

Expect no lean govt

Manifestos of both the BJP and the Congress hold out no hope that the size of the next government will be reduced



RAISINA HILL

A K BHATTACHARYA

The lateral induction of nine professionals into government service in different central ministries is to be welcome. But it also underlines how much more remains to be done to reform the country's governance structure. The fact is that despite promises of minimum government and maximum governance, there is little that the government in the past few years can claim by way of reducing the size of the government or introducing civil services reforms.

Thus, it will be instructive to take a

quick look at what the 2019 election manifestos of two national political parties have promised in this area. Not surprisingly, both the Bharatiya Janata Party (BJP) and the Congress have once again reiterated the need for streamlining the government size to make it leaner and more effective.

The BJP manifesto has promised merger of similar and complementary departments into sectoral ministries with the objective of ensuring better implementation of policies and coordination. This will allow policy makers to frame holistic and comprehensive policies on the one hand and ensure smooth implementation on the other, the manifesto states. While reiterating the guiding principle of "minimum government and maximum governance", the BJP also promises to introduce reforms in civil services.

The Congress manifesto, too, commits the party to reducing the size of ministries and departments in the Union government in such areas where sufficient capacity has been built by the state governments. Going beyond these sim-

ilarities with the BJP manifesto, the Congress promises to give primacy to state governments in subjects such as school education, primary and secondary health care, child nutrition, drinking water, sanitation and distribution of electricity and ensure that the central government plays a supportive role to state governments.

Yet, the irony is that both the manifestos have at the same time promised the creation of a new ministry each.

The BJP has promised the formation of a new ministry of water, which is expected to unify the water management functions to approach the issue of water management holistically and ensure better coordination of efforts. It does not explain what the role of the existing water resources ministry will be and whether its functions would be taken over by the new ministry. What, however, is clear from the manifesto is that the new ministry will expeditiously take forward the Vajpayee government's programme for linking rivers from different parts of the country and ensuring a solution to the

problems of drinking water and irrigation. Not just a new ministry, the BJP also promises to initiate work on this programme by constituting a new authority.

The Congress, on the other hand, has vowed it would establish a separate ministry for fisheries and welfare of people engaged in fisheries. It will constitute a National Fisherfolk Commission to promote fishing and the welfare of people engaged in fisheries, so that their indebtedness and funding needs are adequately met. What will this mean for the existing fisheries department within the ministry of agriculture and farmers welfare? It seems that the number of the ministries, instead of coming down, will actually increase.

Another common feature of the manifestos of the BJP and the Congress is their promise of formulating a Model Police Act. Both the parties want to formulate this law in consultation with the states. The BJP hopes that the Model Police Act will help create a "pro-people and citizen-friendly" police, while the Congress believes that this proposal will help make the police forces "modern, technology-enabled, people-friendly and upholders of human rights and legal rights."

Both the manifestos also talk about the need for using a mechanism like the GST Council for undertaking developments in new areas in consultation with states — a promise that is made to uphold

their commitment to federalism. The BJP promises to pursue the GST Council principle in other areas by ensuring greater involvement of the states in various aspects of policy making and government. The Congress promises to take forward the idea of the GST council of ministers and establish councils for agriculture, education and healthcare.

The similarities end here. The Congress has committed to scrapping the NTI Aayog and bringing in its place a rejuvenated and a leaner Planning Commission, whose manpower strength would not exceed 100. The Congress also wants to set up many more new bodies — six new Courts of Appeal to hear appeals from judgments and orders of high courts, a new adequately capitalised Tourism Development Bank to provide funds for tourism, a Commission on Marginal Farmers and Agricultural Labour and a permanent National Commission on Agricultural Development and Planning consisting of farmers, farm scientists and economists to recommend ways to make agriculture viable, competitive and remunerative.

In short, there are many similarities in promises made by the BJP and the Congress. But whichever political party leads the next government, there is no hope of a leaner government. The promise of a reduced size of the government may well remain on paper.

CHINESE WHISPERS

Back to good old days



During the hearing of a case in the Supreme Court, Chief Justice of India Justice Ranjan Gogoi expressed his displeasure at the voluminous case files being submitted in large numbers. He suggested that the court should go back to the old system wherein a convenience compilation was filed for all such cases that had a long list of issues and dates. Senior advocate to the Supreme Court of India, Fali Nariman, who was arguing the case, supported Gogoi's argument citing his own reason for it. He said he was always in favour of the "good old days" even when he was a young man, drawing a round of laughter from those present in the Court.

