Meeting a target

The government's fiscal consolidation efforts may result in a squeeze on its capital expenditure

RAISINA HILL

A K BHATTACHARYA

Will the Union government be able to meet its revised fiscal deficit target of 3.4 per cent of gross domestic product (GDP) for 2018-19? Legitimate doubts have been expressed in view of the latest numbers released by the Controller General of Accounts for the first 10 months of the current financial year.

According to these numbers, the fiscal deficit in the April-January period of 2018-19 has already risen to a level equivalent to 121 per cent of the revised estimates given in the interim Budget presented on February 1. This means that the fiscal deficit has already crossed ₹7.71 trillion in the first 10 months of the year and the government will need a fiscal surplus of ₹1.37 trillion in the remaining two months to reach the revised annual target of ₹6.34 trillion.

How difficult will it be for the government? Let the numbers speak for themselves. It will be useful to start the exercise by understanding the monthly trend of revenue receipts, which are more than two-thirds of the entire Budget size.

In 2017-18, the first 10 months had seen a collection of around 76 per cent of the total revenue receipts during the entire year. In other words, as much as 24 per cent of the total revenue receipts came in during the last two months of the year. Similarly, for net tax revenues for the Centre, which is a component of the total revenue receipts, the months of February and March accounted for about 22 per cent of the annual figure in 2017-18.

Assume for a moment that in 2018-19 also, the last two months of the year would mobilise the revenues at least at the same rate as last year. But the problem is that even if they do, the shortfall in meeting the revised revenue receipt targets would be as much as ₹1.33 trillion. This shortfall can be wiped out only if the government manages to garner as much as 32 per cent of the full year's revenue receipts in just the last two months, which is extremely unlikely.

What could the government do? On the capital side, disinvestment receipts are doing well, even though critics will always question its quality as it has now become a mere instrument for transferring resources to meet the government's deficit. By the end of January, disinvestment receipts had reached ₹35,606 crore against an annual target of ₹80,000 crore. In February, ₹20,867 crore of more disinvestment was completed, taking the total figure to ₹56,473 crore. Another ₹23,527 crore of disinvestments will have to be achieved in March, which is not an impossible target given the government's record in 2017-18, when in February and March alone the disinvestment receipts amounted to ₹44,652 crore.

The focus, therefore, will have to be on expenditure if the government wants to meet the revised fiscal deficit target. There is not much leeway in the government's revenue expenditure. On major subsidies, where there is always scope for deferment, there is very little flexibility now. In the first 10 months of 2018-19, expenditure under major subsidies is estimated at ₹2.59 trillion and the full year's expenditure under the revised estimate is ₹2.66 trillion. The last two months, therefore, will see hardly any subsidy disbursement as the government has already squeezed this expenditure head.

What can bail out the government is its capital expenditure. If that happens, it will be unfortunate. The squeeze on capital expenditure has already begun. Thus, by the end of January 2019, the government's capital expenditure is estimated at ₹2.29 trillion. The interim Budget's revised estimates had provided ₹3.16 trillion for the full year. Most likely, the government will not be able to use up the entire remaining allocations of ₹87,000 crore in the remaining two months.

It is even likely that the government might use the entire unspent amount under capital expenditure to bridge part of the ₹1.33-trillion revenue receipts shortfall. Remember that last year the government actually pulled back about ₹33,000 crore of capital expenditure in the month of March 2018. Thus, the government's capital expenditure till February 2018 was ₹2.97 trillion, but it fell to ₹2.64 trillion by the end of March 2018.

The increase in the nominal size of the Indian economy to ₹190 trillion for 2018-19, compared to ₹188 trillion earlier, will also give a fiscal deficit cushion of about ₹6,000 crore. With a little bit of extra push to mobilise more tax revenues and curtail capital expenditure, the government might still manage to stick to the revised fiscal deficit number. But critics will always question the quality of such fiscal consolidation efforts.

CHINESE WHISPERS

Bone of contention

Congress President Rahul Gandhi *(pictured)* addressed a rally in Jharkhand's Ranchi on Saturday where the leaders of Congress' partners in the *Maha-gathbandhan* or grand alliance in the state shared the stage with him. Sources say while the constituents of the alliance — the Jharkhand Mukti Morcha, the Jharkhand Vikas Morcha (Prajatantrik) [JVM (P)] and the Rashtriya Janata Dal — have built consensus over 13 of the 14 parliamentary constituencies in the state, the Lok Sabha seat of Godda remains a bone of contention between the Congress and the JVM(P). The Congress' Furqan Ansari, who contested unsuccessfully in 2014, is keen to contest again but his supporters say that his party's state leadership is loading the dice against him. They are hopeful that Gandhi's visit may provide them with an opportunity to settle the matter.

