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# Reading between the numbers

To question the CSO on GDP revised estimates is to question too much of everything. Indian statistics have been a matter of national pride for decades, and remain one of India's hallmarks. Let us question, but keep this curiosity rooted in fact-checking, balance and restraint

**T**HE INTENTION TO question and make public institutions accountable is a noble and value virtue in democracies. However, the tendency to libel and undermine credibility of institutions is a downward spiral that stops at nothing. When the dust settles, it leaves behind damaging the legacy of decades-old pioneering work. Such misgivings and apprehensions develop an acute form of cynicism that would eventually damage how we function as a nation.

The Central Statistics Office (CSO) is facing a similar onslaught from various quarters for similar reasons. The recently-released quarterly GDP estimate has rekindled the debate around revised estimates for GDP growth for 2016-17 and 2017-18. According to the CSO, GDP at 2011-12 prices for 2016-17 and 2017-18 stands at ₹122.98 lakh crore and ₹131.8 lakh crore, respectively. This translates into GDP growth of 8.2% during 2016-17 and 7.2% during 2017-18. The din around these numbers is claiming that revised numbers are much higher than provisional estimates. In the May 2018 provisional estimates, the CSO pegged GDP growth of 7.1% and 6.7% for 2016-17 and 2017-18, respectively. The criticism is based on the belief that demonetisation damaged the growth pace and it is unlikely that we could have clocked 8%-plus growth in that year.

There are various reasons to refute the

claims of critiques. For the purpose of this article, I will keep it limited to three.

First, as the name suggests, provisional estimates are subject to change and revised estimates (which also have multiple rounds) update the sector and GDP numbers as more data comes in. The time duration between first advance estimates and third revised estimates is 36 months. Revised estimates exceeded advance estimates earlier, too. A NIPFP paper details revisions in GDP growth estimates from 2004-05 to 2015-16. It compares advance estimates with all three rounds of revised estimates. Two times during the UPA, the third revised estimates exceeded advance estimates by 1.4 percentage points. In 2013-14, revised estimates exceeded advance estimates by 1.3%. Barring 2008-09, when we were reeling under the Global Financial Crisis, almost in all years revised estimates were higher than advance GDP estimates during the UPA 1 and UPA 2. A separate RBI study notes that almost always earlier estimates underestimate the real GDP growth. It also points that major global economies regularly undertake these revisions, and in the US the mean absolute revisions on quarterly GDP are slightly more than 1.0 percentage points. The critiques are, therefore, kicking the dust for no good reason, especially when their own tenure witnessed such upward revision of GDP estimates.

Second, demonetisation in 2016-

has been used as inscrutable excuse to almost demand for lower GDP growth numbers. GDP, after all, is a theoretical construct, which captures the economic activity within a geographical area. Increased formalisation in an economy is reflected in higher GDP numbers. Prior to demonetisation, certain economic activities may still be continuing, but the policy move nudged these activities to move under the formal net. Some indications of higher formalisation include increase in EPFO and ESIC subscribers. The number of employees registered under the ESIC took a jump of 55% in 2016-17 as compared to an average growth of 4.7% over the previous three years (2013-14 to 2015-16). Likewise, as per the draft report of the EPFO, the contributing members in 2016-17 grew by 9.6% as compared to an average growth of 6.8% over the previous three years. Clearly, there was a nudge towards increased formalisation due to demonetisation, which is subsequently recorded in official growth numbers. Anecdotal evidence points out that firms had an incentive to front-load wage payments, and to do it legally, they had to register their employees. While many rue the return of cash in the economy, such systemic changes are going to persist and even become the new normal for the coming years.

Third, a study done by the ministry of urban development highlighted that 47 municipalities received a windfall gain of 265.7% in November 2016 as compared to revenue in November 2015. These largely comprised of property tax and utility bill arrears payments. Of the 47 municipalities, Greater Hyderabad Municipal Corporation's revenue increased by an astonishing 25 times, from ₹8 crore in November 2015 to ₹208 crore in November 2016. Likewise, Mumbai's revenue for the month increased three times to reach ₹11,913 crore. Not surprisingly, the gross value added (GVA) at constant prices for 'electricity, gas and water supply' grew by 10% in 2016-17 as compared to an average growth of 4.7% over the previous four years (2012-13 to 2015-16). Similarly, during demonetisation, there were reports that wages in many sectors were front-loaded. Agriculture and construction sectors are known for informal labour employment. For agriculture sector, GVA at constant prices increased by 6.3% in 2016-17 as against an average growth of 1.9% over the last four years. For construction, GVA at basic prices grew by 6.1% as against an average growth rate of 2.7% over the last four years.

