Making a mockery of a vital electoral activity

Thanks to the lackadaisical approach of the regulator and the ignorant masses, the election manifesto of a political party has been reduced to something no one really cares about

WITHOUT CONTEMPT

SOMASEKHAR SUNDARESAN

We are the world's largest democracy. We pride ourselves on having substantially "free and fair" elections term after term. Typically, every year there is some election somewhere in the nation. Yet, something as fundamental as an election manifesto is so poorly regulated that the entire electoral process borders on being a farce.

A fundamental element of a public contract is that the promise and reciprocal promises that create the contract are clearly understood, well communicated, and that the general public is able to take an "informed decision". When a company raises public money through an initial public offering of securities, for example, it must write a "prospectus" that states what the company does, what it plans to do with the money raised and explains the risks associated with what is on offer.

Yet, when it comes to the mother of all public contracts — elections that decide who we put into government to rule our destiny ("serve us", for the politically correct) — the regulation of the document equivalent of the "prospectus" is pathetic. Elections are regulated by the most-extremely empowered regulator in the nation — the Election Commission of India (EC), a constitutional functionary. Yet, the light-touch and hands-off approach to regulating such a vital piece of the public promise that lies at the core of elections has resulted in piquant and unacceptable outcomes.

It is in this year, at the fag end of the seventh decade of the Republic that the EC has imposed a 48-hour cut off for release of the election manifesto. While this is lauded as a reform, it also means that, according to the EC, 48 hours is all the time necessary for a voter to read an election manifesto, appreciate its contents, and take an informed decision about whether to vote for that party. Regulators with far lesser powers than the EC enforce far longer periods of time for appreciation of promises made in public offering documents. In a securities offering, the draft prospectus has to be posted online for the public to see what is being worked on.

Whatever be the promise in an election manifesto, after the election results are announced, there is nothing in the election manifesto that the party called to account for — except for a potential denial of a vote at the next election. No manifesto even pays lip service to the fact that regardless of contents, if political expediency so demands, the party may prune, truncate or even abandon the promises set out in the manifesto. In a nutshell, at the threshold, the manifestos means nothing. Election manifestos have never had caveats about potential "common minimum programmes". If a company were to say in its prospectus that it is raising money for a certain purpose, but later uses the money for something else, there will be hell to pay.

No election manifesto has any content that shows in a single comparative chart or table, how the party in power performed as against its promises in the previous manifesto. A promise-versus-performance narrative is an integral part of every regulatory environment other than the regulation of elections.

In short, the election manifesto is a ritualistic document that no one really cares about. Neither the regulator, which only fixes timelines for its release, nor the electorate, that is supposed to be informed about the election promises all in one place, can be said to truly care about it. Perhaps a more truthful depiction of reality would be to abandon election manifestos altogether. However, do picture telling the capital market regulator that no investor reads a prospectus in any case and therefore one must not get carried away by the role of a prospectus. If you were to indeed believe in this statement, it would mean you truly believe that Sahara did not deserve an iota of the treatment meted out. The foundation of the case against Sahara was the non-issuance of a prospectus for raising funds from investors through issue of securities.

The story lies in the mockery that election manifestos have been reduced to. And indeed, in the lackadaisical approach of the regulator, and the attitude of the ignorant masses in the marketplace for votes. That some political parties are taking pains to engage in widespread public consultation to come up with a manifesto, is heartening. It would be abject apathy if the parties were to stop caring about even an ostensible manifesto. Yet, that day is not far, unless the umpire wakes up to the need to regulate this important piece of electoral activity.

The author is an advocate and independent counsel. Tweets @SomasekharS

CHINESE WHISPERS

Correct budget

Former finance minister P Chidambaram *(pictured)* had accompanied his son Karti, who was speaking at in election rally, to Sivaganga district. Party workers, many women among them, had gathered at the event and some 100 plastic chairs were arranged for them to sit on. When he saw the arrangement, Chidambaram asked the volunteers to remove the chairs as they might add to the event expenses and it would be difficult to explain to the expenditure observers of the Election Commission if they visited the venue. The chairs were removed immediately and the women were made to sit on old flex banners. As the meeting got underway, the expenditure observers happened to drop by, as the veteran politician had rightly predicted. The former finance minister's calculations turned correct when they went away after satisfying themselves that the party meet hadn't overshot the budget.

About *chor* and *chowkidar*

Congress President Rahul Gandhi filed his nomination from the Amethi Lok Sabha constituency on Wednesday. Accompanying him were his mother Sonia Gandhi, sister Priyanka Gandhi Vadra, brother-in-law Robert Vadra and their children. Congress supporters came out in significant numbers to cheer them on. While the Congress president and other family members travelled in an open-top vehicle, some party leaders walked alongside it. Several of them later found that their phones and wallets had been stolen. The episode gave the Bharatiya Janata Party social media supporters a good reason to ridicule the Congress for its slogan "*chowkidar chor hai*".