Name game

Surgical strikes 2.0 have had an electrifying effect on the people of India. All over Uttar Pradesh, there are reports — from Eta, Etawah and Lucknow, to name just three places — of families naming their newborn children "Abhinandan", after the Indian Air Force Wing Commander who returned home after downing a Pakistani F16. And so thrilled was he, that a father in a remote village in Rajasthan named his son, born during the aerial strikes, Mirage Singh Rathore: Will the name fly with the son?

Waiting for Abhinandan

By the time the flight carrying Indian Air Force Wing Commander Abhinandan Varthaman from Amritsar landed in Delhi, it was close to midnight and a media contingent was waiting. The presence of mediapersons caught the attention of many passers-by who, upon learning that the wait was for Abhinandan, decided to hang on for a glimpse of their 'hero'. That crowded the exit area in the airport and a mini chaos ensued. With a few among them seemingly inebriated to beat the cold wave conditions in the city, someone dialled the police control room and cops arrived to keep things under control. But much of the wait proved futile when the authorities despatched a convoy without Abhinandan, sending everyone into the chase. Later, Abhinandan travelled to the Army Research and Referral Hospital in Dhaula Kuan with another convoy.

How to clean up the rating mess in India

Create a junk bond market to ease pressure on agencies for giving higher ratings. Let them price in risk for exposures to lesser rated papers

BANKER'S TRUST

TAMAL BANDYOPADHYAY

A king loved walking on the streets but didn't want his feet to get dirty. So, a hefty award was announced for the person who could solve his problem. The first aspirant came with thousands of brooms; the cloud of dust, formed over the kingdom, made the king sick. The second one killed millions of sheep but still couldn't cover half of the roads with their skin. Finally, a cobbler entered the royal court; measured the king's feet and stitched a pair of sandals to cover them. The king could walk on the streets without getting his feet dirty.

How do we solve the problem that investors are facing for perceived inefficiencies of the credit rating agencies (CRAs) in India? A series of defaults by corporations have hit the lenders and bond holders hard and the CRAs are being blamed for misguiding the investors on the creditworthiness of companies.

Icra, a Moody's Investors Service company, downgraded Infrastructure Leasing & Financial Services from investment grade to junk, AA+ to D, by nine notches, at one go. The company had been enjoying the AAA status since 1997 and three CRAs — Icra, India Ratings & Research and Care Ratings — had rated it AAA, the highest level of creditworthiness. Another CRA, Brickwork Rating India, has recently been penalised by the Securities and Exchange Board of India (Sebi) for not adhering to the code of conduct. It delayed recognition of default in debt repayment by two companies.

A review of regulations governing the CRAs is imminent. The suggestions include an investor-pays model (now the issuers of debt papers pay for rating), mandatory rotation of rating agencies to avoid long association between the issuer and the CRA (intimacy blurs perception!), compulsory ratings by at least two or even multiple CRAs, particularly when the quantum of debt is big, more than ₹100 crore, and more CRAs to infuse competition.

There are 10 CRAs in the US but the "Big Three" — Standard and Poor's, Moody's, and Fitch Ratings — have a monopoly there. India has seven CRAs but here too the three large ones — Crisil, Care and Icra — roughly account for 80 per cent of the rating business and the rest is shared by India Ratings, Brickwork Ratings, Acuité Ratings & Research (erstwhile Smera Ratings) and the newest entrant, Infomerics Valuation and Rating.

Theoretically, one would welcome competition for two reasons — a reduction in fees and rise in the quality of rating. The fees are already low. The floor for bank loan ratings for many CRAs is ₹40,000 and the fees for debt instrument ratings are typically a few basis points, which can go up to 10 basis points, of the size of the debt being raised. One basis point is a hundredth of a percentage point.

A series of defaults by corporations have hit lenders and bond holders hard and credit rating agencies are being blamed for misguiding the investors on the creditworthiness of companies

Instead of raising quality, the presence of more rating agencies can end up diluting the standard further as often, many suspect, a few CRAs compromise on rating standards to get business. For the same reason, the investors-pay model might not work as nexus can build between the investors and the raters.

Most investors, particularly the mutual funds, often treat rating as a formality — a "stamp" that allows them to invest in a particular paper. They hate any downgrade as that affects the valuation and erodes the net asset value of the investment. If indeed the investors need to spend money to be assured of the quality of a debt paper, why would they pay the CRAs? They would rather spend the money themselves to conduct the so-called due diligence.