Vote game



Observers are saying 2019 would be the most virulently fought elections. It also seems the election fever has left very few untouched. A "Vote-Vote" game is gaining popularity among kids in Kolkata, we are told. As part of the game groups of children divide themselves into "parties" and a "prime minister" is chosen by raising hands. Everyone listens to the "PM" once he/she is chosen. The "PM's" authority spans the games that a group would play to the songs that members have to sing to keep the others enthralled.

Hand in glove

A picture of Mimi Chakraborty, actress-turned-Trinamool candidate from Jadavpur, Kolkata, in which she can be seen wearing gloves while shaking people's hands at an election rally, has kicked up a virtual storm. Major Surendra Poonia, who joined the Bharatiya Janata Party only recently, shared Chakraborty's picture on Twitter and said: "Sad and disgusting. Indian democracy doesn't deserve such people in Parliament." The 30-year-old's social media team leapt to her defence. She had suffered scratches and burns in her hands in the last few days of campaign and so decided to wear the gloves.

Let's find a new way to deal with bad loans

The Supreme Court ruling on the February 2018 RBI directive creates an opportunity to take a fresh look at India's bad asset resolution process



BANKER'S TRUST

TAMAL BANDYOPADHYAY

The Reserve Bank of India (RBI) will issue a revised circular on stressed assets resolution in the wake of the nation's apex court striking down the contentious February 12, 2018, directive to clean up the bad loan mess in Asia's third largest economy.

The regulator had issued the directive, armed with the Section 35AA of India's Banking Act. The new Section empowered the Union government to authorise the RBI to direct banks to resolve specific stressed assets by initiating the insolvency resolution process. The court has not questioned the validity of this Section introduced in May 2017 through an amendment, but is not happy with the way it is used. Simply put, the new Section of the Act gives RBI the power of "discretion" to direct banks on bad loan resolution but it can't be seen as a "rule".

The judgment will delay the clean-up process but not derail it. Even before the Act gave power to the government

of course, there are a few corrupt promoters who take bank loans not to pay back, and corrupt bankers who lend knowing well that the money will not flow back.

In the mid-1990s, the RBI pulled down the dividing wall between project finance institutions and commercial banks; the concept of universal banking emerged — a one-stop shop for all types of loans. As their expertise had been for only working capital loans, the commercial banks burnt their fingers in the new terrain of project financing, signalling the beginning of the bad loan saga.

Between 2006 and 2008, in the golden era of the Indian economy, characterised by low inflation and high growth, bank credit grew three times the nation's GDP. After the collapse of the iconic US investment bank, Lehman Brothers Holdings Inc, that led to a global financial crisis, an ultra-loose monetary policy encouraged banks to lend more and prop up consumption demand.

No wonder that soon, cracks started surfacing on the citadel of their loan portfolios but the banks kept on patching them up with rubbish. Bankers — mostly in the government-owned banks that have almost 70 per cent of the assets in the industry — started devising ways to postpone the inevitable, using available restructuring schemes even as the pile of bad loans kept on rising. By the time India got its insolvency law, it was too late.

The bankers were in a denial mode as it suited them. When bad loans rise, banks need to provide for such loans on which they do not earn any interest. It's a double whammy that hits their balance sheets. Who wants to declare loss? Besides, higher provisions also erode the capital. Where will the capital

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come from?

So, the bankers have found an easy way out. To make good of the loss of interest income from bad loans and provision, they charge higher interest rates to good borrowers and pay lower interest to depositors. This is a typical Indian *jugaad* solution to the serious problem of bad loans, thanks to an innovative banking system.

Why should the good borrowers and depositors be penalised for the banks' inability to manage risks, monitor loan accounts and external vagaries? Once a borrower stops paying, a bank needs to classify the account as bad and set aside money for it. In the process, if its capital gets eroded, the owner should infuse fresh capital. If a bank is not doing its job properly, both in terms of managing risks, monitoring loan accounts as well as recognising bad

assets, the RBI should show its management the door.

A couple of unique Indian concepts also complicate bad loan management — "wilful defaulter" and "technical write-off". A wilful defaulter is one who has not used the bank fund for the purpose it has been borrowed or siphoned off money. As money is fungible, is it easy to detect diversion of funds? And, the technical write-off is an accounting practice where a loan is written off and removed from the balance sheet of a bank but is parked at some branches. As and when the money is recovered, it adds to a bank's profitability. There is no uniform norm for such technical write-offs. Done at the management's discretion, such write-offs — trillions of rupees in the past decade — help banks create an illusion of lower bad loans.