Only snakes, no ladders

Candidates canvassing for votes ahead of an election are known to do strange things to sway voters. One simply decided to groove to Bollywood music. And hoped his moves would move voters to choose him. Karnataka Housing Minister MTB Nagaraj of the Congress broke into a "*nagin* dance" much to the amusement of the people gathered at his rally in Hoskote, 25-odd km from Bengaluru. As the live band that was following the minister's convoy started playing a famous song from the 1954 hit movie *Nagin*, Nagaraj, 67, couldn't stop himself from dancing. Translated into English, the minister's name stood for king cobra, a Congress worker proffered helpfully.

Call drop by Indian handset firms

How domestic manufacturers lost their status as feisty challengers to multinationals

ARNAB DUTTA

In mid-2016, Keshav Bansal, then 24 and a director at India's third-largest smartphone firm Intex Technologies, was gung-ho about the firm's future. Sitting in his luxurious family residence in Delhi's Sainik Farms, Bansal was revealing his plans on taking the company public soon. Also in focus was his effort to make his newly acquired franchise rights for the Indian Premier League team Gujarat Lions finally join "the big league".

Bansal, freshly returned from the UK's Alliance Manchester Business School, was yet to anticipate the roadblocks to his ambitions. Close to three years later, both his dreams, of taking Intex public and crowning his team with an IPL trophy, remain in the realm of aspiration. And Intex Technologies' fortunes have since dwindled in its own field — the local smartphone market. The company's sales have more than halved between 2015-16 and 2017-18 (see table).

TAKE TWO

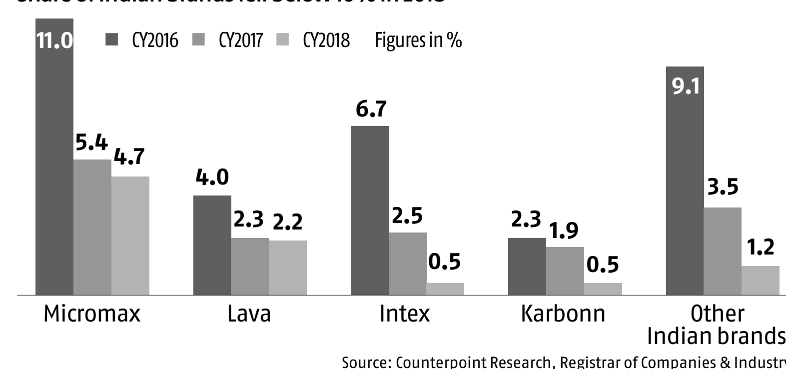
Intex Technologies' fortunes was no exception among the Indian handset makers that once offered some feisty competition in a fast-growing market. Micromax Informatics, the poster boy of local handset industry during the early years of the decade, is in no better shape. The Gurgaon-headquartered firm's sales have shrunk, according to filings with the Registrar of Companies – from a peak of over ₹10,000 crore in 2014-15. And its share in the country's bustling smartphone market has come down to less than five per cent in 2018 from a high of 18 per cent in early-2014. In fact, it remains the only Indian brand to cross the respective marks in revenue and market share ever.

Since its heydays in the handset market, when it used to challenge the mighty multinational market leaders Nokia and Samsung between 2010 and 2014, Micromax, like Intex, has tried its hand at other businesses too. Both of them entered the low-margin white goods business by 2016. But success in their new endeavour has been hard to spot. Both managed to come out with competitively priced air conditioners and washing machines, but they never made it to the top five brands. In fact, their most ambitious venture — to foray into the fast-growing smart LED television market — was fiercely challenged by new entrants.

Xiaomi — the current leader in the local smartphone market and a Chinese brand with a diverse consumer electronic portfolio — rattled the entire TV market with its low-cost smart TV sets. After entering the local market in early-2018, it not only decimated the fringe players but is also challenging the very dominance of the top four of India's TV market — Samsung, LG, Sony and Panasonic. Further, brands like VU, Thomson, Kodak and Iffalcon from TCL, nipped the dreams of Micromax and Intex in the bud.

DISCONNECTED

Share of Indian brands fell below 10% in 2018



Source: Counterpoint Research, Registrar of Companies & Industry

The fortunes of the other two major Indian handset brands — Lava and Karbonn — together the big four of the Indian handset industry — have run on similar lines. Together, share of these four and other Indian brands' fell below 10 per cent in 2018 — for the first time since 2010. In 2018, the share of Indian brands in smartphone market stood at 9.1 per cent from a peak of over 45 per cent in 2014. While, investment proposals to the tune of thousands of crores to ramp up the local manufacturing base and upgrade their respective portfolio were made in recent years, none of the four have managed to increase their clout over India's handset market since the slide began in 2015.