Like the cobbler who stitched the king's sandal to keep his feet dust free, the simplest solution is the creation of debt market. Currently, long-term investors such as insurance and provident funds do not invest in relatively inferior papers as the Insurance Regulatory and Development Authority, Employees Provident Fund Organisation and Pension Fund Regulatory and Development Authority allow only a minuscule portion of a fund to be invested in below AA rated papers.

Banks too are not excited to lend to a borrower that does not have BBB- rating (the lowest investment grade) as the risk weightage for such loans is higher. Higher risk weight means a bank needs more capital if it takes exposures to such papers.

In short, the solution is creation of a junk bond market. Investors and banks can price in the risk and take exposures to lesser rated debt papers and corporations. Unless the investment norms are relaxed, the CRAs will always be under pressure to give higher ratings. The US bond market is 120 per cent of the country's GDP; in contrast the Indian bond market's share of GDP is a shade over 15 per cent.

To be fair to the CRAs, one of the contributing factors to the delayed default recognition is unavailability of live data. Banks are required to furnish data of one-day default by borrowers (with exposures of at least ₹5 crore) to the Central Repository of Information on Large Credits (CRILC) but such data is not available to the CRAs.

While this is a handicap, a few CRAs take advantage of this and delay the defaults to look good as that serves the purpose of both the issuers and the investors. The access of live data will equip the CRAs to better appreciate risks but, at the same time, they should face hefty penalties for negligence.

Both S&P and Moody's were penalised for failure in quality control of ratings to mortgage-backed securities that led to the global financial crisis of 2008. In addition to a $1.37 billion penalty, S&P paid $125 million to the California Public Employees' Retirement System and another $80 million to the Securities and Exchange Commission, the independent federal government agency responsible for protecting investors and overseeing the securities markets. Moody's paid a $437.5 million penalty to the justice department and $426.3 million to the states and Washington DC while committing to ensure the integrity of credit ratings.

That's the quantum of penalty imposed by the Sebi on a CRA in India? ₹3 lakh. Even though the context is different, this is too small a punishment to get the CRAs on track.

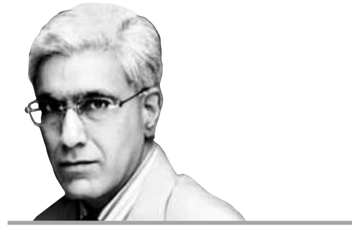
Finally, investors should stop giving so much weight to the ratings only. There are other critical signs to watch out for.

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

AS I SEE IT

Present evidence. Prove Imran is lying

The Balakot strike showed a determined India would respond decisively to terror. For this message to be delivered, the doubts must be removed



KARAN THAPAR

Today I'm going to focus on an important issue that hasn't really been raised by the Indian media but has been widely commented upon by a very substantial section of the foreign media. *The New York Times, The Washington Post, The Telegraph, The Guardian, Gulf News, Reuters, AFP, BBC* and *Al Jazeera* have all raised questions about what India achieved with the Balakot strike. Do we not need to be aware of what they've said? And don't we need to refute it if they are wrong?

First, let's look at what they've claimed. *The Washington Post* says there are "no signs of mass casualties". *The Guardian* claims "it was unclear… whether anything significant had been struck by fighter jets". *The New York Times* states "little had been damaged". *Reuters* reported that only one person was wounded and no one killed. *The Daily Telegraph* echoed that view. *Reuters* also claimed the Indian bombs missed their target. *Gulf News* repeats this. *Al Jazeera* believes the strike hit "a mostly uninhabited forest and a farmer's field" and there is "no evidence of any building debris or casualties". Finally, Jane's Information Group states: "this is more political symbolism than anything else".

Now there are two ways we could respond. The first is not to pay attention. This could be on the grounds the Western media has traditionally taken Pakistan's side and is doing so again. So, regardless of how widely it's read or watched, we need not worry. The other response would be to say the Balakot strike was intended to convey a message to Pakistan and Islamabad knows exactly how successful it was. We need not worry about anyone else. As long as Pakistan knows the truth that's all that counts.

Now, let's turn to what we've said. On the February 26, India's Foreign Secretary Vijay Gokhale simply said "a very large number of JeM terrorists, trainers, senior commanders and group of jihadis… were eliminated". In addition, almost every Indian newspaper and television channel quoted government sources to claim 300 terrorists had been killed. But this was general, non-specific and lacking in detail.

The information provided by the Indian military at Thursday evening's press conference was no better. In fact, it raised fresh questions. Air Vice Marshal RGK Kapoor said: "There's fairly credible evidence with us which proves that there was damage to the camps. Weapons hit the intended target and they caused the damaged that was intended… whatever we intended to destroy we have got the effect we desired. We have evidence to show that whatever we wanted to do and targets we wanted to destroy we have done that."