Going by the December financial stability report of the RBI, a biannual health check-up for the banking system, the pile of bad assets under which quite a few banks have almost got buried, has started showing signs of erosion. As a percentage of the overall loan book of the Indian banking industry, bad loans in September 2018 (10.8 per cent) declined from the March level (11.5 per cent). The RBI expects it to come down further in March 2019 (10.3 per cent).

This is good news but in their over-enthusiasm to clean up the system, both the banks and the regulator should not forget that the key to the insolvency law is revival of companies — recovery of bank dues is an offshoot of that.

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INSIGHT

Which way will the wind blow?

Eight factors that could decide BJP's electoral fortunes



YOGENDRA YADAV

The final round of pre-election surveys, including the much-awaited pre-poll round of National Election Study (NES) by Lokniti-CSDS team, has confirmed what was widely felt by Indian political observers: At the starting point of the race, it's advantage NDA.

Various surveys have made different seat projections. The Lokniti team projects 222-232 seats for the BJP (263-283 for the NDA) and 74-84 seats for the Congress (115-135, including existing Congress allies). The Times Now-VMR poll projects 279 seats for the NDA and 149 for the UPA.

The real question is: Are these numbers for the BJP likely to travel northwards or southwards? A reduction of 20-30 seats for the BJP compared to these projections could open up the game, while the addition of the same number could mean no challenge to Mr Modi.

Here are eight factors to watch out for. I will use the NES data because it has placed detailed tables, the entire methodology and question-wording in the public domain.

Will the Balakot-effect cool off?

The NES data shows while Pulwama-Balakot or national security is not by itself an election issue, it may have helped shore up the image of PM Modi and his government in a big way. As many as 79 per cent had heard about the Balakot air strikes and nearly half the respondents give the Modi government some credit for it. Importantly, those who had heard were much more likely to prefer Modi for PM and give his government another chance. Will this effect persist? As many as 61 per cent agreed that the BJP was trying to make electoral gains from the air strikes, although half of them were all for giving this government another chance. Will PM Modi's repeated attempt at invoking Balakot be counter-productive?

Will NYAY hot up as an electoral issue?

Although the formal announcement of the Congress' minimum income guarantee scheme took place in the middle of this survey, as many as 48 per cent had heard about it. This number is bound to go up after the campaign. There are two problems for the Congress here. One, the poorest who might benefit from it know less about it than the better off. Two, awareness of NYAY leads to a small gain for the Congress (reduces the popularity gap between Narendra Modi and Rahul Gandhi by 9 per cent), nothing compared to the way Balakot worked for the BJP.

Will young vote favour the BJP despite anxiety on unemployment?

The survey throws two contrary findings. When people were asked to name an issue that will matter most to their

vote, unemployment came up at the top. Young and educated were most likely to hold this view. Yet the BJP seems to be getting higher than average support among the young voters. Clearly, many young voters do not blame the government for joblessness. Will this remain so, if the opposition runs an aggressive campaign targeting Modi regime for its record on employment?

Will state level pro-incumbency counter central incumbency?

The NES shows that more voters are going to think of the central government's performance while voting in the Lok Sabha election compared to the previous election. In six opposition-ruled states (West Bengal, Odisha, Karnataka, Chhattisgarh, Madhya Pradesh and Rajasthan) there could be a clash: Modi government, as well as the non-BJP state governments, enjoy pro-incumbency in these places and the voters put some weight on both these. Which of these two considerations will trump?

Can the BJP neutralise strong anti-incumbency sentiments against its candidates?

In five states (Uttar Pradesh, Bihar, Madhya Pradesh, Maharashtra and Delhi), which accounted for a majority of BJP's MPs in the dissolved house, there is a strong anti-incumbency sentiment. Will the BJP replace these MPs? Or will the voters' anger against them affect the ruling party?

How much of a presidential battle will it become?

The BJP has tried very hard to make this race into a Modi vs Rahul contest. Among those who vote on the basis of

candidates, the NDA has a mere two percentage point lead. Among those who vote on the basis of the party, the UPA has a three percentage point lead. But among the one-fifth voters who vote on the basis of their preferred PM, the NDA has a 51 percentage point lead! It seems Balakot may have influenced this election by increasing the salience of the PM choice. Will this accentuate or reduce closer to the elections?

How much will the poor coalition damage the opposition?

So far, the mahagathbandhan has proved to be a string of loosely coordinated, imperfect local alliances. The Congress is unlikely to win many seats in Uttar Pradesh, but its votes could hurt the SP-BSP tally seriously. The same is true of the Congress in Odisha, West Bengal or Delhi and the BSP in Madhya Pradesh, Rajasthan and Chhattisgarh. Will the non-BJP parties work out some last-minute arrangement to avoid division of votes?