Why did they lose market share so quickly? Principally because the Chinese outdid them in the price game and turned the competitive dynamics at the lower end of the handset market from price to value. From being fringe players offering inexpensive phones to price-sensitive consumers, Chinese handset firms have risen to dizzying heights, shedding their humble image to corner an unprecedented 60 per cent share of the smartphone market in 2018. And that has come at the expense of Indian firms. According to Karn Chauhan, research analyst at Counterpoint Research, Indian brands could not match the innovation that their Chinese counterparts brought in in recent years. Their failure to adopt to the fast-changing market realities played an important role too.

"The growth of Chinese brands and the slow adoption of industry trends led to this decline. One of the key reasons for the growth of Chinese brands is their affordable offerings with stand-out features including strong design language and their ability to leverage deeper access to the Shenzhen-based manufacturing and supply chain ecosystem. Chinese suppliers are now experts in hardware design, software and user interface integration. They have built a robust original design manufacturer (ODM) and supplier network", he said.

Further, the Chinese brands have also been aggressive in terms of their device launches and capturing key marketing trends to offer well-designed products at competitive price points with clever marketing and robust channel strategies. Also, factors like big war chests of Chinese players that are mostly having the advantage of 'economies of scale', years of expertise in product design, backing of strong research and development capabilities and marketing budgets have only acted against the local players, analyst point out.

Despite their decimation by Chinese rivals, the big four Indian brands still have a chance to bounce back, says, Prabhu Ram, head-industry intelligence group, CyberMedia Research. "If these four brands are able to come-up with attractive product offerings, with the latest specs and the right pricing and promotions, they can recover some lost ground". The wide offline retail network, set up by the Indian brands years ago, can also be leveraged to reach the hinterlands.

Lava is putting innovation at the front and centre of its plans. "We are investing in product design and R&D and bringing component manufacturers on baord to increase the extent of local value addition. Currently, 25-30 per cent of the components used in our phones are sourced locally," says Sunil Raina, president and business head, Lava International.

Relatively down-market overseas regions such as Africa and Eastern Europe also offer a glimmer of hope to these companies. "For Lava and Micromax, it makes sense to exploit and leverage such opportunities. It would complement their domestic focus," says Ram.

INSIGHT

Hats off, NG

Jet's ousted chairman has successfully transferred the headache of reviving his airline to SBI and the government

ANJULI BHARGAVA

Even as Naresh Goyal, the recently ousted chairman of Jet Airways, opens his bottle of wine at his home in London, he must look back on the last 25 years with great satisfaction.

Let me explain why. In 1994, Jet Airways was owned 60 per cent by Goyal, 20 per cent each was held by Gulf Air and Kuwait Airways. Government policy at the time permitted investment in domestic airlines by a foreign carrier and Goyal took full advantage of it.

In 1996, the Tata group wanted to set up a new domestic airline with Singapore Airlines (SIA) in a joint holding. To prevent competition, Goyal singlehandedly manipulated government policy to ensure that foreign airline investment in domestic carriers was forbidden. New Foreign Investment Promotion Board (FIPB) guidelines were issued that prevented "foreign airline" investment in a domestic carrier. As a result, the Tata group could not partner SIA. Goyal too had to ensure that Kuwait Airways and Gulf Air divested their stake in Jet Airways, a minor inconvenience in comparison to having a formidable new competitor.

This ridiculous caveat — not permitting foreign airline investment even as cement, power or telecom companies could freely invest in a domestic airline — stayed in place for 16 years right up to September 2012, when the government issued new guidelines allowing automatic investment of up to 49 per cent by a foreign airline in a domestic carrier. It also permitted holding of up to 100 per cent by a non-resident Indian (read: Naresh Goyal).

The new guidelines conveniently came into place a bit late to help Kingfisher Airlines (KFA). KFA, which started flying in 2005, was on a downward spiral by 2010. By October 2012, Directorate General of Civil Aviation (DGCA) suspended KFA's licence.

However, in 2012, after the KFA demise, the government policy was changed to allow foreign airlines to invest up to 49 per cent through the automatic route in an existing Indian carrier, making Jet the first airline to take advantage of the new rules. In 2013, Etihad bought 24 per cent stake in Jet Airways for $379 million. Had the same new guidelines come into force just one or two years before it actually did, KFA may have survived or at least survived a bit longer. But timing is everything and in this case too timing was on NG's side.

Interestingly, the new guidelines issued in late 2012 or early 2013 specified "existing Indian carrier" to prevent foreign airline investment coming into a new domestic airline at the time. Perhaps realising the absurdity of this, the government of the day and FIPB did give Vistara and Air Asia India permission — although they were not existing Indian carriers — to come in with SIA and Air Asia Berhard respectively, a matter that reached the courts and remains pending.