**Demonetisation led to higher formalisation of the economy. As formal economy share rises, the economic activity previously unaccounted for formal numbers**

Coupled with the implementation of the goods and services tax (GST), demonetisation created a ripple that positively impacted transactions and which had been a tough nut to crack previously. The Economic Survey 2017-18 points out to two such evidences. One, the number of new taxpayers increased substantially during the November 2016 to November 2017 period. During this period, the new taxpayers increased by 10.1 million as compared to an average of 6.2 million in the preceding six years. The Survey attributes addition of 1.8 million new taxpayers (by November 2017) due to demonetisation and GST reforms. Two, GST, even though implemented after 2016-17, added 3.4 million new indirect taxpayers. These are largely smaller enterprises that intend to claim input tax credits. Clearly, there has been a continuous trend of increasing formalisation. This translates to higher GDP growth numbers, as transactions that were out of the net were now being recorded.

The signals coming from different sectors fall in line with revised GDP estimates, particularly for 2016-17. Yes, to many, it may seem counter-intuitive. However, as new numbers come in, the CSO, as per standard practice, has revised the estimates. Revised estimates have exceeded provisional estimates in the past, too. In fact, the difference has been higher on more than one instance during the UPA years. Such revision also seems to be in line with the global GDP assessment exercises. Demonetisation led to higher formalisation of the economy, as indicated in the EPFO and ESIC numbers. As the formal economy share rises, the economic activity previously unaccounted for becomes part of formal numbers. Also, demonetisation spurred considerable front-loading of expenses, such as wage payments in construction and agriculture sectors, both of which reflect in the higher GVA growth numbers for the sectors. The same could be said about the electricity, gas and water supply sector due to municipalities' creative thinking of allowing people to clear arrears using demonetised currency notes. A win-win situation resulting in at least 47 municipalities provided reasons to cheer.

To question the CSO on this issue is to question too much of everything. Indian statistics have been a matter of national pride for decades, and continue to remain one of the country's hallmarks. Let us question, but keep this curiosity rooted in fact-checking, balance and restraint.

## TECH AND PRIVACY

# The third act of Facebook

If it works, the social-networking giant will become more private, more powerful

**T**HE FIRST BIG OVERHAUL for Facebook came in 2012-14. Internet users were carrying out ever more tasks on smartphones rather than desktop or laptop computers. Mark Zuckerberg opted to follow them, concentrating on Facebook's mobile app ahead of its website, and buying up two fast-growing communication apps, WhatsApp and Instagram. It worked. Facebook increased its market valuation from around \$60 billion at the end of 2012 to—after a brief period in 2018—more than \$600 billion.

On March 6, Mr Zuckerberg announced Facebook's next pivot. As well as its existing moneymaking enterprise, selling targeted ads on its public social networks, it is building a "privacy-focused platform" around WhatsApp, Instagram and Messenger. The apps will be integrated, he said, and messages sent through them encrypted end-to-end, so that even Facebook cannot read them. While it was not made explicit, it is clear what the business model will be. Mr Zuckerberg wants all manner of businesses to use its messaging networks to provide services and accept payments. Facebook will take a cut.

A big shift was overdue at Facebook given the privacy and political scandals that have battered the firm. Even Mr Zuckerberg, who often appears incapable of seeing the gravity of Facebook's situation, seemed to grasp the irony of it putting privacy first. "Frankly we don't currently have a strong reputation for building privacy protective services," he noted.

Still, he intends to do it. Mr Zuckerberg claims that users will benefit from his plan to integrate its messaging apps into a single, encrypted network. The content of messages will be safe from prying eyes of authoritarian snoops and criminals, as well as from Facebook itself. It will make messaging more convenient, and make profitable new services possible. But caution is warranted for three reasons.

The first is that Facebook has long been accused of misleading the public on privacy and security, so the potential benefits Mr Zuckerberg touts deserve to be treated sceptically. He is also probably under-selling the benefits that running integrated messaging networks brings to his firm, even if they are encrypted so that Facebook cannot see the content. The metadata alone, i.e., who is talking to whom, when and for how long, will still allow Facebook to target advertisements precisely, meaning its ad model will still function.

