Moraes quipped, "I wanted to inquire about the good work her ancestors had done, but forebore." Another striking quality of his writing are his similes, almost always drawn from poetry. Jag Pravesh Chandra is "Whitman's sea captain", he grabs Moraes' arm "like a cousin of the Ancient Mariner". There is something quintessentially Moraesian about the similes, possible because of his own vocation as a poet.

Describing the room he would meet Indira Gandhi to interview her for her book, he wrote, "I had the strange sense that I was not in the room at all, but an observer peering down a telescope from some chilly star." It is not just a telescope that determines the quality of the observation but the eye that looks through it, and Moraes had the finest journalistic eye, matched in equal measure by his hold over his pen.

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DOM MORAES:
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