Ten unanswered questions on Jet

Subtext: Quick fixes don't work in business

NOT FOR PROFIT

NIVEDITA MOOKERJI

A failing airline with two-thirds of its fleet grounded has witnessed so much drama around it that a person close to the events was compelled to draw comparisons with Netflix action series. Jet Airways employees, including the crew, are not amused by the Netflix-like twists and turns in the much hyped up resolution plan to keep the airline flying. While the state-owned banks are stitching together a last-minute rescue plan to ensure a private airline doesn't go down ahead of the Lok Sabha elections, there are at least 10 unanswered questions on how and why the Jet issue has been reduced to a drama with no clear plot or ending.

Let's start with the Jet board meeting of February 14, when the draft resolution plan to convert lenders' debt to equity was approved. How did the Jet board give an in-principle nod to a plan which was tweaked and changed so many times after that? In other words, what exactly was the board approval for if the contours of the deal underwent so many changes after that?

Two, the outcome of the Jet EGM on February 21 came as a puzzle. What had looked like a walkover earlier turned out to be not quite so subsequently. Why is it that the voting pattern at the EGM did not capture what was in store?

Next, the memorandum of understanding (MoU) between the two parties — Etihad Airways with 24 per cent holding and Jet founder Chairman Naresh Goyal with 51 per cent — has been a mystery in the piece. So, the third question with no answer is this: How was an MoU struck without any "understanding" between the two partners who are not known to be fond of each other? Soon after the MoU, based on the lenders-led resolution plan, was discussed at the Etihad board meeting on March 11, the silence emanating from Abu Dhabi made it quite clear that it was a no-go deal.

> **Jet Airways employees, including the crew, are not amused by the Netflix-like twists and turns in the much hyped up resolution plan to keep the airline flying**

Fourth, what was it that Etihad CEO Tony Douglas wanted and SBI chairman Rajnish Kumar refused, at their meeting in Mumbai on March 18, that not only did the resolution deal fail but the Abu Dhabi airline decided to exit Jet completely?

The fifth question arises from there. Did Douglas fly down to Mumbai earlier this week with the purpose of making an offer to SBI that Etihad was willing to sell its 24 per cent share in Jet at a discounted rate of ₹150 a share, making it a ₹400-crore deal?

Sixth, if Etihad had already decided to exit the venture, what gave lenders, especially SBI, so much confidence that they promised a resolution plan would be done and dusted within a week? On March 15, bankers had said Jet resolution would come in a week. By March 18, they were piecing together a Plan B.

Seventh, why did Naresh Goyal and son Nivaan Goyal fly to the Qatar Airways headquarters in Doha to give a presentation soon after hearing a "no" from long-time partner Etihad? Did they really think it was worth it, while names of other possible contenders floated around without any evidence?

Eighth, wouldn't state-owned banks putting in additional funds in Jet mean another liability for the government? And can our system afford it, especially as Air India continues to be in the bucket list for divestment even after a failed effort by the government recently to sell it?

Ninth, should the policy makers still talk about preference for Indian ownership over foreign when a consortium of banks is set to take control of what used to be a top airline of the country not too long ago? Don't the banks have their hands full already?

The tenth question is about the regulator. Why is it that the Directorate General of Civil Aviation (DGCA) has not taken any stand yet that would send out a message to businesses about shaping up or shipping out? Even with mass grounding and cancellations, Jet has not been told to stop passenger bookings yet. Shouldn't the regulator ensure both safety and convenience of passengers? In this case, safety may be compromised as pilots are under stress with no payment of salaries since December. And convenience has been a casualty as nobody knows which Jet flight would be grounded next, throwing passengers' plans in disarray.

This is not an answer to any of the 10 questions, but it's no rocket science that quick fixes don't work in any serious business. Jet is no different.

CHINESE WHISPERS

Model village

ILLUSTRATIONS BY BINAY SINHA

As the election fever grips India, political parties are fighting to identify empty spaces to place their banners, flag posts, speakers and so on. Everywhere, but not in Allangulam, a small village in Ramanathapuram district in Tamil Nadu. The village, with about 500 families, allows residents to display banners to convey information about their families and festivals, but bars them from including political party symbols, leaders' pictures and caste information. The villagers feel such information creates divisions among residents. The village elders allow parties and their leaders to go there for campaigns, but they don't allow parties to form caste organisations, fans clubs etc. A model village indeed!