Cleverly or cryptically, the Air Vice Marshal did not explain what he meant by "the damage that was intended" or "the effect that we desired" or, even, "whatever we wanted to do… we have done that". All he said is India achieved what it sought to do and has "credible evidence" to prove it.

However, the Air Vice Marshal also said "it would be premature to say what is the number of casualties… and what is the number of deaths". So where did the figure of 300 terrorists come from? Indeed, you could even ask how was it ascertained in the first place.

This means nothing India has so far said effectively refutes the scepticism of the international media. But should we not take steps to resolve these doubts and prove what we achieved? After all, if we have the evidence let's make it public.

I have two reasons for asserting this. First, the Balakot strike was also intended to tell the world that a determined and strong India would respond decisively to terror and can hit hard. For this message to be delivered the doubts must be removed.

Perhaps more importantly it would also benefit us to prove to the Pakistani people their government is lying. Imran Khan told his Parliament "there were no human casualties". If we can provide credible evidence there were, we will undermine his stature as well as that of the Pakistan army and the ISI. Conversely, not to make our evidence public can only provide them comfort and security.

LORD KUMAR BHATTACHARYYA (1940-2019)

A titan amongst men passes away

TARUN DAS

When the history of a new Indo-British partnership, post 1991, is written, the name of Lord Kumar Bhattacharyya will be written in letters of gold.

He pushed the economic and industrial relationship higher and higher, breaking new ground and building new pathways. The Warwick Manufacturing Group took special leadership, bringing the best of manufacturing know how to Indian industry.This was institutionalised with the CII through a Centre of Excellence in Manufacturing, sponsored by Godrej & Boyce and located in Vikhroli, Mumbai. He projected this as an Indo-British Partnership Initiative.

In CII, he found a partner desperate to give priority to manufacturing, which had become uncompetitive in the decades post-Independence because of a lack of competition and pressure.

An important dimension was the several hundred Indian engineers trained at the Warwick Manufacturing Group. These engineers are scattered all over India working in a variety of industries. Lord Bhattacharyya therefore helped create a human resource army ready to face the world in manufacturing. This programme faced many challenges but he persisted in the mission to help Indian industry transform itself.

When he began the journey with India and CII, he was "The Prof". Later, he was made "Lord" but he was always the Prof to India. And a small example of his commitment to the Indo-British Partnership happened pre-general elections in the UK in 1997. Tony Blair, campaigning to win for the Labour Party, visited Warwick Manufacturing Group. Professor invited and introduced Supriya Banerji, head, CII UK, to Tony Blair. And, soon after, when Tony Blair won and became prime minister, an early meeting was with CII's CEO Mission, again thanks to the intervention of "The Prof".

When Bhattacharyya began the journey with India and CII, he was "The Prof". Later, he was made "Lord" but he was always the Prof to India

Another key role he played was connecting the leadership of the two countries, especially after the nuclear tests and adverse global reaction. He met former prime minister Atal Bihari Vajpayee, deputy prime minister L K Advani and foreign minister Jaswant Singh informally, and repeatedly, acting as a quiet bridge between the policy and decision makers. It was fitting that the government of India recognised his services to the nation with a prestigious Padma award.

He also worked quietly with the Indian High Commissioner in London, Ambassador Ronen Sen, to facilitate a regular dialogue with British media, especially the *Financial Times*, to project India.

Lord Bhattacharyya, of course, contributed enormously to the British manufacturing industry and received multiple awards in recognition. In particular in 2016, he was appointed Professor Regius of manufacturing which was an appointment by the Queen.

Beyond India and the UK he built close links with China, the US and Japan counselling and mentoring the development of manufacturing industry. So his partnership stretched across the globe.

Beyond countries and beyond institutions, like the CII, this unique man became mentor and guide to some of India's premier business groups. Two examples are the Tata group and the TVS Motors group. And, he brought Ratan Tata and Venu Srinivasan together under his umbrella, helped build friendship and mutual trust which led to Venu joining the Tata Sons board and, later, became vice-chairman of Tata Trusts. Another unique aspect of this man was that he never accepted any payment from anyone. It was all about friendship and caring. He was a "giver" never a "taker".

On the personal front, during the lifetime of his mother who lived in Calcutta, he made a daily morning calls to her.

Of course, he was not perfect, in fact happily absent minded always losing his specs. So his wife Bridie kept an extra pair everywhere at home.