End-to-end encryption will also make Facebook's business cheaper to run. Because it will be mathematically impossible to moderate encrypted communications, the firm will have an excuse to take less responsibility for content running through its apps, limiting its moderation costs.

If it can make the changes, Facebook's dominance over messaging would probably increase. The newfound user-benefits of a more integrated Facebook might make it harder for regulators to argue that Mr Zuckerberg's firm should be broken up.

Facebook's plans in India provide some insight into the new model. It has built a payment system into WhatsApp, the country's most-used messaging app. The system is waiting for regulatory approval. The market is huge. In the rest of the world, too, users are likely to be drawn in by the convenience of Facebook's new networks. Mr Zuckerberg's latest strategy is ingenious but may contain twists.

THE ECONOMIST



**A**S HUMANS, AS organisations, as products, as services and as nations, each one makes an effort to create an identity of its own because 'identity' provides meaning, harmony and purpose in life. It evolves as we grow through life cycle. Without identity, it's almost unfeasible to create meaning and purpose.

A corporate identity or a corporate image is the manner in which a firm or business presents itself to the public and stakeholders. Creating a suitable identity is primary goal of corporate communication. For positioning a brand in customers' mind, having a robust and recognisable brand identity is essential for distinguishing it from other products in a cluttered market. The identity needs to be crafted in a certain way, using particular elements of that brand such as the logo, tag line, tone, or colours, packing, ingredients, etc.

Brand identity is the meaning of the brand that the marketer projects and its efficacy can be measured. In 1996, Jean-Noël Kapferer, the professor of Marketing Strategy at HEC Paris, came up with the idea of representing brand identity as a hexagonal prism, with each side standing for one of these essential elements: 'Physique', 'relationship' and 'reflection' are the external factors of a brand, whereas 'personality', 'culture' and 'self-image' are internal factors. Successful brands are the ones in which all of these six facets are carefully intertwined and aligned. Kapferer's brand identity uses the traits of human beings as a metaphor of a brand.

# Decoding Kapferer's Brand Identity Prism

Jean-Noël Kapferer of HEC Paris represented brand identity as a hexagonal prism, with each side representing essential elements of a brand

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**Physique:** The first facet of the Brand Identity Prism refers to the underlying physical characteristics of a brand. Physique portrays the form, size and development of a product. The physique of a brand turns abstract and elusive characteristics into something visible. The physique helps consumers get associated with the brand initially. When you see the iPhone made by Apple, you get attracted to its elegance, style and aesthetics.

**Personality:** It is the combination of characteristics or qualities that form an individual's distinctive character. This element is about the character of a brand. Brand personality is developed by attributing human characteristics to it, so that a consumer can relate to the relationship.

Toyota Innova has built a reputation of being a rugged, dependable and comfortable MPV with the highest levels of safety. Brands also hire celebrities to endorse a product's personality.

**Relationship:** It refers to relationship between a brand and customers in terms of what consumers think, feel, and how they pursue the brand. A favourable relationship helps managers and stakeholders understand how to create a favourable brand approach to drive brand loyalty, repeat purchase, customer lifetime value, customer advocacy, and communities of like-minded individuals organised around the brand. The approach adopted by the marketer is important in terms of which human traits describe this relationship.



Netflix, the video streaming company, is known for its obsession with customers; Netflix collects a huge amount of data on customers to create hyper-personalised recommendations. It uses that data to help customers find their new favourite shows and to create award-winning original content that is exactly what customers want.

**Culture:** It can be defined as the inherent DNA that runs in the organisation. It consists of values, expressions and interactions the organisation creates with customers, employees and all stakeholders at every point. The culture consists even of the country of origin, the nation where product is produced or branded. For example, globally, people favour cars produced in Japan for its culture, values and demog-

graphics. Honda, Mazda, Nissan, Toyota are respected brands in the world of auto.

Kapferer also gives another insight on culture; he says some brands have managed to capitalise on false origination than its original—the famous American brand Mars made the Dutch believe it originated in their country, and Mars has gotten adjusted to the Dutch culture and values.

**Reflection:** There is a subtle but sizeable difference between self-image and reflection. While the former is about customers' idea of self, the latter is how brands pursue their audience. Reflection can be described as a set of stereotypical notions of a brand's customer base, is used for promotional purposes, and highlighted in ads and commercials. It is a new framework to

help brand owners and advertising agencies to understand and communicate brand identity more effectively. Brand reflection is especially useful for branding by marketing agencies to accelerate the positioning process of a brand in a certain segment. Brand reflection represents the distinctive class of users of a brand.