A second rule whose timing worked in Jet's favour was the 5/20 introduced in 2004, just before Jet Airways went international (its first international flight was May 2005). This prevented new domestic airlines from going international unless they had been in operation for five years or had 20 aircraft in their fleet. The rule stayed till October 2016.

Smaller policy diktats also tended to be on his side. In 1998, sensing an opportunity, Jet decided to introduce the ATR72-500 for certain regional routes. Miraculously, policy again favoured NG: Landing and parking charges for aircraft of less than 80 seats was waived at airports across the country and ATF was taxed at 4 per cent. On October 15, 1999, Jet introduced its first ATR flight on Delhi-Jaipur-Udaipur sector.

All through these years, the airline has operated with costs far higher than most rivals. It pays higher salaries than most rivals. It pays more than rivals for almost all services it outsources. It buys its aircraft at a higher price. It has higher sales and distribution costs than rivals and has steadily been paying commissions to JetAir Pvt Ltd, owned by NG. Naturally, it is broke.

Now with close to $4 billion of dues on its head, timing is on his side yet again. The most crucial general election is staring the present government and nobody wants Jet to go under right now. So, NG has left the entire mess in the hands of SBI Chairman Rajnish Kumar & Co. It is the ministry and Kumar who are promising to get more aircraft in the air to save the airline from bankruptcy and trying to find someone to buy it. As one rival airline CEO put it, "The villain of the piece now is Rajnish Kumar."

Even as the writing is on the wall, Goyal can, if he so wishes, spend his days freely in London or Dubai where, by all accounts, he leads quite a comfortable life. He's not a fugitive, has no dues on his head directly and can watch the show in peace from a safe distance. Mallya and others can learn a lesson or two from this gentleman.

Hats off to NG!

LETTERS

Alarming state of Jet

Apropos to the various reports in *Business Standard* about many bidders who might show interest in the sinking airline Jet Airways, I have serious doubts on the valuation that's going to be fixed for a stake sale especially with the huge amount of debts payable by the airline to lessers, vendors, employees, oil companies and so on. I wonder what's stopping the law from taking action against the original promoter of Jet who has mismanaged the accounts. The law here is acting differently with promoters of Kingfisher and Jet. While the government is doing everything to extradite the Kingfisher promoter who too defaulted on loans provided by the banks, the same banks are dealing with the Jet promoter with a velvet glove. It raises suspicion on the behaviour of the banks and the government. Aren't rules meant to be the same for everyone?

Sachin Nair via email

Stable Fitch rating

For the past 13 years, the Fitch sovereign rating of India hasn't improved. The main reason behind this is the fiscal weakness of the country. The government budgeted fiscal deficit of ₹6.24 trillion or 3.3 per cent of GDP in the financial year 2019 but up to November 2019, it will be ₹7.14 lakh crore. Now, in the financial year 2020 also, our country's fiscal position is going to be weak because of direct cash transfer. Farmers' loans have been waved off, income tax rebate has also increased up to ₹5 lakh. The government has failed to improve the Fitch rating from 'BBB' stable outlook, though it implemented transformative reforms that have led to the stabilisation in the reforms rating. This stable rating will affect the election results too. To improve it, the government must attain the fiscal deficit target, generate more employment and strengthen the fiscal position of the economy by increasing revenue and decreasing expenditure.

Shubham Sharma Bathinda

A correction

"Why manifestos lose credibility", published on April 10, had erroneously mentioned that the government's capital expenditure and internal and extra-budgetary spending by public sector enterprises were estimated at ₹6 trillion in 2013-14. The correct figure is ₹4.5 trillion. Consequently, the average annual growth of this expenditure during the five years of the Modi government would be 16 per cent, and not 10 per cent. The BJP manifesto, therefore, promises a little less than a four-fold increase in the growth rate in five years. The errors are regretted.

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
All letters must have a postal address and telephone number

HAMBONE

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Headwinds for growth

Deeper reforms needed to put India on a high-growth path

The International Monetary Fund (IMF) has revised downwards its estimates of growth in India's gross domestic product (GDP) by 20 basis points for both 2019-20 and 2020-21. The IMF now sees GDP growth coming in at 7.3 per cent in the ongoing fiscal year and at 7.5 per cent in the year to come. The IMF is the third multilateral agency to revise growth forecasts downwards in recent days. Last week, the World Bank and the Asian Development Bank both set a lower forecast for India's GDP growth in 2019-20. They, as well as the Reserve Bank of India (RBI), estimated it would be 7.2 per cent, also 20 basis points lower than their earlier forecast. The Central Statistics Office of the government estimated in February that growth in 2018-19 would be 7 per cent — down from the 7.2 per cent it had released earlier. There has thus been some downgrading of India's growth momentum all round.