And when he was asked how he was the answer was unchanging: "I am fine". He was always fine. His wife Bridie was fine. His three daughters, Anita, Tina and Malini were fine.

This was the great man who passed away on March 1, 2019.

Business Standard
Volume XXIII Number 143
MUMBAI | MONDAY, 4 MARCH 2019

Poor prescription

NCLAT ruling on IL&FS undermines RBI's role

The National Company Law Appellate Tribunal (NCLAT) has ruled that the debt of Infrastructure Leasing & Financial Services (IL&FS) and its group entities should not be declared non-performing assets by lenders without explicit approval from the appellate tribunal. On the face of it, the NCLAT ruling passed last week will provide relief to both IL&FS and the banks that are reeling from huge non-performing assets. The NCLAT ruling implies a status quo that will help the lenders to avoid classifying loans of around ₹53,000 crore as NPAs, helping them to avoid provisioning, at least for the time being. But the NCLAT should have thought through the issue before passing such an order.

The order is questionable on several grounds and creates the conditions for a potential turf war between the NCLAT and the Reserve Bank of India over the recognition of NPAs in the banking system. The first issue is that the NCLAT has drifted into an area that is clearly under the jurisdiction of India's central bank, which should have the last word on which loan should be treated as NPA and which should not. Judicial intervention of this nature is better avoided as the NCLAT ruling effectively undermines the RBI's sustained efforts over the past three years to push for greater recognition and provisioning of bad loans in the Indian banking system. There is no doubt that if banks were to follow the NCLAT ruling, they would be violating the RBI's asset classification regulations. The ruling also reverses the RBI's push against increased regulatory forbearance. At a time when the RBI's autonomy is being widely debated, this cannot be a good development for the central bank's authority and independence. This also goes against the RBI's efforts to ensure that the sanctity of the loan covenant is not lost through specific dispensation and forbearance. The RBI had sound logic when it said in the past that the regulatory effort was to ensure that default recognition and provisioning are delinked from the reasons behind default.

There is another reason why the RBI should feel compelled to intervene. The NCLAT ruling directly hurts the interests of the common bank depositors. That's because mere avoidance of recognition of an NPA does not help because banks will still not be able to earn any interest on such IL&FS loans. That, in turn, implies an erosion of depositors' interests, which the RBI cannot allow. The second problem is that the order discriminates between different types of financial creditors of the IL&FS. In other words, it favours banks by allowing them to defer provisioning for bad loans and avoid the negative impact on their balance sheet, while providing no relief to bondholders and mutual funds. Thirdly, even within banks, the order sends a bad signal. That's because it punishes those banks which have already provided for bad loans to IL&FS. Indeed, this order essentially encourages banks to pretend that nothing happened. But the point to note is at best, it will be a temporary relief to some banks. It would be wrong to assume the IL&FS issue as a one-off case, as the NCLAT order could become a precedent. The RBI has been silent so far, but it would do well to clearly articulate its position on the issue.

Copyright wrongs

EU's proposed law could shut out small online platforms

The European Union (EU) has just cleared the draft of a new copyright directive, which the European Parliament must vote on in March. Some of the provisions are extremely controversial because they could alter the way in which content is presented on the web. To be sure, at one level, it appears that an attempt has been made to offer strong protection to the rights of copyright holders. However, the suggested mode of protection could be prohibitively expensive and, therefore, shut out small online platforms. As of now, online platforms protect copyright via a process of safe harbour rules and takedown notices. In other words, it is assumed that the platform — it could be Google, Facebook, YouTube, WordPress, or a small platform — doesn't know if any content is under copyright or not. If a takedown notice is received, the platform has to take it down within a stipulated time to avoid facing legal consequences.

But the proposed EU law would demand that the host platform preemptively check for the copyright status of content before it is uploaded; the new directive says best efforts must be made to contact copyright holders before uploading. This provision would be imposed on any platform, which has over five million unique monthly visitors, or an annual turnover of above €10 million, or an operating history exceeding three years in the EU.

This presents a huge technical challenge — it will be expensive to design and implement such an "upload filter" to search for, and flag potentially copyrighted content. The large platforms may have the resources to do this but small players will not be able to comply. As such, this could lead to a situation where content disappears and the current, dominant players in this space become protected monopolies without the fear of competition from new entrants. The new directive also proposes to offer more revenue to copyright holders by narrowing the definition of fair use. While, for example, scientists and academics will be able to use content and data, and creative persons would also be able to evoke fair use, platforms might have to share revenue. There is a proposal that a platform would be restricted to a single word or very short phrases, before it would be liable to share revenue. This has huge implications for the news aggregator market because it directly targets that model. For example, a Google or a Facebook can now share a string of headlines of content from media organisations, and derive revenue from placing ads relevant to that news.