For example, in a typical Indian urban man's wardrobe, his suits have a special place; nicely dry-cleaned, neatly hung and properly matched with accessories from top to bottom. Among many other brands, at least one of the suits in the wardrobe is a Raymond suit. The tag line "The Complete Man" suits the Indian man's psyche. The Complete Man describes a beautiful soul and a quintessence of individual spirit beyond gender specifics.

**Self-image:** It is about how customers of a particular brand see themselves; a brand gets the benefit from incorporating the unique association created by customers into creating its own identity. Most youngsters like to be tagged as 'cool', 'stylish', 'vibrant', etc; they, therefore, choose brands that help them ascertain those tags. A research on brand identity has found that people who struggle with identity disorders gain real insight into themselves by choosing 'right' brands. Perfumes help consumers boost their self-worth—Arpège, by the famous French company Lanvin Parfume, is used by stylish and classy women. It has been known for restoring feelings of self-worth in many women for decades. Its catchy tag line "No bottles to break—just hearts" says it all.

# Opinion

MONDAY, MARCH 11, 2019



## STRENGTHENING TIES

Wang Yi, Chinese foreign minister

China and India should be each other's partners in pursuing our respective dreams and each other's important opportunity for growing our respective economies. Collectively we must make our due contribution to Asia's revitalisation and prosperity

## Invoking OSA in Rafale case suggests govt on backfoot

As the Supreme Court asked the Attorney General, if the documents are genuine, does it matter if they are stolen?

**A**T ONE POINT, especially after the CAG report, it appeared the government had weathered the worst of the Rafale controversy. Ideally, there could have been no comparison between the UPA's Rafale deal and that of the NDA since, despite 10 long years of negotiations, there was no UPA deal; it was just an unending conversation and merely a statement of intent. The deal was stuck on costs since the Indian partner—the public sector HAL—was going to produce the aircraft at a higher cost than Dassault in France and, more important, Dassault was not willing to stand guarantee for the aircraft HAL produced even though these would be under licence. The fact that the UPA wasn't able to sign a deal while the Indian Air Force found its fleet rapidly depleting would, in normal circumstances, be enough to ensure the Congress party kept quiet on the deal. Indeed, the recent statement by the then defence minister AK Antony, that he had intentionally delayed the deal in the national interest—he has not explained what he meant—makes the UPA's position even more untenable since the story is no longer just one of the usual delays in defence procurement, it is a lot more worrying.

Despite this, however, the CAG made some assumptions in order to compare the NDA's deal and the UPA's non-deal, and concluded that the NDA's was a bit cheaper than the UPA's despite the number of aircraft being much smaller—usually, smaller deals cost more. While some have argued that the assumptions made by the CAG for this exercise are incorrect, in times when few have the patience to hear detailed arguments, the headline is what really matters, and that favoured the NDA.

Given this, and the fact that *The Hindu* had published stories critical of the Rafale deal even earlier, it is indeed odd that Attorney General KK Venugopal should now ask the Supreme Court to not consider the latest story because it was based on stolen documents; he even said the government may file a case under the Official Secrets Act (OSA) since stolen official papers were used. Not surprisingly, the judges were quite caustic and asked him why stolen papers shouldn't be used if they shed new light on the matter. One judge even asked Venugopal whether the courts should refuse to look at documents that proved a person's innocence just because the documents were stolen. Such a defence, to even those sympathetic to the government's dealings in the Rafale case, indicates that the government has something to hide. In the past, in fact, when *The Hindu* published a story last month suggesting irregularities, the defence minister had given a convincing reply without bringing in the allegations that the documents were stolen. Indeed, the Attorney General should be asked to name a single case of corruption where the documents used to prove the case were not 'confidential' government files and which, going by his stance, should have resulted in arrests under the OSA. And if national security—another tag that is being invoked—is to be used each time a journalist publishes government documents, surely this would apply to other corruption cases as well, including Bofors? More so when even fairly routine papers are marked classified or top secret.