It is worth noting that the multilateral agencies' expectations of a moderate pickup in GDP growth over the next two years — from about 7 to about 7.4 or 7.5 per cent — are dependent upon looser fiscal and monetary policy and some revival in demand, and not upon a resurgence in private investment. This reflects the RBI's recent relaxation of monetary policy and its two successive cuts in the headline interest rate. But there is limited fiscal headroom for the RBI to stimulate growth, given that government borrowing has not been reduced sufficiently. The IMF argues, in its outlook for the Indian economy, that the build-up of debt will have to be reduced. This is correct, since it is serving as a drag on private sector borrowing and investment. India will also face global headwinds, as the agencies have cut their estimates for global growth for 2019 by 20 basis points to 3.3 per cent — the lowest since the financial crisis in 2008 —blaming trade tensions between the US and China, loss of momentum in Europe and uncertainty surrounding Brexit. Of course, the future path of crude oil prices will also play a major role.

It is clear that for sustainable growth going forward, business-as-usual from the next government will not be enough. At best, India will, if the current slow momentum of reform is maintained, stabilise growth at around 7.5 per cent according to the new series of GDP. This is clearly not enough. The need is to raise India's potential GDP growth considerably. This can only happen if deeper structural reforms are carried out as a priority. Unfortunately, few of these appear to be on the agenda of either national political party at the moment. Labour and land law need to be re-examined to see where the bottlenecks are for private investment at the moment. It is also clear that state-driven growth — through spending on infrastructure, for example — has lost its ability to drive India's growth over 8 per cent a year. Nor has this spending been able to "crowd in" private investment to the degree earlier thought. It is essential to ensure that the government now borrows less so that private investment, which is more productive and growth-enhancing, can take up some of the slack and restore growth to a higher trajectory.

The risk factor

Cautious stand needed on commodity derivatives

The Securities and Exchange Board of India (Sebi) will be well-advised to revisit its plan to allow mutual funds and portfolio managers to deal in commodity derivatives following the misgivings expressed by the finance ministry about this move. The Sebi board had approved the move to offer investors additional tools to hedge against inflation and facilitate efficient price discovery in a transparent manner. However, the economic affairs department of the finance ministry thinks otherwise. It is wary of opening up the commodities market to institutions that have no direct exposure to underlying commodities. The danger is that this could lead to speculative bids, thus, heightening the risks for the investors. The price volatility may actually accentuate if these institutions use their financial muscle for manipulative trading instead of hedging — which may often be the case.

Such apprehensions are, in fact, shared by some independent analysts as well. Agricultural goods, being seasonal and perishable in nature and innately prone to unforeseeable price fluctuations, are particularly vulnerable to exploitation by speculators. The proponents of institutional involvement in the commodities sector, on the other hand, argue that their presence would lend greater liquidity and depth to this market and provide more avenues of safe investment, especially for retail investors. This plea rests on the assumption that the institutional investors would undertake well-informed and research-based trading for more credible price discovery. However, this may not happen all the time.

Sebi's decision on the liberalisation of the commodity derivatives market was, actually, based on the counsel of its Commodity Derivatives Advisory Committee, which had mooted phased induction of domestic and foreign institutional investors into this sector. In the first phase, which is currently under way, specified types of alternative investment funds, portfolio managers, mutual funds and foreign portfolio investors are to be permitted to operate through commodities bourses. In fact, a few foreign entities, especially those having some association with the Indian commodity markets, and selected alternative investment funds (category III) are already active on these platforms. With the entry of the mutual funds and portfolio managers, the first phase would be complete. Other institutions such as banks, insurance and reinsurance companies are slated to be roped in during the subsequent phases.

Though the futures trading in commodities resumed in India after nearly a 40-year hiatus way back in 2003, this form of commerce for all practical purposes is still in its infancy. Its track record in price discovery and price risk management has been quite indifferent thanks largely to rampant malpractices and ineffective supervision. The former commodities regulator, the Forward Markets Commission (FMC), was a toothless body which, being an appendage of the finance ministry, could not take any independent decisions. Though the present regulator, Sebi, is relatively more powerful and autonomous than the FMC, it, too, has yet to prove its worth as a commodities sector watchdog. A vigilant and strong regulator can stave off speculation-driven price aberrations by changing margin requirements, capping investments and prices, or halting the trade if the situation so warrants. In any case, it is imperative to tread cautiously and put adequate safeguards in place before allowing institutional investors with deep pockets an open access to the price-sensitive commodity derivatives sector.

ILLUSTRATION: BINAY SINHA

Macroeconomic priorities for new govt

It will have to contend with some key challenges that do not figure in the election manifestos

A PIECE OF MY MIND

SHANKAR ACHARYA

With the National Democratic Alliance (NDA) government completing its five-year term and elections under way, it is a good time to outline what should be some of the macroeconomic priorities for the new government, whether NDA (as seems likely) or some Congress-centred coalition. The economic record of the last five years has been mixed, ending on a somewhat weak note and entailing substantial challenges for the incoming government, especially in the context of a weakening global economic environment.