Too cheap

The use of social media during elections has increased dramatically in recent years. WhatsApp seems to be the platform of choice for most players this time around. An interesting campaign on WhatsApp asks "going to sell your vote for 27 paisa?". The math is simple: One year = 365 days; so five years = 1,825 days. If one vote sells for ₹500; per day it works out to ₹500/1,825 or 0.27 paisa. "Think before you accept money for vote", the campaign urges its target audience.

Do not mix

The enforcement of the Election Commission of India's (ECI) model code of conduct has created a different kind of problem for some government officials in Madhya Pradesh. The ECI is quite sensitive about complaints related to the political affiliation of government officers. The district collector of Umaria, Amarpal Singh, and superintendent of police of Singrauli, Hitesh Chaudhary, have been transferred because their relatives are prominent figures in local politics. The Bharatiya Janata Party had filed a written complaint against both. Amarpal Singh is the husband of former MLA, Pramila Singh, and Chaudhary is the younger brother of Congress MLA, Kunal Chaudhary.

IL&FS' systemic structural flaw

Its status as a Systemically Important Core Investment Company created an opaque, hydra-headed organisation

SUDIPTO DEY

"Many experts feel the exemptions given at the NBFC level did not allow the regulators to get a full view of group's wide maze of associate companies and multiple layers and the attendant financial stress that they were going through."

The beleaguered IL&FS group has been in the eye of the storm since September last year for defaults in payment obligations of bank loans by group companies. What has also come under the scanner is the group's complex corporate structure with 346 sub-companies under its ambit. This includes over two-dozen direct subsidiaries, 135 indirect subsidiaries, six joint ventures, four associate companies, among others.

TAKE TWO

Although most companies in the infrastructure business claim operating a multi-layered corporate structure is regular business practice, it may be worthwhile to check out how this hydra-headed organisation structure created opaqueness in group's operations and its financials.

Soon after taking charge, the new government-appointed board at IL&FS in October appointed an external agency to suggest ways to consolidate the current structure with multiple layers. Whatever shape the trimmed down multi-layered structure takes, however, experts say it has to be backed by enhanced regulatory monitoring mechanisms, both from within the company and from outside.

Legal experts feel that the regulatory oversight over IL&FS group was the result of the group structure, with a non-banking finance company (NBFC) sitting at the top. IL&FS Ltd, the holding company, is a specialised NBFC that has been categorised by the Reserve Bank of India (RBI) as Systemically Important Core Investment Company (CIC). CICs are allowed to invest in group companies or give guarantees to issues on behalf of group companies. They enjoy several exemptions that a typical Companies Act-regulated corporation would not enjoy.

There are no specific provisions in the Companies Act that deal with the structuring of infrastructure lending companies. The relevant guidelines on borrowing and lending norms are provided under the RBI guidelines, say experts. Interestingly, the Companies Act allows up to two levels of step-down subsidiaries. There are some grandfather clauses permitting companies with layers of subsidiaries in excess of the prescribed limit to merely report the structure to the Registrar of Companies. "The Rules also provide blanket exemption from applicability of restrictive layers to systematically important 'Non-Bank Financial Institutions' and 'Non-Bank Financial Companies'," says Nischal Arora, director, regulatory at Nangia Advisors.

While the two-layer restrictive structure is essentially meant to weed out rampant use of Special Purpose Vehicle (SPV) structures, use of SPVs is a common business practice in infrastructure projects business, say experts.

Many experts feel the exemptions given at the NBFC level did not allow the regulators — the RBI and Securities and Exchange Board of India (Sebi, for listed entities) — to get a full view of group's wide maze of associate companies and multiple layers and the attendant financial stress that they were going through. As a result, regulatory monitoring and supervision over a diverse group like IL&FS fell through the cracks. The slips may continue for any large, diverse group like IL&FS without consolidated view of group's financials and appropriate group-level corporate governance practices.

> **The government has now moved courts to scrutinise IL&FS accounts for the past five years. The new board has instituted a forensic audit while the RBI has initiated a special audit. This may be a case of vigilance after the problem has developed into a full-blown crisis**

The absence of group-level reporting created an opaque structure for lenders. "In most cases the lenders would assess any proposal looking at standalone figures, without much visibility over group level stress," says a banker who has dealt with the group. The new board reportedly found that there were no central repository of bank accounts and that the data was stored in different formats and in different systems across the group.

The government in its court filing said IL&FS was "indiscriminately" borrowing money, and "has been presenting a rosy picture and camouflaging its financial statements by hiding severe mismatch between its cash flows and payment obligations, total lack of liquidity and glaring adverse financial ratios".

One of the recommendations by the Sebi Corporate Governance Committee, headed by Uday Kotak, on the enhanced monitoring of group entities was to constitute a dedicated group governance unit to monitor subsidiaries. The recommendation was accepted by Sebi in May last year. The presence of such a unit at IL&FS would have given holding company directors, regulators, investors a better view of group's corporate governance practices.