Apart from the fact that it is not a journalist's job to protect the government's interest—in exposing official lies, the journalist is answerable to a larger cause, that of society or the country—the Attorney General should have kept in mind that, over time, governments all over the world, including India, are moving towards removing the veil of secrecy that covered most official dealings; India's Right to Information attempts to ensure citizens have enough information to expose the wrongdoings of officials. Sadly, it is not just the BJP—though it stands exposed right now—most political parties speak in different voices at different times on laws like official secrets or sedition; they want them scrapped when they are in the Opposition but use them quite liberally when they are in power.

## RBI should cut CRR levels

Will free up cash reserves and create room for lower rates

**I**NDIA'S INVESTMENT CYCLE has been in a trough for several years now. And it could take at least a couple of years more for it to crawl out of that trough. Apart from the fact that capacities in most sectors seem sufficient for some time, there is a shortage of equity capital and a good many companies remain over-leveraged. But even if these factors improve, real interest rates in the economy are high. While a drop in the real rate is unlikely to prompt promoters to add capacities, it will make a difference at the margin and that is not to be sneezed at given the pitifully small greenfield investments that the private sector is making today.

Real rates are unlikely to fall sharply in the near term because inflation is expected to remain benign with just a small rise being pencilled in. Ideally, households should have been spurred into saving more at these elevated real rates of around 5% but the trends are otherwise. The pace of such savings has been stagnant over the last few years with the growth rate having dropped to 17.2% in 2017-18, from a robust 22.5% in 2012-13. The net financial savings rate in 2017-18 was just 6.6% compared with 7.4% in 2012-13. The sharp drop in the growth rate is not so hard to understand. Consumers have been spending more as society turns more aspirational and, in fact, many are open to borrowing to make the purchases—that is why there has been such a large increase in household liabilities. Also, in the absence of enough jobs and, more importantly, enough well-paying jobs, the ability to save has been smaller.

On the other hand private corporate savings, while not having risen substantially, have been steady over the past few years after a sharp uptick between 2004-05 and 2014-15. To be able to entice companies to borrow to expand capacities, banks need to be able to keep loan rates at affordable levels. However, with deposits growing at a much slower pace than loans—around 9.5-10% compared with 14.5-15% for loans—they are unable to lower deposit rates and that is driving up the cost of funds. Strategists at Kotak Institutional Equities have suggested that RBI should trim the Cash Reserve Ratio (CRR) to manage the rising gap between the high credit growth and low deposit growth given a cut in the policy rates may not help much. Indeed, the transmission of a cut in the repo to loan rates has been very poor over the last few years, the key reason being the relatively high cost of deposits. Also, banks are holding more liquid assets—gilts—than they need to give them a cushion. A CRR cut would free up cash and create some room to lend at lower rates.

## Motherhood PENALTY

Maternity means drastic wage erosion for women in developed countries while fathers face no such costs

**T**HE INTERNATIONAL WOMEN'S DAY has just passed. Many countries, individuals and workplaces, all marked the day. Now, to sobering reality. A recent study shows that parenthood imposes a severe wage penalty on women in six developed nations, while men aren't affected much. As findings of the study by the National Bureau of Economic Research, an American non-profit organisation, show, in each of six countries, women returning to work after maternity saw their incomes dip significantly. In Germany, after 10 years of having returned from maternity leave, a mother was earning 61% less than what she did before she gave birth. In Austria, the wage penalty on women was 51%, in the UK and the US, it hovered around 40% while it was the smallest in Sweden and Denmark.

The motherhood penalty was the largest in countries where the popular opinion was that women should stay at home with kids. What is also interesting is that public policy plays a big role in restoring balance. Sweden, where the penalty is the lowest, provides for parenthood leave of 12 months, to be split evenly between the mother and the father. Three months are reserved for the father, if it is not availed, it is forfeited. While Swedish men see a small dip in their income compared to fathers from other countries, the dip is insignificant compared to the wage penalty women pay across the world. While it is a fact that women lose out because they choose to stay at home and not work for the period of the maternity leave, it is the fact that society, at large, pushes the child-rearing role on to women and penalises women disproportionately for parenthood that needs to be kept in mind while devising policy to better the lot of women. Making men an essential part of parenting through a policy push could go a long way in addressing this disparity.

## LEARNING FROM THE PAST

GIVEN ITS LOCATION AT THE CROSSROADS OF ASIA, AND AS LONG AS TERRORIST GROUPS CAN OPERATE FROM WITHIN AND PAKISTAN, THERE WILL BE A CONTINUED INTEREST IN AFGHANISTAN

# History key to planning Afghanistan's next chapter

**T**HE RECENT GEOPOLITICAL history of Afghanistan can be divided into five phases. But now, it is at the cusp of another transition, and the defining features of the new phase remain to be seen.