Consider the following :

■ Even the official 2011-12 base national income data (which has suffered its due share of professional questioning) show a growth slowdown in the past two years, with GDP growth decelerating from 8.2 per cent in 2016-17 to 7 per cent in 2018-19. Quarterly growth rates have come down from above 8 per cent in 2017-18 Q4 to 6.5 per cent in 2018-19 Q4. This slowdown is also reflected in high frequency information such as the Index of Industrial Production, trade statistics, corporate earnings results, Purchasing Managers' Indices, major sectoral indicators and so forth. On current trends and policies, GDP growth could drop to 6-6.5 per cent in 2019-20. Main causes include: slowdown in global growth and trade; continued stagnation in India's exports; weak private investment because of crowding out by high fiscal deficits (centre plus states running close to 7 per cent of GDP and a Public Sector Borrowing Rate of about 8.5 per cent) and associated high real interest rates, balance sheet stresses as well as subdued "animal spirits"; persisting high stress in the financial system (including both banks and non-banks); and the lack of major reforms in agriculture, electric power, land and labour markets.

■ On the plus side, the rate of headline CPI inflation has come down below 3 per cent, averaging about 3 per cent in 2018-19 (although "core inflation" has remained above 5 per cent), helped by moderate energy prices and declines in agricultural commodity prices.

■ On the other hand, external finances are under stress, with the current account deficit in the balance of payments averaging an uncomfortable 2.6 per cent of GDP in April-December 2018. This is particularly worrisome against the background of merchandise exports suffering unprecedented stagnation around $300 billion a year since 2011-12, bringing the ratio to GDP down from 17 per cent in that year to about 12 per cent in 2018-19. Causes include: an over-valued exchange rate; our failure to gain from relocation of low-end manufacturing from China (in sharp contrast to Vietnam and Bangladesh) or to successfully plug into global value chains; our ill-advised lurch towards higher customs duties in the past two years; persisting negative effects of demonetisation and GST transition (especially on small-scale exporters); and a still pervasive lack of "ease of doing business" in exporting.

■ Above all, our employment situation has become quite dire because of long standing weaknesses in education, skilling and health, and an exceptionally anti-employment edifice of labour laws and regulations. Data from the as yet unreleased, "draft" Periodic Labour Force Survey conducted by the National Sample Survey Office in 2017-18 show: Unemployment above 6 per cent; youth (age 15-29) unemployment rates at dangerously high 27 per cent for urban females and 19 per cent for urban males; and labour participation rates (the proportion of working age population actually in the labour force) at below 50 per cent overall, a tragically low 23 per cent for females and a disastrous 16 per cent for female youth.

In sum, the new government will have to contend with slowing economic growth, weak private investment, anaemic exports and vulnerable external imbalances, a stressed financial system, mounting fiscal pressures (including high government debt-to-GDP ratios) and an exceptionally bad employment situation.

In this context, it would be easy for any government to agree on the objectives of macroeconomic policy. It would want faster growth of GDP and employment, continuation of low consumer inflation, lower external deficits and a stronger financial system. The difficult challenge is in devising and implementing a consistent and politically acceptable set of policies to attain these objectives. Accordingly, I suggest the following priority areas for macroeconomic policy:

■ Accelerate the growth of exports through: reduction in the current over-valuation of the rupee; reforms in GST systems and procedures to closely approximate the textbook zero-rating of exports; standstill (and then rollback) of customs duty increases, which typically operate as taxes on exports; proactive efforts to successfully finalise the Regional Comprehensive Economic Partnership agreement, which is necessary to secure our trading opportunities in fast growing Asian trade; and a serious efforts on trade facilitation. Faster export growth would be thrice-blessed by increases in GDP and employment (remember 35-40 per cent of our exports come from small-scale producers), reduction in our large trade and current account deficits, and deeper engagement with our trading partners.

■ Reduce the central government's fiscal and revenue deficits (yes, that old chestnut) through some difficult decisions on both the expenditure and revenue sides of the budget. That too will be thrice-blessed by lower real interest rates for medium- and long-term funds for private investment, higher public savings to accommodate a lower trade deficit in the national macro balance, and a gradual reduction in our near 70 per cent government debt-to-GDP ratio.

■ Build on the major economic reforms of the past five years, notably the GST and the Insolvency and Bankruptcy Code (IBC). The GST rate structure needs to be simplified, perhaps with a modal rate of 15-16 per cent, a concessional rate of 8-10 per cent and a high rate around 25-30 per cent on "sin" items and a limited set of consumer luxuries. Exports need to be zero-rated effectively. The information technology system, registration/reporting requirements and compliance procedures need periodic review and reform. The IBC system is under constant and serious attacks from the promoter and other vested interests of delinquent firms. To preserve and strengthen this major reform will entail continuous review and improvements of the extant legislative and institutional framework.