This would also apply to television programming and music as well, although there is a long list of exemptions such as online non-profit organisations such as encyclopaedias, marketplaces advertising wares, open source platforms, cloud storage services, etc. While this could provide revenues for copyright holders, it will be a very cumbersome task to check and license all content. This is especially true for content that may have multiple copyright holders. This provision has been criticised by the Electronic Frontier Foundation, which fears it might lead to arbitrary "black box" censorship by hosts who would rather be safe than sorry. If passed into law, member countries may interpret it in slightly different ways. Many provisions would also need to be clarified by application of case law. But it would clearly change the way the digital world works.

ILLUSTRATION BY AJAY MOHANTY

Will Trump get a second term?

The absence of a credible and strong candidate from the Democratic Party is a major factor working in his favour

SITHARAM GURUMURTHI

In the presidential poll scheduled for November 2020, the current incumbent Donald Trump is seeking re-election. In fact, Mr Trump filed for re-election on the very first day he took the oath of office as president of the United States on January 20, 2017. The performance of the US economy has undoubtedly been spectacular during the first two years of his presidency. Mr Trump promised a growth rate of 6 per cent when he became president in January 2017. While the economy grew at an annual rate of 3.2 per cent in the third quarter of 2017, GDP growth reached an annual rate of 4.2 per cent in the second quarter of 2018. This kind of growth has easily been the best for several years.

Corporation tax cuts towards the end of 2017 coupled with Mr Trump's ambitious "America First" and "Rebuild America" programmes stimulated the American economy that was fully reflected in the Dow Jones Industrial Average touching 20, 000 points for the first time in just 10 days after Mr Trump's inauguration and now close to 25,000. Similarly, the Standard & Poor's 500 Index and the Nasdaq also reached historical heights. Oil has fallen double digits with the US becoming a net exporter in November 2018 for the first time in 75 years.

The unemployment rate in September 2018 stood at 3.7 per cent, the lowest since 1969, while unemployment for African Americans fell to 5.9 per cent, the lowest since the 1970s, and the unemployment rate for women reached a 65-year low. According to Ryan Sweet of Moody's Analytics, the labour market in the year 2000 had an unemployment rate below 4 per cent and demographic changes since then would suggest the current rate should be even below the 3.7 per cent in September 2018. African American unemployment also registered record low levels. On February 1, 2019, the Labour Department reported that payrolls have increased by 304,000 in January, which was about 130,000 more jobs than what economists in Wall Street had been predicting, notes John Cassidy in *The New Yorker*: The job gains were widely spread across the economy, with construction, health care, retail and leisure, and hospitality sectors showing significant strength. The report also said that wages were still rising at an annual rate of more than 3 per cent, while consumer price inflation was falling, because of cheaper energy prices.

According to a poll conducted by *NBC News/Wall Street Journal* in December 2018, however, only 28 per cent of people said that the US economy would improve, while 33 per cent felt that it would worsen; 37 per cent of people felt that it would stay at the same level. This is markedly different from the January 2018 poll when 35 per cent of people had said that the economy would get better, while only 20 per cent had felt it would worsen. Mark Zandi, chief economist at Moody's Analytics, however, held that the current boom would burst early in the next decade when the fiscal stimulus fades and the next recession will arrive on June 20, 2020.

Examples of Jimmy Carter who lost to Ronald Reagan in 1980 and George H W Bush who was defeated by Bill Clinton in 1992 during recessionary periods are being cited to project the bleak prospects for Mr Trump's re-election. According to Alex Shepherd of *The New Republic*, "Trump's re-election doesn't hinge on recession (December 8, 2018)", however, there is limited evidence to suggest that recession would doom the president. After all, Mr Trump defeated Hillary Clinton of the Democratic Party when the US economy was doing so well in 2016. Further, as a student who spent the academic year 1979-80 in two US schools in Pennsylvania and Minnesota and one who was closely watching the election campaign, I wish to hold that Jimmy Carter lost his election in 1980 not because of recession but on account of the Iran hostage crisis.

In an article "Why Trump is the favourite in 2020" published in *The Atlantic* on November 12, 2018, David Graham sounds highly optimistic about Trump's re-election based on *The New York Times* op-ed in September 2018 which had said Mr Trump stood a decent chance at the re-election.