During the first phase, from 1974 to 1979, Pakistan began to give refuge and training to Islamists who could be deployed against Mohammed Daoud Khan's government. Then, from 1979 to 1989, Pakistan, the United States, and Saudi Arabia financed, trained, and equipped the *mujahideen* who fought against Soviet troops. From 1989 to 1996, Afghanistan was in transition as regional warlords gained power, closed in on Kabul, and overthrew president Mohammad Najibullah. From 1996 to 2001, the Taliban government ushered in a period of wanton savagery and—with the exceptions of Pakistan, Saudi Arabia, and the United Arab Emirates—diplomatic isolation.

The fifth phase began in 2001, following the 9/11 attacks. Since then, the US has been embroiled in a war supporting a patchwork Afghan government against a resurgent Pakistan-backed Taliban. The sixth phase raises two questions: Did the US lose the war in Afghanistan and, if so, why?

The answer to the first question is both yes and no. The US has failed to eliminate the Taliban from Afghanistan and entirely rule out the possibility of the country again becoming a haven for terrorists. The ongoing peace talks with the Taliban and the impending reduction of the US military presence in the country are a clear recognition of this. The American public is war-weary and president Donald Trump is keen to declare an end to the longest international conflict in US history before the 2020 presidential election.

At the same time, the US achieved



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many of its initial core objectives. The Taliban was expelled from Kabul and, despite the current peace talks, its uncontested return remains doubtful. Osama bin Laden was killed in neighbouring Pakistan, Taliban leader Mullah Omar died in hiding, and his successor, Mullah Akhtar Mansour, was killed by a US drone strike in Pakistan in 2016. A semblance of a functioning state—including a national government and a military—is now a reality, however flawed. And Pakistan remains under pressure to clean up its act.

But, overall, things did not go according to plan for the US, for four main reasons. First, and most obviously, it made political mistakes, born largely of ignorance and hubris, although often apparent only in hindsight. After 2001, the US imposed on Afghanistan a presidential-style government with inadequate checks and balances. After 2003, policymakers became distracted by the initially more intense conflict in Iraq and withdrew resources and attention from Afghanistan. Moreover, they paid insufficient attention in the early years to building up the Afghan National Security Forces (ANSF). In addition, democratisation efforts were mostly top-down rather than bottom-up, and elections often were scheduled before the appropriate

political institutions were in place.

The second set of mistakes were military in nature. After 2008, US war planners believed that a counter-insurgency approach would work. But a "surge" of the kind that initially reduced violence in Iraq failed in Afghanistan for a number of reasons. For starters, the US was unable to co-opt key adversaries, as it had done with Sunni militias in Iraq following the "Anbar Awakening". Moreover, it had no solution to cross-border havens in Pakistan, from which Taliban forces could plot and launch continued attacks, and it underestimated the governance challenges in Afghanistan, which had much deeper roots than in Iraq and made development and state-building more difficult. Furthermore, when then-US president Barack Obama announced the surge in Afghanistan, he undermined the effort by also setting out a withdrawal time frame. That was a mistake that even Trump was wise enough to avoid.

The US also failed to learn from past mistakes. Comprehensive US reviews of Afghan policy that produced unpalatable or ineffective recommendations gave way to comprehensive reviews that produced equally unpalatable or ineffective outcomes. In particular, successive US administrations, military com-

**For years, US policymakers believed that the key to peace in Afghanistan lay in pressuring India to resolve the J&K dispute**

## Predicting Pulwama election fallout

Opposition feels it has lost its best chance of defeating Modi. BJP, on the other hand, is secretly happy that all 'real' issues can be forgotten

**T**HE ONLY PROBLEM with prediction is that it cannot cope with too much uncertainty. Models of prediction rely on the old patterns repeating themselves. As long as the future can behave like the past, except for random errors, one can forecast the future. When an event happens which is completely new or has occurred only rarely in the past, it is hard to gauge its effect on the future. Prediction to be accurate needs lots of stable patterns in the past to make it easy.