However, another recommendation by the Committee that is still to find acceptance is to make auditors of listed companies in holding companies responsible for the audit opinion of all material unlisted subsidiaries. Audit experts say this would have given holding company auditors a better view of the financials across the group. The current practice is that the holding-level auditors accepts the views presented by the entity-level auditors and qualify their reports accordingly.

The government has now moved courts to scrutinise IL&FS accounts for the past five years. The new board has instituted a forensic audit while the RBI has initiated a special audit. This may be a case of vigilance after the problem has developed into a full-blown crisis. Given IL&FS's systemic risks, the time to tackle the "subsidiary" problem of the NBFC industry has become urgent.

INSIGHT

Just enjoy the opinion polls

Is an opinion poll a self-fulfilling prophecy? Does it have enough potential to control the future?

ATANU BISWAS

Hillary Clinton had reason to rejoice over the opinion polls during the last US presidential election, while Donald Trump was apparently a bit scared — he repeatedly accused the media for being biased against him. Similarly, the Conservatives repeatedly complained before the 2012 election, that the media showing the opinion polls would help Obama. Many experts and politicians believe that opinion polls are instrumental in creating or mobilising public opinion. "There is no such thing as public opinion. There is only published opinion." This is what Churchill had said, in his own style. However, is an opinion poll a self-fulfilling prophecy? Does it have enough potential to control the future?

First, consider the "bandwagon" effect of the opinion polls. Some electorates certainly have the tendency to support the apparent leader, and moreover the natural tendency of people is to stay with the winner. Donald Trump in 2016 or Mitt Romney in 2012 was afraid of such bandwagon effect of the opinion polls. There were several small studies in the US regarding this at different time points. In a 1994 article in the *Journal of Politics*, a study on a group of students from the Kentucky University was reported, where the support towards the winner of the opinion poll was double among the students who knew the opinion poll results than those who were ignorant about it. Again, two researchers from Stanford University and Dartmouth College have described a study on about 900 people around the 2012 presidential election, where 9.1 per cent people opined they would have changed their votes had they known the opinion poll results. The bandwagon effect in this case is "7.2 per cent to 11 per cent with 95 per cent probability".

In practice, the amount of bandwagon effect is utterly unknown, and very likely to change from situation to situation. The bandwagon effect might be more for young voters. According to a report, before the Delhi assembly election in 2013, an Aam Aadmi Party (AAP) internal study showed that 77 per cent of those who wanted to vote for the Bharatiya Janata Party (BJP) believed that the BJP would win. These percentages were 78 and 91 for the Congress and AAP respectively. Thus, the bandwagon effect is quite clear. A Centre for the Study of Developing Societies (CSDS) study in the backdrop of the 2014 Lok Sabha election shows that about 43 per cent of the voters float in *hawa*. However, there are many sources of *hawa*. Opinion polls, according to that CSDS study, provide only 3 per cent of the *hawa*. However, in many cases, that may be more than sufficient to change the result of an election.

However, there is no reason to think that winner in opinion polls would always get public support. Hillary Clinton, Ed Miliband or Atal Bihari Vajpayee could vouch for that. Actually there might be an opposite effect of opinion polls as well, called the "underdog" or "boomerang" effect, which is sort of compassion towards the trailing candidate. Democrat Harry Truman was trailing behind Republican Thomas Dewey by more than 5 per cent in Gallup's opinion poll in the 1948 US election. Many Republicans were so confident of a Dewey victory that they didn't even turn up to vote. The rest is history of monumental blunder of opinion polls — Truman won by a 6 per cent margin. Experts attributed a part of this to a sympathy-wave towards trailing Truman. In fact, in 2008, both Barack Obama and John McCain tried to portray themselves as underdogs to gain such sympathy. It is again impossible to exactly quantify this underdog effect, although some researchers believe that its effect might be less than that of the bandwagon. However, an analysis of the data from 1950-97 in Britain showed that the underdog effect was significant in that election.

> **Opinion polls might have serious effect on democracy in terms of voter turnout, particularly if they exhibit big differences between the potential winner and the loser. If, however, the opinion polls from different organisations indicate different directions, they can pacify the effects**

The third important effect of opinion poll is the possibility of "strategic vote". Let's take a simple illustrative example. Suppose there are three political parties, say A, B, C, contesting in an election. From the opinion polls, Party C understands it has absolutely no chance of winning. Instead, Party A is going to win, whom Party C dislikes most. So the supporters of Party C might vote for Party B only to defeat Party A. Such a strategic vote played a key role in the 2014 election in Holland, and also in the huge victory of Justin Trudeau in Canada in 2015. Such strategic polls are inevitable in multi-party democracies, and these are bound to be deeply affected by the opinion polls.