While the "emerging democratic majority" comprising a greater percentage of blacks, Hispanics, Asians as well as younger voters of all races were supposed to enjoy support in the Rust Belt region (areas that witnessed decline in industrial production since the 1980s) comprising of central New York, Pennsylvania, West Virginia, Ohio, Indiana, Michigan, Northern Illinois, Iowa, and Wisconsin, Mr Trump won in Ohio, Wisconsin, Michigan and Pennsylvania, and came close in Minnesota. In Graham's opinion, "If Trump could hold most of the states he won in 2016, he is well on his way to victory."

Amy Chick in his article in *The New York Times* on September 28, 2018, holds that reality TV has always been the guidebook for the US presidency. Mr Trump's shows like — *American Idol*, *Lost*, *The West Wing*, and *The Apprentice* — have made all other entertainments shows like NFL games and various award shows pale into total insignificance.

Further unlike in the past, Mr Trump now enjoys the full support of the Republican Party. The absence of a credible and strong candidate from the Democratic Party who can take on Mr Trump is a major factor working in favour of Mr Trump. Among the only two respectable faces of the Democratic Party, Bernie Sanders is too old, while Joe Biden, former vice president, had failed to make a mark when he had unsuccessfully contested on an earlier occasion. Further, Mr Biden is considered to be out of tune with the US Democratic Party of today.

Jonathan Yates, Iowa View contributor, cites history to support Mr Trump: Mr Nixon, Mr Reagan, Mr Clinton and Barack Obama, who had lost seats in the House of Representatives, were re-elected for another term as president two years later.

From the above analysis, Mr Trump should be able to secure his second term without any great difficulty. Once re-elected, Mr Trump is bound to go down in history as one of the most influential presidents of the United States.

The writer is a former staff member of the International Monetary Fund, Washington DC

PSBs get money while RBI, MoF get away. Again

IRRATIONAL CHOICE

DEBASHIS BASU

The new Chief Economic Advisor (CEA) Krishnamurthy Subramanian said a few days ago that it is important to implement the P J Nayak committee's recommendations on governance reforms in public sector banks (PSBs). Until these reforms were institutionalised, the risk in the sector would persist, he said. He was being polite. The current Bharatiya Janata Party (BJP)-led government had promised high quality of governance and accountability. After five years of its rule, we can now, emphatically say, that no accountability has been fixed for either past or future misdeeds of bank chairmen, the banking supervision division of the Reserve Bank of India (RBI), or the ever-expanding babudom in the all-powerful Ministry of Finance (MoF). Hence, nothing has been done to break the cycle of corrupt lending, large-scale losses and massive bank recapitalisation. Meanwhile, even as hundreds of billion rupees of public money are being pumped into the same corrupt and inefficient system to keep it alive (and go bankrupt after the next upcycle), 25 per cent of the people in this country live in abject poverty.

Exhibiting candour not seen among the previous CEAs, Mr Subramanian also said: "The Centre has shown the political will to let PSBs run independently without interference in their commercial decisions. But let's also take a step back to do a reality check. This happened due to a political will but has not been institutionalised yet fully." Well, any thoughtful person with a sense of history knows that if something isn't institutionalised, it is of low value. But while he had articulated the right issue, Mr Subramanian has also missed an important point — like many other well-meaning people with an opinion about PSBs.

PSBs have been done in by three kinds of corruption. Only one of these is political interference at the highest level that led to very large loans given to crooked businessmen (what the prime minister call phone banking). The second is a curious sympathy for bankrupt companies among regulators, the RBI and the MoF, who made regular compromises in the bad loan resolution process. The alphabet soup of RBI schemes, such as CDR, SDR, S4R, CDR2 and 5/25, was designed precisely for continuous evergreening of bad loans. Before you hasten to assert that the bad debt resolution process has been fixed now, remember the many changes being made to the process on the fly — from changing the definition of "prompt corrective action", to tweaking when banks should mark a loan as a default, to the many exceptions being ordered by the National Company Law Tribunal while implementing the Insolvency and Bankruptcy Code. Then there is the third kind of problem with PSB lending — pervasive corruption from branches to regional offices in sanctioning and writing off a vast number of smaller loans. Lack of political interference by the Modi government with the resolution of bad loan accounts is a big step forward but will not fix the issue. Pumping in more capital will, in fact, perpetuate it.

The way forward

What can we do about PSBs, when we know that capital alone will not cure their main ills? Let's look at Mr Subramanian's suggestion of implementing the Nayak committee (Committee to Review Governance of Boards of Banks in India) report? The committee submitted its report in May 2014, just when Mr Modi assumed power on the back of catchy slogans such as "minimum government and maximum governance" and "the government has no business to be in business". The Nayak committee spoke to a large number of experts, including successful bankers from both PSBs and private banks (Mr Nayak himself was a rare breed, a former joint secretary in the MoF, who turned into a successful banker as head of Axis Bank). It was widely hailed as one of the finest road maps for the PSB reform.