Will there be a lower turnout among anti-Modi voters?

The most significant finding of this round of the NES study is the phenomenon of "active pro-incumbency" vs "passive anti-incumbency". Simply put, while Modi backers are enthusiastic about voting, those who are unhappy are less likely to turn out to vote. The proportion of reluctant voters is higher among Muslims. About one-tenth of the respondents said they were unlikely to vote. Of them, there are more UPA than NDA voters. If all of them do not come out to vote on the D-day, this will boost NDA's vote lead over the UPA by as much as 3 percentage points. This could tilt the scales for NDA in more than 30 seats.

So, watch out for the turnout data. (By special arrangement with ThePrint)

The author is the National President of SwarajIndia

LETTERS

Too little, too late

This refers to "Bank Board Bureau pushes for governance reforms in PSBs" (April 12). It is heartening to see that the Banking Board Bureau (BBB) has finally woken up to the need for reforms in public sector banks (PSBs) in keeping with the Nayak Committee recommendations. PSBs need complete overhauling — starting from the manner of appointment of their managing directors and top management, to their accountability process, compensation. There is also need to change the system of the present captive boards to having professionals on them and holding them accountable. The HR systems and recruitment processes need an overhaul too. The internal systems as well as customer grievance resolution processes need to be seriously looked at. While the government-nominated directors on the boards should be more involved in their work, the Reserve Bank of India should withdraw their officers on grounds of clear conflict of interest.

The PSBs should be efficient and profitable financial intermediaries. Merely merging weak banks with seemingly strong banks is not the solution. **Arun Pasricha** New Delhi

Beneficial move

This refers to your column "Indian Railways: The unfolding transformation" (April 12). It is heartening to note

that the Railways is rising to the challenges of a globally competitive environment. It is not that the Railways did not have the resources but was taking its economic survival for granted. A modern style of functioning is required all the more not just for the nation's economic connectivity but also for its own independent growth.

Budgeting therefore should be more progressive and meaningful with frequent follow up to ensure planned expansion. The formation of the National Rail and Transportation Institute to improve technology and management is a positive step in this direction. It is encouraging to note the initiatives being taken for track renewal, electrification, speed and enhanced safety. Long-term, progressive, targeted and goal-oriented planning will promote growth in allied industries like that of the engineering, procurement and construction, making the network not just an economic connector but also a business promoter. The suggestion to separate the railway network as an independent functional body with its own regulator can be economically beneficial and enhance its national image.

C Gopinath Nair Kochi

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HAMBONE



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Flying on empty

Reviving Jet Airways is a Herculean task

Jet Airways appears to have become a beneficiary of the election season. Common sense would have dictated that lenders should have taken the indebted airline through the insolvency and bankruptcy process and negotiated a deal with prospective bidders to recoup some of their loans. Instead, concern for the optics of having over 16,000 people looking for jobs just at the start of the seven-phase election, in which high unemployment is a major issue, has prompted the lenders' consortium, comprising mainly government-owned banks, to opt for a sub-optimal resolution plan, which has seen many changes already. As a result, the airline is in a bizarre situation by any yardstick of standard business practice. It owes banks ₹8,500 crore and vendors an unspecified amount. Only about seven planes of its original fleet of 120 are operational, most of the airline's landing slots have been farmed out to other domestic airlines. Its West Asian partner, Etihad, is in the process of revoking the leases on the most valuable of them, at Heathrow, London. In other words, the airline is all but defunct. At this point, the costs of keeping it running probably outweigh the costs of closing it down. And yet, the lenders' consortium, led by State Bank of India, is considering a proposal to infuse ₹1,000 crore into the airline immediately to keep it afloat, despite a lack of consensus among banks on emergency funding. The redeeming feature, however, is that the funding will be done through long-term debt instruments, giving the assurance that it is not unaccounted money. But the question is whether lenders are under pressure from the government to keep the airline going. If so, aren't we back to 'phone banking'?