This is what has happened in India over the last fortnight. Election predictions were looking at past trends in terms of voting behaviour by caste, language, region, economic variables, etc. A sort of consensus had emerged that the BJP will be the largest single party. Beyond that, people were unwilling to commit. BJP was forecast to get anywhere between 150 to 210 seats with caveats as to whether it would form the government with its coalition partners. Congress was forecast to increase even more than double its current number of seats. Its Grand Alliance could just drag it above NDA if BJP score low.

Then the Saint Valentine's Day massacre took place at Pulwama. India waited for a fortnight and retaliated. The match was over when Pakistan returned the Indian pilot. Each side thought it had won, which is the ideal outcome in any battle. This was an unanticipated event and of a very low frequency. It has upset all predictions.

The BJP is not openly jubilant electorally but thinks it has a cushion now and its single party majority is not out of the question as it looked like being after the multiple defeats in state

elections last December. Congress is desperate to downplay Indian success and wants to make it an 'Army good/Modi bad' story out of it. Either way, the Opposition is getting desperate. It may lose its best chance of defeating Modi. BJP, on the other hand, is secretly happy that all 'real' issues can be forgotten. Victory has been guaranteed by the barrel of a gun or a missile shot from an aircraft.

In fact, no one knows. There is no certainty that the skirmish will necessarily help BJP. In the UK elections, there is the story that the Falklands War helped Thatcher win the 1983 elections despite the economy being in stagflation. Even there, the Conservatives were in the lead before the Argentinians began their attempt to take over the Falklands. People, even the unemployed, felt Thatcher deserved a longer period to change the failing economy.

Modi can also be favourably seen as someone halfway through transforming the Indian economy. He is hoping people will see how much he has done and yet how much remains to be done. His opponents want people to think that Modi overpromised and underdelivered. The balance is slightly in Modi's favour in my view but, cautiously, I put the BJP seat count pre-Pulwama at no more than 230. Will the skirmish help Modi?

The main point of uncertainty is that the war may not be over yet. Though the skirmish belongs to a class of events of low frequency, no

encounter has been this short. Both sides may be congratulating themselves too soon. The terrorist who is the third player in this game is unpredictable. He has not won nor does he ever stop. It very well could be (though I hope not) that another major case of large casualties may hit India and, at that stage, the conflict may get prolonged. Then, the BJP will have to govern while fighting the election, if the conflict has not come to an end before the end of the election campaign.

At that stage, all bets are off about who will benefit or lose from the military campaign. The Election Commission is about to announce its timetable any day now. If a war breaks out after the timetable has been set, it would require a consensus on behalf of all political parties to postpone the election.

There is no precedent for it nor is it clear who has the last word on this tricky question. There are limits on what the incumbent government can or cannot do during an election. But a military battle has to be fought and only the government, still in office, can fight it.

But a vigorous contest with open debate is impossible under such circumstances. Even the aftermath of Balakot has been clouded by controversy, fake news and conjectures. The Indian political system could face its toughest test if an election had to be conducted under wartime circumstances. The only hope is that the unpredictable will not happen. Let us all whistle in the dark.

## MEGHNAD DESAI

Prominent economist and labour peer



## LETTERS TO THE EDITOR

### Implementing efficient credit norms

Enforcement of norms on bad loans ought to be realistic and viable. Premature or too real-time disclosures can increase volatility, diminish investor confidence and impact a stakeholder's market goodwill. The authorities have done well to prioritise the rehabilitation of PSBs and mitigate capital/operational risks. However, with recent incidents of fraudulent activities coming to light, it is important to establish a robust cybersecurity framework and micro-monitor transactions and the end-use of credit to curb instances of phishing/dubious transactions. A slight lag is expected before the outcome of initiatives to implement governance reforms — Girish Lalwani, Delhi

### Ayodhya mediation

The Supreme Court's decision to give 'mediation' perhaps one final chance, to try and settle the land dispute at Ayodhya, is welcome. It goes without saying that a negotiated settlement is the best option to avoid strife and ensure harmony. There is no reason why an amicable settlement cannot be reached with 'give and take' by both sides. The hot heads on both sides that have a vested interest in taking maximalist positions have to be reined in for the mediation effort to fructify. In a country where Hindus and Muslims live cheek by jowl, a temple and a mosque can exist side by side in close proximity to each other as elsewhere and everywhere as a collective symbol of religious tolerance and harmony. After all, humanity is far more important than religion — G David Milton, Maruthancode

Write to us at feletters@expressindia.com