In reality, all these effects are mixed — within many other issues of the election, and hence the quantum of their individual effects are absolutely unknown. More detailed studies are certainly needed in the larger interest of democracy.

Opinion polls might have another serious effect on democracy in terms of voter turnout, particularly if they exhibit big differences between the potential winner and the loser. In the US, in 1996, Bill Clinton was far ahead of Bob Dole in the opinion poll. As a result, the polling percentage was only 49, the lowest in 72 years.

If, however, the opinion polls from different organisations indicate different directions, they can pacify the effects. Interestingly, often, most opinion polls speak in the same tune, even when they are proved wrong later.

However, personally I don't advocate against opinion polls. In fact, without opinion polls, the thrill of elections will be halved, if not even less. The undesirable effects of opinion polls would be reduced if people consider such survey results more of fun, rather than take them seriously.

The author is professor of statistics at the Indian Statistical Institute, Kolkata

LETTERS

Laughing stock

The *"MainBhiChowkidar"* campaign has reduced the world's largest democracy to a laughing stock. Thanks to Prime Minister's ingenuity, India is now a land of *chowkidars*. Conceived and launched as a counter to Congress party's *"ChowkidarChorHai"* jibe, the Bharatiya Janata Party (BJP) seems to have relied on the catch-phrase to romp home. If addition of the word *chowkidar* as a prefix to Twitter handle names alone could win an election, then all is not right with that democracy. The *chowkidar* tag may not quite resonate with the country's impoverished multitudes as the watchman or *chowkidar* is employed by the rich for protecting their wealth. If the Opposition succeeds in portraying Narendra Modi as the *chowkidar* for the rich, the BJP stands to lose.

The poor still outnumber the rich in our country. The BJP could have made a bigger claim — than being just a *chowkidar* — if it had convincingly established that the Rafale deal was not dubious. Instead, it has roped in actors, sportspersons, school children and soldiers to lend colour to the campaign video and make it appealing. It is not yet clear whether the BJP's exhortation to make the *"MainBhiChowkidar"* campaign a people's movement will help in Modi's re-election. A *chowkidar* does not look like a good substitute to a chaiwala to tap the voters' innate sympathy for weaker sections and recreate the Modi wave.

G David Milton Maruthancode

More power to Lokpal

After a long struggle of about five decades, for which credit also goes to social activist Anna Hazare, an ombudsman (Lokpal), has finally been appointed. Looking at the rampant corruption in the country, there was a crying need for an empowered and independent ombudsman. It is an open secret that a parallel economy sustains a parallel government. Corruption must not only be exposed, but completely eradicated. It is at the root of many developmental projects stalling; in turn it will stop the progress of the country. The appointment of a Lokpal might not have a dramatic impact on the lives of common people, but it will be an onerous responsibility to live up to popular expectations. It is high time that the government. whichever party comes to power after the ensuing elections, extended wholehearted support for Lokpal's effective independent functioning.

S K Khosla Chandigarh

Letters can be mailed, faxed or e-mailed to:
The Editor, Business Standard
Nehru House, 4 Bahadur Shah Zafar Marg
New Delhi 110 002
Fax: (011) 23720201 · E-mail: letters@bsmail.in
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Import duty misstep

Higher tariffs on components hurt manufacturing

The government is reportedly considering a further increase in duties on crucial components used in the manufacturing of electronics. In particular, the Union ministry of commerce is believed to be examining a possible increase in the import tariff imposed on compressors — which are an integral part of the cooling mechanism in such white goods as air-conditioners (ACs) and refrigerators — as well as on the pre-coated steel sheets and copper tubes that are also used in the manufacturing process of these items. This follows a previous increase in the duty on compressors last year, from 7.5 per cent to 10 per cent. Even though the central idea is to boost domestic manufacturing, what is more likely to happen is that domestic consumers will suffer the impact of costlier imports. Merely raising import duties hardly ever improves the overall outcomes either for consumers or producers. Previous changes in the tax environment have been passed on to consumers in this sector — first from the Goods and Services Tax (GST), and then from the tariff increase on all ACs, washing machines and refrigerators. That last increase doubled the tariff rate to 20 per cent.