The lenders obviously lack confidence in the process, which explains why they disbursed only 5 per cent of the earlier ₹1,500 crore agreed upon under the banks-led resolution plan announced on March 25. Even this was done only in small tranches, putting the survival of the airline in question. Lenders are now reportedly considering an option that suggests throwing good money after bad because they enjoy higher security on such credit; they get priority in any payout if the airline is revived or liquidated. This logic, however, appears specious because the airline has few assets that can be monetised, and the line-up of prospective bidders so far is unlikely to inspire confidence. At least two of them would have been ineligible under the bankruptcy process. One is promoter Naresh Goyal, who piloted the airline into this free fall and was forced to step down as chairman only last month. The other is Etihad, whose earlier bid includes a request to raise its stake to 49 per cent but without the requirement of an open offer. This is the same airline that drove two European airlines to bankruptcy in 2017: Air Berlin, once Germany's second-largest operator, and Italy's Alitalia.

The other major entity interested in the airline is the National Investment and Infrastructure Fund (NIIF), the Government of India's vehicle to provide infrastructure funding. The airline business does qualify as "infrastructure", a modification that enabled Vijay Mallya to raise large sums of debt for his defunct Kingfisher Airlines. As conventionally understood, however, the intention of the NIIF was to offer risk-free long-term capital for such critically needed infrastructure as roads and bridges, and so on. It is unclear why a taxpayer-funded institution should bid for a failing private enterprise in a business that caters for less than 1 per cent of the population. Indeed, taxpayers would be entitled to ask why the NIIF did not bid last year for ailing state-owned Air India, which, *ceteris paribus*, stands as much of a chance of surviving as Jet Airways. Political considerations aside, allowing Jet Airways to close would be a healthy signal to send to banking and promoter communities alike to discourage imprudent lending and management practices.

Review electoral bonds

SC's interim ruling should be a wake-up call

In its interim ruling on the matter pertaining to the use of electoral bonds for funding political parties, the Supreme Court has sided in favour of greater transparency. This is a welcome move. On Friday, the apex court directed all political parties who have received donations through electoral bonds to submit all crucial details — such as those related to the donors, the amounts received as well as the specifics of each donation — to the Election Commission of India in a sealed cover before May 30. The court held back from giving a final verdict because it was of the view that this matter required greater deliberation. The court ruling comes in response to an application filed by the Association for Democratic Reforms (ADR), an NGO, seeking a stay on the Electoral Bond Scheme, 2018, which was notified by the Centre in January last year. The ADR had argued that amendments carried out in relevant Acts had opened the floodgates to unlimited corporate donations to political parties and anonymous financing by Indian as well as foreign companies, which can have serious repercussions on Indian democracy. However, the ruling regime defended the electoral bonds scheme, characterising it as "a pioneering step" to bring in poll reforms, ensuring transparency and accountability in political funding.

However, few are convinced of the government's argument. The opposition parties have said 95 per cent of the electoral bonds had gone to the BJP and argued that the "financial dominance" of a single party decimates the very concept of a level playing field, which is at the heart of free and fair elections. But more damaging was the criticism from the country's Election Commission itself. The EC had opposed the anonymous electoral bonds in an affidavit in 2017. On Wednesday, the poll panel clarified to the Supreme Court that it was not against the bonds, but opposed the principle of anonymity of the bond donor and redeemer. What did not help matters was the government's desire to protect such anonymity. Inexplicably, the Attorney General of India, K K Venugopal, reportedly told the court that "voters don't need to know where the money of political parties comes from".

If the electoral bonds scheme has been introduced to bring about greater transparency, the government should not resist allowing details of such donations to be made public. It is well known that the veil of secrecy around electoral funding is one of the main reasons why political corruption sustains in the country, and the electoral bonds do nothing to stop that by allowing complete anonymity of the donor. Since neither the purchaser of the bond nor the political party receiving the donation is required to disclose the donor's identity, the shareholders of a corporation will remain unaware of the company's contribution. Voters, too, will have no idea of how, and through whom, a political party has been funded. Indeed, if they are truly serious about transparency, political parties should take the lead by filing their tax returns, and indeed open themselves up to the Right to Information Act. All parties have been united in disregarding the Central Information Commission, which in 2013 had declared the six national parties to be within the ambit of the RTI Act. Party accounts continue to be audited by those appointed by the parties themselves, and regulations stipulating deadlines for submitting donation statements are flouted frequently.

ILLUSTRATION: AJAY MOHANTY



On the electoral process

Laws, codes of conduct for elections and their implementation by an independent Election Commission are only the beginning

In April 1947 the Constituent Assembly of India decided on holding elections on the basis of universal suffrage to fulfil the demand that had been raised during the freedom movement. In a way it was a reaction to the elections based on a restricted franchise that had taken place during colonial rule. For instance, in the 1937 election only about one-fifth of the adults in the country were included in the electoral roll, which was organised with voters being grouped by community, profession, etc.