■ And if we are serious about reviving employment-intensive manufacturing, we have to undertake major reforms of labour and land laws. Our goal should be to compete effectively with Vietnam and Bangladesh to attract and nurture much more of the low-end, labour-using industries shifting out of China.

These priorities may not figure much in election manifestos, but they remain critical for faster growth of national output and employment, the bedrock of sustained economic and social development.

The writer is Honorary Professor at ICRIER and former Chief Economic Adviser to the Government of India. Views are personal.

Trump's most worrisome legacy

JOSEPH E STIGLITZ

Kirstjen Nielsen's forced resignation as US Secretary of Homeland Security is no reason to celebrate. Yes, she presided over the forced separation of families at the US border, notoriously housing young children in wire cages. But Nielsen's departure is not likely to bring any improvement, as President Donald Trump wants to replace her with someone who will carry out his anti-immigrant policies even more ruthlessly.

Trump's immigration policies are appalling in almost every aspect. And yet they may not be the worst feature of his administration. Indeed, identifying its foulest aspects has become a popular American parlour game. Yes, he has called immigrants criminals, rapists, and animals. But what about his deep misogyny or his boundless vulgarity and cruelty? Or his winking support of white supremacists? Or his withdrawal from the Paris climate accord, the Iran nuclear deal, and the Intermediate-Range Nuclear Forces Treaty? And, of course, there is his war on the environment, on health care, and on the rules-based international system.

This morbid game never ends, of course, because new contenders for the title emerge almost daily. Trump is a disrupting personality, and after he's gone, we may well reflect on how such a deranged and morally challenged person could have been elected president of the world's most powerful country in the first place.

But what concerns me most is Trump's disruption of the institutions that are necessary for the functioning of society. Trump's "MAGA" (Make America Great Again) agenda is, of course, not about restoring the moral leadership of the United States. It embodies and celebrates unbridled selfishness and self-absorption. MAGA is about economics. But that forces us to ask: What is the basis of America's wealth?

Adam Smith tried to provide an answer in his classic 1776 book *The Wealth of Nations*. For centuries, Smith noted, standards of living had been stagnant; then, toward the end of the 18th century, incomes start to soar. Why?

Smith himself was a leading light of the great intellectual movement known as the Scottish Enlightenment. The questioning of established authority that followed the earlier Reformation in Europe forced society to ask: How do we know the truth? How can we learn about the world around us? And how can and should we organise our society?

From the search for answers to these questions arose a new epistemology, based on the empiricism and scepticism of science, which came to prevail over the forces of religion, tradition, and superstition. Over time, universities and other research institutions were established to help us judge truth and discover the nature of our world. Much of what we take for granted today — from electricity, transistors, and computers to lasers, modern medicine, and smartphones — is the result of this new disposition, undergirded by basic scientific research (most of it financed by government).

The absence of royal or ecclesiastical authority to dictate how society should be organised to ensure that things worked out well, or as well as they could, meant that society had to figure it out for itself. But devising the institutions that would ensure society's wellbeing was a more complicated matter than discovering the truths of nature. In general, one couldn't conduct controlled experiments.

A close study of past experience could, however, be informative. One had to rely on reasoning and discourse — recognising that no individual had a monopoly on our understandings of social organisation. Out of this process emerged an appreciation that governance institutions based on the rule of law, due process, and checks and balances, and supported by foundational values like individual liberty and justice for all, are more likely to produce good and fair decisions. These institutions may not be perfect, but they have been designed so that it is more likely that flaws will be uncovered and eventually corrected.

That process of experimentation, learning, and adaptation, however, requires a commitment to ascertaining the truth. Americans owe much of their economic success to a rich set of truth-telling, truth-discovering, and truth-verifying institutions. Central among them are freedom of expression and independent media. Like all people, journalists are fallible; but, as part of a robust system of checks and balances on those in positions of power, they have traditionally provided an essential public good.

Since Smith's day, it has been shown that a nation's wealth depends on the creativity and productivity of its people, which can be advanced only by embracing the spirit of scientific discovery and technological innovation. And it depends on steady improvements in social, political, and economic organisation, discovered through reasoned public discourse.

The attack by Trump and his administration on every one of the pillars of American society — and his especially aggressive vilification of the country's truth-seeking institutions — jeopardises its continued prosperity and very ability to function as a democracy. Nor do there appear to be checks on corporate giants' efforts to capture the institutions — the courts, legislatures, regulatory agencies, and major media outlets — that are supposed to prevent them from exploiting workers and consumers. A dystopia previously imagined only by science fiction writers is emerging before our eyes. It should give us chills to think of who "wins" in this world, and who or what we might become, just in the struggle to survive.