The commerce ministry is said to be concerned about the growing current account deficit, which was dangerously close to 3 per cent of the gross domestic product (GDP) in the quarter between July and September 2018. A tariff hike that raises the price of imported goods would, of course, depress demand for those items and thus exert downward pressure on the current account deficit. However, this is a short-sighted way of going about it. For one, it will have dangerous long-term implications. Raising the tariff on components does little other than pressuring large companies to move manufacturing offshore. This was the consequence, for example, of an increase in duty on flat panel LCD screens — manufacturing was moved out to Vietnam.

The only safe way to deal with a current account deficit that is structurally high is to increase exports in a sustainable manner. How is that to be achieved? Essentially by creating a globally integrated, competitive manufacturing sector within India. But for that to happen, the government cannot raise tariffs on a whim. Manufacturers need a sense of security about their costs, or they will choose to locate their plants in places where there is more predictability about the availability and cost of components. Tariffs that are high, especially on intermediate goods and components, do little but disincentivise the incorporation of India into the tightly-knit global supply chains that are central to how manufacturing, especially in the electronics and appliances sector, works today. A more robust approach would be to institute wide-ranging measures to boost exports and simultaneously reduce the import-intensity of the economy.

What is unfortunate is that the industry has also not been speaking with clarity about this issue. It is frequently willing to welcome duty hikes on final products that, in effect, consist of protection for domestic markets and producers. But a protectionist policy cannot be controlled for the benefit of one sector or another. It is important, therefore, to ensure that tariffs stay low across the board and that there are enough voices from the corporate sector making that point. The government must meanwhile realise it cannot continue on a path that will certainly harm manufacturing and exports in the long run.

Noisy problem

NGT has drawn attention to a long-neglected area

By directing the Central Pollution Control Board (CPCB) to prepare plans to curb noise pollution across the country, the National Green Tribunal (NGT) has initiated the long-delayed combat against a critical pollutant that has till now received scant attention. Like environmental pollution, noise pollution, too, is the outcome of human activities — industrialisation, urbanisation and modern lifestyle. But the awareness about its perils is wanting. Prolonged exposure to any sound louder than 80 decibels, even if it is music, can impair hearing, breathing and thinking processes besides affecting overall human health and productivity. Noise beyond 120 decibels can cause biochemical changes in human bodies, raising cholesterol and blood pressure with the attendant health risks. The hearing loss due to excessive noise is reckoned by the World Health Organisation to cost $750 million to the global economy every year. Factories, airports, railway stations and busy roads usually have noise levels much above the safe standards. Indiscriminate honking with pressure horns, excessively loud music systems in cars, homes, dance bars and other public joints and the use of loudspeakers at full volume at religious, social and political gatherings worsen this menace.

While air and water pollution have, thankfully, begun to receive attention and even some corrective action, noise pollution remains unaddressed by and large. The NGT has, therefore, done well to ask the CPCB to categorise cities on the basis on their noise profile, identify the noisy hotspots and propose remedial plans within three months. It has also called upon police departments in all states to procure sound monitoring devices and assist the pollution control authorities in their efforts to mitigate noise pollution. Legal provisions to prosecute the noise-makers already exist. Section 2 (a) of the Air (Prevention and Control of Pollution) Act, 1981, includes noise in the definition of pollutants. Noise pollution control rules, framed way back in 2000 under the amended and updated Environment Protection Act, 1996, went to the extent of specifying ambient standards for different places in respect of permissible din. Unfortunately, these have remained only on paper. Though noise monitoring mechanisms were established in a few cities, these were hardly ever put to any gainful use by way of follow-up action.

Given the diversity of noise pollution, only multifaceted, yet situation-specific, strategies that include measures ranging from awareness creation to punitive action can work. One way to tackle this menace, as indicated by the NGT, is to bind the manufacturers of public address systems and sound amplification equipment to provide inbuilt noise meters and data loggers in their products. This would help regulators — the pollution control bodies or the police — to establish violation and fix responsibility. Another approach could be on the lines of what is sought to be tried out in Thiruvananthapuram. It makes prior permission obligatory for setting up public sound systems and bars placement of loudspeakers beyond 300 metres from the venues of religious, social or political events. Religious bodies, in particular, would need to be sensitised about the ill-effects of the loud sound to get them to change the noise-generating customs. The youth, who face the greatest risk of irretrievable hearing damage from personal music systems, also need to be targeted specifically for this purpose. Most importantly, pollution control bodies need to treat noise pollution on par with other kinds of pollution.