In November 1947 the Constituent Assembly Secretariat (CAS) began the process of preparing an electoral roll based on universal suffrage. Because of the link with citizenship the preparation of the roll was a practical effort to answer the question: "Who is an Indian?" and thus reinforcing the idea of a civic nationality with no reference to religious or ethnic attributes.

The bureaucrats who were asked to implement instructions from the CAS took the principle of universality very much to heart. The Collector of Bombay, for instance, argued that universality required that even those without a fixed personal address like servants who slept in stairwells and pavement dwellers should be enfranchised and a way was found to include anyone whose domicile in the constituency could be credibly established. An even more complex set of issues regarding refugees was also resolved. Ornit Shani's study of this process shows how this process of preparing a universal electoral roll "contributed to forging a sense of national unity and national feeling, turned the notion of people's belonging to something tangible."¹

I draw attention to these origins of our democracy



NITIN DESAI

to stress that a lot depends on the officials who have to run the electoral process. The public must be convinced that they are committed to basic principles of impartiality, neutrality, and rigorous implementation of electoral rules and codes of conduct.

In the election process that is underway now there are fears that the apex body, which oversees the elections, is not as objective as what we have been used to so far. There has been extensive coverage of a letter written by retired civil servants drawing attention to some specific lapses. (Disclosure: I am one of the signatories to this letter.) There are signs that these fears are being addressed and one hopes that soon the confidence in the objectivity of election officials will be restored.

Legitimacy also depends on voters trusting the fairness of the voting and counting process. The move to electronic voting machines (EVMs) has been questioned by some on the argument that they can be manipulated. I for one am satisfied that the safeguards against manipulation built into the Indian EVMs are adequate. One must not forget that the old paper-based voting system was even easier to manipulate by getting hold of ballot papers and stuffing them into the boxes captured at polling stations. However, retaining voters trust is vital and hence the universal use of Voter Verified Paper Audit Trails (VVPATs) is welcome. There are questions about how many of these should be sampled and counted. One understands that now, instead of just one per constituency, five VVPATs will be chosen and tallied against the EVM count. One way of choosing the five would be to ask the first loser to pick three and the second loser to pick two.

FMPs: Lessons for investors, MFs & Sebi

Investors in mutual funds have woken up to another rude shock. A few months ago it was some debt funds that were found to have a massive exposure to the nearly bankrupt Anil Ambani group, the overstretched Zee group, the controversial Dewan Housing and the tottering, mismanaged giant Infrastructure Leasing & Financial Services. This festering issue has hit the fund industry again. This time it is fixed-maturity plans (FMPs) that have an exposure to the Zee group.

A few FMPs of two fund houses that were maturing last week have either not been able to pay their investors in full, or have extended the maturity date, because they have an "exposure" to the Zee group and the group is not able to pay back. The fund houses have tried to explain away the issue, but they can't disregard that the word "fixed" in FMPs denote that the money will be fully returned to the investors after a fixed period. Not being able to pay back fully, or extending the duration, is a serious breach of terms, a serious breakdown in the system. What are the lessons from this? It is that the regulator, the fund houses and investors should go back to the first principles.

Lessons for mutual funds

Funds have come up with various convenient explanations, including that they are acting in investors' best interests (after having been reckless in their investment decisions in the first place); but, the fact remains they have lent money against Zee group shares but cannot sell those shares because too many of "lenders" are in the same predicament. If they try to exit, as they should, in the event of a default, prices would crash by 30 per cent or more.

Now, any perceptive observer may ask: Since investors in FMPs have invested in debt securities,

what do they have to do with Zee shares? If they wanted an exposure to Zee shares they would have bought equity funds or the shares directly. This is the elephant in the room that no one wants to talk about.

What mutual funds have done in most of these cases is called "promoter funding" against listed shares. In my book, promoter funding does not amount to investing in debt securities. And, it is most certainly a disastrous strategy for a fixed-maturity plan to be lending money against a volatile collateral such as listed shares. This gets further compounded when 40 entities — from mutual funds to finance companies — lend against the same shares like a herd. The herd is trapped. They cannot sell. Mutual funds, investing public money, have no business lending against shares because it violates the principle of not taking a bet on equity-like high risk in debt products, which offer limited returns. That leads us to our next lesson.



IRRATIONAL CHOICE

DEBASHISH BASU

Lessons for investors

At *Moneylife*, for more than 10 years now, we have consistently said that savers and investors should avoid FMPs. The principle is simple. Equities are risky but they offer higher expected returns. Debt products are less risky and offer lower returns. This is why when it comes to equities, investors should be risk-takers, while when it comes to debt, they should be risk-averse. Alas, investors do the opposite. They are risk-averse with equities (too little allocation) and risk-takers with debt — falling for just that extra bit of interest and tax saving.