The committee went straight to the heart of the problem in PSBs: "Governance difficulties in public sector banks arise from several externally imposed constraints. These include dual regulation, by the finance ministry in addition to the RBI; board constitution; significant and widening compensation differences with private sector banks; external vigilance enforcement through the CVC and CBI..."

Its solution was obvious: "If the government stake in these banks were to reduce to less than 50 per cent, together with certain other executive measures taken, all these external constraints would disappear. This would be a beneficial trade-off for the government because it would continue to be the dominant shareholder and, without its control in banks diminishing, it would create the conditions for its banks to compete more successfully. It is a fundamental irony that presently the government disadvantages the very banks it has invested in."

It is strange that a government that prides itself on boldness, governance, pragmatism and flexibility has continued to avoid taking fundamental steps to fix the PSB mess, like the previous governments. This means under future governments, PSBs (or whatever is left of them) will be riddled with corruption, meddling politicians, crony capitalism, regulatory failure and repeated 'recapitalisation'. On the other hand, in a rapidly changing world of lending, PSBs with high cost of operations, poor credit appraisal system and poor monitoring of loans will become less and less relevant, and so can do less and less of harm.

The writer is the editor of www.moneylife.in
Twitter: @Moneylifers

How Asia ruled the world

BOOK REVIEW

ALAN MIKHAIL

Where to end the story? For historians, the answer to this question can often shape their accounting of the past. *Empires of the Weak* very consciously ends its story right now.

Most histories written in or about the 20th century accept some version of the idea that Europe "won" world history. From the perspective of today, however, this seems an increasingly difficult claim to defend. For J C Sharman, a professor of international relations at Cambridge, "Europeans didn't win in the end: Their empires fell, and their military capacity shrivelled. Even the United States has experienced more defeats than victories against non-Western forces over the last half-century."

In Mr Sharman's account, the dominance of the West (note Europe's easy baton-pass to the United States), roughly from the Enlightenment to World War II, represents a historical blip in the last millennium. And, perhaps more important, today we seem to be on the cusp of a return to a more regular state of affairs, where the large states of Asia will again be the globe's hegemons.

To make this provocative argument, Mr Sharman finds the early modern period, conventionally dated from 1500 to 1800, the most fruitful for thinking about where we are headed. In those centuries, the enormous empires of the East — the Qing, the Ottomans and the Mughals — were the most formidable states on earth. Territory equalled power, and those states held the most land.

Much of this book turns on Mr Sharman's critique of what historians term the "military revolution thesis" — the idea that advanced military technologies led to Europe's domination of the world beginning around 1500. Mr Sharman shows this not to be true. For example, he dismantles the notion that the period of Western overseas expansion led to the rise of Europe, either militarily or politically. Asia's enormous land-based empires didn't much care about their coastlines and tolerated — more than they succumbed to — the Europeans nibbling on their shores in what were desperate, highly risky and ultimately temporary ventures. Until approximately 1750, Europeans — even *in* Europe, thanks to the Ottomans — held no military advantage over other powers.

Much of this book turns on Mr Sharman's critique of what historians term the "military revolution thesis" — the idea that advanced military technologies led to Europe's domination of the world beginning around 1500. Mr Sharman shows this not to be true

But how then to explain the undeniable fact that Europeans dominated the globe from the turn of the 19th century to World War I? Sharman reasons that it was a combination of internal fractures within the Qing and Ottoman Empires, as well as the inclination of Europeans to think that empire building was the route to national sovereignty: In other words, almost a kind of vanity project. He might have said more about how exactly Europe achieved temporary global pre-eminence, especially as it would bolster his argument that this was a deviation from the norm of the last millennium.

Still, as a critique of prevailing modes of thinking about global politics, *Empires of the Weak* succeeds admirably. The history of international relations has focused too much on the most unrepresentative period of the last millennium — the century and a half in which Europe dominated the world. This weighting of the scales has skewed our understanding of global politics and the importance of the West. Mr Sharman's is a far richer story and one that perhaps more accurately reflects today's global rebalancing.

To guess what's on the other side of the impenetrable wall of the present — always risky — we might venture that global affairs in the year 2100 will look more like it did in 1700 than 1900 and that the centre of world power will be in the East rather than the West. As we contemplate the future, we would do well, therefore, to cast our gaze to the early modern period — and to Asia.

© 2019 The New York Times News Service

EMPIRES OF THE WEAK
The Real Story of European Expansion and the Creation of the New World Order
J C Sharman
Princeton University Press
196 pages; $27.95