ILLUSTRATION: BINAY SINHA

Economy: Glass more than half full

India may well be entering a Goldilocks period on the back of high rate of growth combined with macroeconomic stability

There is an attempt in several quarters at creating a narrative about the weak economic performance over the last five years. This is despite the undeniable fact that the economy has averaged over 7 per cent growth in the past five years, which comes along with perhaps the strongest macroeconomic conditions in any five continuous years since 1991. Average inflation is about 4 per cent; coming in at 2.57 per cent in February 2019; fiscal deficit has been brought down from an inherited level of over 6 per cent to 3.4 per cent now; current account deficit remains below 3 per cent; foreign exchange reserves above $400 billion and external debt-to-GDP ratio at below 25 per cent. Public sector banks have finally come out of the crisis with the government pumping in nearly ₹3 trillion for their re-capitalisation. As a result, growth of non-food credit from commercial banks to industry and infrastructure has finally started to accelerate after declining for more than six years until March 2017. Commercial bank credit to the Micro, Small and Medium Enterprises sector (MSME) has increased by a whopping 19.6 per cent (until January 2019, annualised). It was in negative territory both in FY 16 and FY 17. FDI inflows have risen to $62 billion in FY 18 and are maintaining that pace in FY 19. These numbers certainly do not reflect India as a flailing economy as some would like us to believe.

PAHLE INDIA

RAJIV KUMAR

The naysayers may well question whether this significant growth accompanied by macroeconomic stability translated into better living conditions for those at the bottom of the pyramid. Here, the government's case becomes even stronger, spanning physical, financial and social infrastructure: 1.94 lakh km of rural roads completed; 13.7 million houses in rural and 5 million in urban areas constructed; 100 million toilets have been built; 310 million Jan Dhan accounts opened, currently holding deposits of more than ₹18,000 crore; almost 140 million beneficiaries enrolled under subsidised insurance schemes; for the first time, all those earning less than ₹15,000 per month are being brought under a social security net; and 70 million women have been given gas stoves with cylinders. Remarkably, more than 1.5 million patients have already benefited from health insurance provided under Pradhan Mantri Jan Arogya Yojana (PMJAY) since its launch barely six months ago on 23 September. It is learnt that that the incremental rate is already approaching 50,000 patients per month, which implies that all potential beneficiaries are effectively covered and have necessary information in less than half a year of implementation. This is unprecedented. These are hard facts that point to the unwavering resolve of the government in setting challenging targets, ensuring effective implementation, thereby achieving inclusive growth.

Yes, it is of course true that the economic performance could have been even better. In my own view, India's growth potential is appreciably higher than the average 6-7 per cent achieved since 1991 (which was significantly lower in earlier decades). Over the decades, inefficiencies and slack have become embedded in practically all dimensions of the economy as a result of poor governance, over regulation and rent-seeking behaviour that has stymied private entrepreneurship and innovation. Some of that is being addressed through extensive digitisation of government services; rationalisation of certification requirements; and further liberalisation of licensing and permit procedures. But in some areas there is still work to be done. Agriculture sector modernisation is one such area, which could result in an extra point of GDP growth. With the stabilisation of the GST regime by the end of its second year in July 2019, new growth impetus is sure to be generated. But let me dwell on an area that could have significant growth enhancing potential by lowering the costs of capital in the economy and whose importance may not be evident to many. This is the issue of more efficient management of the country's public debt.

India's public debt-to-GDP is ratio is at about 71 per cent— higher than 60 per cent recommended both by our Fiscal Responsibility and Budget Management (FRBM) norms and by the International Monetary Fund (IMF) for emerging economies. It is also higher than China's public debt-to-GDP ratio, which is 47 per cent. Given the focus of global credit rating agencies on public debt, this results in lower credit ratings for India, four to five notches below that of China. This implies costlier debt and higher real costs of capital, which adversely impact investment activity.

However, it is worth noting that in China household debt-to-GDP ratio was about 50 per cent in 2017 (IMF data) and total private debt is around 206 per cent of GDP. In India, quite inexplicably, household debt is a mere 11 per cent (all figures refer to 2017) and private debt barely above 50 per cent of GDP. A better debt management strategy would surely shift some of the Central and State government debt to municipal bodies, public sector entities and households and encourage the private sector to borrow larger volumes and drive growth. With the resultant decline in government debt-to-GDP ratio, India's credit ratings will improve and result in a decline in capital costs spurring investment activity both by corporates and households. An independent public debt management office will optimise our debt profile, thereby releasing further growth impetus.

By enacting the Insolvency and Bankruptcy Code and setting up the National Company Law Tribunal (NCLT) process, the government has also helped unlock vast amount of capital locked in defunct projects. More than ₹3 trillion worth of assets have been resolved, thereby further augmenting the supply of capital in the economy. As the process gathers pace and exit is facilitated, it would help to increase supply of investment funds, resulting in lower capital costs, giving a further lift in the coming years.