The second aspect of debt products is that the nature of risk varies from one category to another. If you have made a deposit in a good company or a scheduled bank, you have a low risk. Both the interest rate and duration of investment are fixed and you get back the interest and principal. But debt funds are a different kind of product. They don't pay interest. The funds

While the electoral officials have to be objective and impartial, the politicians who are in the fray will necessarily exaggerate differences, distort facts, and indulge in invectives. But when these reach a point where an attempt is made to distinguish between Indians by religion or ethnic origin then the political process directly challenges the constitutional norm of the equality and civic nationality. This is a red line that must never be crossed. Yet, in this election, this line is being crossed with impunity. The Model Code of Conduct has enough in it to allow the Election Commission to crack down severely and strongly on these transgressions and we need to see a more vigorous exercise of this power.

There is another dimension of the current political discourse that gives cause for concern. The language used by politicians about one another lacks civility (*sabhyata*) and restraint (*saiyam*). Respect for the Opposition is a necessary component of parliamentary democracy. Moreover, when political legitimacy is spread out amongst many parties and where coalitions are the rule, the fierce invective that we are seeing now could endanger political stability. The acrimony that distorts political discourse has been worsened by the shift in media coverage from the press to TV shows with highly biased anchors and social media posts that facilitate the spread of fake news and divisive rhetoric.

An effective democracy requires a level playing field for all parties and individuals in the political arena. But politicians in power seldom respect this and do what they can to get away with using their official functions and resources for electoral advantage. A particularly dangerous form of this is the manipulation of rules to favour a party in the raising of political funds as in the recent changes that have been made in the law relating to corporate contributions to political parties and the introduction of electoral bonds that permit anonymous donations. According to the Association of Democratic Reform, the vast bulk of corporate donations in FY17 and FY18, after the relevant law was changed, went to one political party. Details about the ₹2,700 crore worth of electoral bonds purchased and donated are not publicly available and are the subject of a case before the Supreme Court. But all the indications are that the bulk of the bond donations have also gone to one party.

The democracy that our founders envisaged is in trouble. A discredited election will challenge the constitutional legitimacy of the incumbent government. Laws, rules for ensuring a level playing field, codes of conduct for elections and their rigorous implementation by an independent Election Commission are only the beginning. A lot depends on the emergence of norms of behaviour that reject messages of hate against any group, respect the right of the Opposition, and that set standards for political discourse that in time become tradition. As citizens and voters we need to assert our desire to see a higher standard of behaviour in our political class.

¹Ornit Shani, *How India became Democratic*, Penguin/Viking, 2018 page 7

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Lessons for Sebi

The above lessons, based on first principles, are not new for investors and funds. But they tend to forget them due to behavioural biases — short memory, greed, herd instinct, and so on. The regulator, a dispassionate referee, should have no such biases. Plus, it should have an institutional memory to help it do the right thing.

Fortunately, the Securities & Exchange Board of India (Sebi) under the current chairman, Ajay Tyagi, has taken several steps to clean up the mutual fund business, which had launched too many products in too many categories, many of them useless. Unfortunately, Sebi seems paralysed when it comes to the failings of debt funds and FMPs.

Sebi needs to ask why FMPs are used as a vehicle for promoter funding against listed shares. Doesn't it involve equity risk? If so, why is this a product in any debt mutual fund? Sebi also does not seem to have cracked down on MFs funding promoters' investment vehicles (YES Bank and Dewan Housing). The worst of all, of course, is the terrible job credit-rating agencies seem to have done in rating many debt securities, including assigning top rating to IL&FS debt. All these violate the first principles. It is time to get back to them. And while they are at it, Sebi officials may like to go back to the great FMP scam of 2008, which seems to be lost from its institutional memory, too.

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A problem called Israel



BOOK REVIEW

J J GOLDBERG

As discouraging as these times may be for fans of liberal democracy, the heart of *The Lions' Den* is a series of individual portraits of iconic, mid-century days when Israel was new and appealing to idealists around the world, when Golda Meir was a celebrated deputy chairwoman of the Socialist International and Pete Seeger and the Weavers were singing the Israeli folk song "Tzena, Tzena, Tzena" on the "Hit Parade." How has it come to this? That is the central book question Susie Linfield poses in her new book, *The Lions' Den: Zionism and the Left From Hannah Arendt to Noam Chomsky*. How, she asks, did the state of Israel come to be, and was it inevitable? — the very Jewish Chomsky or the non-

the left," become anathema to that same left? How did "Zionist," the name for participants in and sympathisers with the Jewish state-building effort, "become the dirtiest word to the international left — akin, say, to 'racist,' 'pedophile' or 'rapist'?"