The writer is Professor at Columbia University and the 2001 recipient of the Nobel Prize in Economics. His new book, People, Power, and Profits: Progressive Capitalism for an Age of Discontent, will be published this month by W W Norton and Allen Lane. ©2019 Project Syndicate

Taming India's waters

BOOK REVIEW

GEETHANJALI KRISHNA

Last week, when private weather forecasting agency Skymet predicted that the monsoon could be below normal this year, the country went into a tizzy. Given that Indian agriculture continues to depend largely on rains for irrigation, a poor monsoon augurs everything from farmer distress and rising food prices to sluggish markets and higher food imports. This is why Sunil Amrith's *Unruly Waters* is a timely book. As climate change is causing increasingly more erratic monsoons and more extreme weather phenomena than ever before, his painstakingly researched treatise establishes a link between the historical quest to tame water and weather to the present condition of the sub-continent. A MacArthur fellow, he has spent eight years chatting with Tamil fishermen and internationally-known meteorologists and traversing dusty British archives as well as the sub-continent to research this book.

Unruly Waters begins with the argument that the Himalayas and the rivers that originate from them control the weather, not just of the sub-continent but indeed, the entire world. Consequently, this region's quest for mastery over water has planet-wide implications. To argue his thesis, Mr Amrith takes the reader on a sometimes engaging, sometimes academic trip in history.

Much of the sub-continent's history has been driven by, what he calls "hydraulic ambition". Long before Babar arrived, rulers and the ruled were both driven by their interest in water. For the Mughals, water was both an ornament and necessity, not just in their formal gardens but also in their architecture. British colonial rule took hydraulic ambition to new heights. The British were the first to study the linkages between monsoons and dry spells; famines and droughts. The canals they built, notably the Ganges canal, were not just great feats of engineering, they were monuments to imperial power; of England's ascendancy over India and its erratic monsoon, cyclones and unruly rivers.

As British maritime power pushed further inland into the subcontinent, the Gangetic plain became the power axis, with vast quantities of cotton, tobacco, indigo, gunpowder and opium shipped by river to Calcutta. Early on, the British realised that much of their commerce depended on the capricious monsoon, unruly rivers and unpredictable storms that the sub-continent saw with such regularity. Their efforts to tame these forces of nature were aimed more at improving their own fortunes rather than those of the populace they governed. Consequently, their policies worsened the impact of droughts and famines that became a miserably regular feature at the time. In fact, it was when famines and droughts came to be viewed as damning indictments of administrative practices that anger against the British began to build up. Even a Raj loyalist like Dadabhai Naoroji criticised the government's inability to create drought-resistant water infrastructure even as it levied heavy taxes on Indians.

The quest to harness natural water resources picked up pace after Independence. As Mr Amrith writes, the concept of development became synonymous with the taming of its water resources. Nehru famously referred to dams like Bhakra Nangal and Hirakud as the new temples of modern India. Mega dams and multi-purpose projects came to be seen as ways to improve agricultural output. They could magically address the inequalities of nature by greening vast tracts of land hitherto not irrigated by any rivers. The control of water became a source of power; its absence, a source of enduring exclusion. In the seventies, the subcontinent's quest for food security led to the Green Revolution and an unprecedented consumption of ground water, tapped through the humble tube well. New power centres emerged in the once-arid regions of north-west and south-east India, which were now irrigated by these mega dams and had emerged as hubs of agricultural growth.

Through all this tumultuous, breathless "development", few paused to think of the consequences of this mastery over rivers and ground water. The author estimates that since independence, 40 million have been displaced by dams in India. Most of these have been Adivasi, tribals, who have not received any form of compensation. The environmental consequences of large dams have been equally huge: forests drowned, soil, rivers blocked, deltas starved of silt, natural drainage hindered and worse. The present-day scenario is dire from the environmental perspective, as pollution, climate change and accelerating glacial melt have added to the sub-continent's water woes.

Although Mr Amrith offers a critical analysis well-backed by environmental science, he offers no alternative plan. For example, he writes: "Groundwater has been the cornerstone of Indian food security since the 1970s — but for how long?" Readers might feel compelled to also ask — if not groundwater, what else? The fact is that there is a crying need for us to develop a plan to harness the planet's water resources sustainably.

Mr Amrith offers an indirect solution though, when he makes the case that rivers, oceans and the weather should be issues that transcend national boundaries. As should the issues of climate change, pollution and carbon emissions. He writes: "Climate change creates problems of distance — between the source of pollution and its consequences — but it also creates new forms of proximity in the form of shared risks and interdependence." This is what makes *Unruly Waters* a thought-provoking read. At a time when our planetary commons, so to speak, are under such grave stress, the book offers a critical understanding of the politics of water that could shape the fate of mankind in the years ahead.

UNRULY WATERS
Sunil Amrith
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