It should be clear that the attempt to build a negative narrative about India's economic performance is disingenuous. For the investors as well as the targeted beneficiaries of welfare schemes, the ground reality is very different. No doubt then that investment banks like the Goldman Sachs and others are raising India's weight in their portfolio. So the economy may well be entering a Goldilocks period on the back of high rate of growth combined with macroeconomic stability, extensive structural reforms and good governance. Cassandras beware.

The writer is an Indian economist and is currently the vice-chairman of the NITI Aayog. Views are personal

Gender equality and the NDA paradox

Now that the annual PR-driven excitement of Women's Day is over, the impending Lok Sabha elections offer an opportunity to assess this regime's record on gender equality. Key macro-data highlights a curious paradox of the Narendra Modi government. Despite having a better quality of gender-oriented policies than the predecessor United Progressive Alliance (UPA), the needle on gender equality has scarcely moved, and in some cases has reversed under the National Democratic Alliance (NDA).

In December 2018, the World Economic Forum's Gender Gap Index placed India at 108 out of 149 countries, the same as the year before. The more granular sub-rankings, however, showed a deterioration on all counts. For instance, in health and survival, its rank fell six point from 141 to 147 over the year (the third lowest in the world), in educational attainment rankings, from 139 to 142. Although not strictly comparable because the base is larger now, India stood at 87 out of 142 countries in the 2016 rankings, suggesting a significant and rapid deterioration.

SWOT

KANIKA DATTA

Then, the National Sample Survey Organisation's latest jobs survey showed a sharp fall in female labour force participation rate from 42.7 per cent in 2004-05 to 23.3 per cent in 2017-18. Many theories have been advanced for this fall, which has been sharper than the labour participation rates for males in the same period (84 per cent to 75.8). Among them: Women are leaving the workforce to pursue higher education; or in some segments of society, the stigma against working women keeps them at home. The first explanation is plausible given the explosive growth in the number of women enrolling for higher education — from 1.2 million in 2010-11 to 17.4 million in 2017-18. On the second, it is inconceivable that attitudes would have regressed so drastically in a decade, that too when women are supposedly being better educated. The 45-year high in unemployment following demonetisation is probably a better explanation, highlighting the basic truth that gender equality is not just a matter of pandering to a narrow vote-bank. Such policies are important, but they need to be underwritten by sustained economic expansion too.

In terms of women's empowerment, the Modi government has, on the whole, been active and practical. In his first Independence Day address, the prime minister spoke eloquently against violence against women. His Ujjwala scheme for distributing subsidised cooking gas to poor households has been a success, as even critics will acknowledge, reducing housewives' cooking chores and reducing exposure to coal fumes.

Mr Modi's minister for women and child development Maneka Gandhi has been energetically practical in promoting the rights of women in the workplace. In April last year, her ministry notified an increase in the maximum period of maternity leave from 12 weeks to 26 weeks. Then, noting a decrease in the recruitment of women on account of the longer maternity leave, she announced that the government would pay half the salary of the extended 14 weeks to women earning over ₹15,000 a month in the public and private sector using excess funds from the labour welfare cess (this has not been notified yet). Ms Gandhi also inaugurated a website for women to register sexual harassment claims and was among those women ministers who pressured the junior foreign minister to resign following #metoo allegations against him.

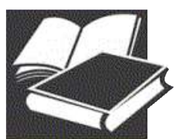
Among the government's misses the Triple Talaq law would figure. Though the NDA may have earned the gratitude of many Muslim women for moving to outlaw this egregious practice, the proviso for erring husbands to be imprisoned is unlikely to help the cause of their divorced spouses.

The United Progressive Alliance's policies, on the other hand, were less inspiring and in some cases somewhat cynical. The Women's Reservation Bill, which Rahul Gandhi is championing once again on the campaign trail, has proved a non-starter because most parties have, rightly, opposed it. Reserving 33 per cent of Lok Sabha seats for women is as pointless as the company law mandate for women's representation on corporate boards, which has signally failed in its objective to galvanise women's employment in the white-collar workplace.

It was the UPA that came up with the notion of a gender budgeting, a good idea that degenerated into a proforma exercise. After protests over a brutal gang rape in 2012 attracted national and international TV coverage, Parliament toughened laws against rape and passed a law on safety in the workplace from sexual harassment. In 2013, the finance minister also instituted a "Nirbhaya Fund" for protecting the dignity and safety of women and a Mahila Bank to extend loans to women. Of the two, the first does not appear to have achieved much: earlier this year, the Nirbhaya Fund proposer, P Chidambaram, complained about the use of the fund for building construction projects. As for the Bank, that merged for want of business into the State Bank of India in 2017.