On the flip side, how did Israel "come to deny the national rights of a neighbouring people and to violently suppress them — not for a year or two, but for over a half century?"

On the other two, Noam Chomsky and the journalist Fred Halliday, seem quite different. Both entered the arena of the book's drama, and neither of them — the very Jewish Chomsky or the non-

Jewish Halliday — participates visibly in the others' intensely personal struggles with Jewish identity.

The six overlapping profiles, on the other hand, tell such an intriguing story. Here they are: the German-born political philosopher Hannah Arendt; the mercurial, Hungarian-born novelist and adventurer Arthur Koestler; the great biographer and Trotsky admirer Isaac Deutscher; the combative American journalist I F Stone; the French Arabist journalist Maxime Rodinson; and the Tunisian-French anti-colonialist philosopher Albert Memmi.

All six lived through, wrote about and were shaped by the cataclysmic events of the mid-20th century: the rise of fascism, the Moscow show trials, World War II and the Holocaust, Israel's independence and, significantly, the 1967 Six-Day War. All considered themselves socialists, some episodically, most as a lifelong identifier.

All six were Jewish. All wrote urgently and at length about the Jewish history that was unfolding before their eyes. All wrote about the place of the Jew in the modern world, some dismissively, most with sym-

pathy, all beneath the shadow of the Nazi genocide that was engulfing Europe and their own families.

The six were all independent, unconventional thinkers who often found themselves alone and at odds with their own peers and allies. All produced ideas and phrases that have entered our moral vocabulary, most notably Arendt's "banality of evil." And, of course, all six dealt repeatedly and at great length with the question of Jewish steehold, or Zionism. Only two retained their views over time, the lifelong anti-Zionist Rodinson and the lifelong pro-Zionist Memmi. The other four changed positions as history changed, some from pro-Zionist to anti-, others the reverse and some repeatedly back and forth. Koestler, the champion change artist of the group, became a communist in his teens, then joined Vladimir Jabotinsky's right-wing Zionist Revisionist movement, forerunner of today's Likud, then returned to communism, then emerged as one of the world's most influential anticommunists and returned to Revisionism.

Arendt, the most famous and influential of the six, was converted to Zionism by Hitler's takeover in 1933. Fleeing across Europe, twice escaping Nazi detention, she landed in New York in 1941 and began her

long writing career. Initially a militant Zionist, she became less attached after Israeli independence in 1948, suspicious of nation-states and their abuses of power. All of her contradictions came together in 1961 when she covered the Eichmann trial for *The New Yorker*, describing it as a "show trial" rather than a judicial exercise. Her version remains controversial to this day.

Other profiles are no less dramatic. Deutscher, a Talmud prodigy during his childhood in a Polish shtetl, went on to become a translator of Hebrew and Yiddish poetry, then a communist, then a follower of Leon Trotsky's heterodox communism and finally a globe-trotting British journalist. He abandoned his doctrinaire anti-Zionism following the Holocaust, was charmed during a 1954 visit by Israel's revived Hebrew culture and kibbutz socialism, then turned bitterly hostile following Israel's six-day victory in June 1967, even somehow forgetting his Hebrew and Yiddish. He died that August, unreconciled. Ms Linfield claims uncertainty about how large a role the 1967 war and occupation play in leftists' antagonism toward Israel. But these individual stories suggest that the legacy of 1967 cannot be overstated.

If the book has one problem it's Ms Linfield's inability to recognise the signifi-

cance of the document that she herself has produced. She tries to present it, particularly in her tacked-on introduction and conclusion, as foreshadowing and illuminating the tragic deadlock in Israeli-Palestinian coexistence. To be blunt, it doesn't work.

In fact, its success is in foreshadowing and illuminating a different conflict that has been simmering under the surface for a decade and has exploded into the headlines just in the early months of this year. Ms Linfield could not have foreseen, even a year ago as she was writing, the current predicament of Democrats caught between support of Israel and sympathy for the Palestinians, or — dare we say it? — between the affections of America's well-established Jewish community and fast-rising Muslim community. Unexpectedly, her book appears just as its stories and lessons become urgent.

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THE LIONS' DEN
Zionism and the Left From
Hannah Arendt to Noam
Chomsky
Susie Linfield
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