In 2014, a record 65.3 per cent of women turned out to vote, marginally behind the turnout for men. Latest Election Commission numbers suggest that they will turn out in even greater force this year — women account for more than half the new registrations. Will their aspirations be fulfilled in the next five years? As before, the answer lies in the economy, stupid.

Raghuram Rajan's sermons



BOOK REVIEW

M S SRIRAM

Raghuram G Rajan when he was the Governor of the Reserve Bank of India was often accused of delivering speeches that were beyond the remit of his office of managing the country's financial and monetary system. It was, however, a pleasure to read those speeches because he raised interesting questions. This put Dr Rajan more in the realm of a public intellectual rather than an economist. Each of those were standalone speeches, thoughtful and specific to an occasion and context. They were collected in his previous book *I Do what I Do*. The present book — *The Third Pillar* — continues on similar lines.

This book is an attempt by Dr Rajan to pick up one theme and elaborate on it. He moves beyond markets and the state and focusses on the community, its role and its centrality. We are currently looking at the excesses of markets; the redefinition of the role of the state; and increasing polarisation of wealth. In this context it is crucial that someone of Dr Rajan's stature (that he is from Chicago is not lost on us) reiterates that the *raison détre* of both the State and the Markets — is actually people — the larger community. This thought is welcome. Dr Rajan has been a voice of reason amidst irrational exuberance. Therefore, it is not surprising that he is talking about the community and community-based systems.

While acknowledging that the context is appropriate and the author is the right person to talk about the issues, however, the book is a let-down. It is well-narrated and has most of the arguments. Unfortunately, it is neither specific nor does it have a strong framework. Dr Rajan is often preachy with commandments aimed at nobody in particular. This is very disappointing. That Dr Rajan chose to set the tone of the book in explaining and talking down to the reader rather than analyse and engage with the reader is intriguing.

The book also has an unnecessarily large historic canvas where Dr Rajan explains the evolution of the modern state and the modern market system. That was unnecessary for the arguments he was making about the communities. His basic thesis is that there was a historical trajectory on how the state and markets have evolved and now they seem to be working as an end in themselves and this needs to be rebalanced. He neither contests the state nor the markets through a counter-narrative that restricts their overreach. Instead, he broadly advocates self-restraint for State and Markets; and advocates that the community take charge before it is trampled by these behemoths. Self-restraint is an oxymoron. And there needs to be a framework for taking charge. It would have been brilliant if Dr Rajan had used the frameworks of (a) decentralised governance structures and (b) active civic society engagement as an enduring argument to frame his thesis. He uses those structures episodically, brings in anecdotal evidence to make a point but does not frame it tightly.

As I was reading the book I wondered if Dr Rajan was moving towards a Gandhian argument of localisation of production and governance systems. He tends to take the argument in that direction, but is suddenly reminded that the industrialisation has grown so big that it could be an infeasible case. He needs to defend capital and the state and make a strong case for community and thus ends up with this broad thesis: "Society suffers when any of the pillars weakens or strengthens overly relative to the others. Too weak the markets and society becomes unproductive, too weak a community and society tends toward crony capitalism, too weak the state and society turns fearful and apathetic. Conversely too much market and society becomes inequitable, too much of community and society becomes static and too much state and society becomes authoritarian. A balance is essential!"

How much is too much and how weak is too weak is a question we need to engage with. However, Dr Rajan has too many of these preachy bits: "We need to be creative about such programmes, making it easier for all to learn when warranted by the job market or intrinsically desired by the individual for personal interest or development, but not cross the line into forcing everyone to continue re-enlisting in unnecessary higher education. We should not overvalue the credentials produced by education, and should not prioritise work with the mind over work with hands or with people. After all, who knows where technological progress will take us?"

Who is the "we" in the above statement? The problem with the book is that all the arguments are laid out in the same tone — neither here nor there. If only Dr Rajan had used Gandhi's *Hind Swaraj* as a base document and engaged with its arguments in the current context, it would have given a brilliant framework, since Gandhi had the community at the core. He could have glossed over some of the arguments that may not be relevant to current times, but that framework would have best suited for Dr Rajan to make a more cogent argument. Alas, this is a book of good intention, great thoughts, lost in a preachy style.

The reviewer is a faculty member with Centre for Public Policy, Indian Institute of Management, Bangalore; mssriram@pm.me

THE THIRD PILAR: How Markets and the State Leave the Community Behind
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