



## Rate or stance?

RBI should focus more on addressing liquidity concerns

**R**eserve Bank of India (RBI) Governor Shaktikanta Das stoked a debate last week when he urged central banks across the world to think “out of the box” while speaking on the sidelines of the International Monetary Fund (IMF)-World Bank Spring Meetings in Washington. Mr Das said the practice of changing policy rates by 25 basis points or in multiples thereof is “not sacrosanct and just a convention”. Another aspect that policy watchers keenly follow is the so-called policy “stance” of the RBI. Often enough, the stance signals a bigger shift in the RBI’s outlook and approach towards monetary policymaking than action on the repo rate. But here, too, Mr Das was of the view that monetary policy could be well served simply by calibrating the size of the policy rate to the dynamics of the situation. In other words, a central bank could simply focus on the quantum of the policy rate change to convey the stance of the policy, instead of using the twin modes of rate change and declaration of stance.

Elaborating on his point, Mr Das said if easing of monetary policy was required but the central bank wanted to be cautious in its accommodation, a 10 bps (basis points) reduction in the policy rate would perhaps communicate the intent of the authorities more clearly than two separate moves. He further explained that in a situation in which the central bank prefers to be accommodative but not overly so, it could announce a cut in the policy rate by 35 basis points if it had judged that the standard 25 basis points was too little, but its multiple, i.e. 50 basis points, was too much. There is no doubt that Mr Das was making a pertinent point. And, on the face of it, a case could be made for dropping the issuance of “stance” and choosing a less structured approach to repo rate tweaks. Yet, in the RBI’s monetary policy review in February, the bigger news wasn’t the 25 basis cut in the repo rate; it was the shift in the RBI’s policy stance from “calibrated tightening” to “neutral”. Indeed, the shift in stance was enough for most to correctly predict that the RBI would go for another cut in the April review. It can be argued that the declaration of stance does work quite effectively as a signalling mechanism.

It can also be argued that in a country such as India where monetary policy transmission is a constant cause of concern, no one can expect mere repo rate cuts to effect changes in the economy. The biggest monetary policy concern for the time being in India is the tight liquidity in the banking system. The liquidity problem had its genesis in the phenomenon of bank deposits growing at a slower rate than bank credit. According to the April policy statement, systemic liquidity moved into deficit during February 7 to March 31, and, for the full year, the RBI injected a total liquidity of ₹2.98 trillion in the market in 2018-19. The RBI keeps doing open market operations and has added three-year buy-sell swap for the rupee through an auction process to address the liquidity issue. This process of liquidity management has helped somewhat, but the central bank needs to do more to address the situation.

## Not for the rich alone

Take transit-oriented urban development seriously

**T**he Delhi Development Authority and the ministry of urban development have published a draft Transit Oriented Development (TOD) policy for locations with a very high floor area ratio (FAR), a model that has a high likelihood of being taken up across the country. TOD is a form of city development that involves mixed-land-use communities centred around a high-quality train/metro system and high level of pedestrianisation. High concentrations of people live, work, travel and entertain within a limited area, thereby minimising travel. High density enables the maturing of local markets for a large range of goods and services. Collateral benefits to the environment, energy use, public health and innovation can be massive if done well. Real estate values at such concentrations are significantly higher, which, in turn, enable investment to flow in.

However, if not implemented well, TOD can easily worsen conditions. For instance, without adequate public spaces and local markets, little extra economic value is created locally, thereby compromising returns to real estate investments. As is well known, a large part of the non-performing asset crisis in banking originates from real estate investments that did not yield expected returns over a long-time horizon. Inclusiveness is another critical element; low-cost housing enables lower-income citizens to live in high-value locations and provide a range of important services. Today this function is carried out by slums by providing household help, vendors, sanitation and garbage workers, beauty services, security guards, mechanics, gardeners, etc. As such, done poorly, TOD can destroy values, public health, environment and city landscapes for many decades into the future. But if done right, it can power India’s desire for creating innovation, opportunity, inclusiveness and high growth.

The draft TOD for Delhi rightly touches upon all of the points above. It, however, needs to overhaul three core aspects in its drafting. First, high density is critical, therefore a high FAR needs to be combined with a high ratio of housing for economically weaker sections (EWS). Without a large proportion of dwellings for EWS, high FAR-oriented TODs are merely enclaves for the rich, with few environmental, social or economic benefits. At least half, or even more, of the units, therefore, need to be allocated for EWS housing. Second, sound management of local markets, public spaces, vendors, parking, etc is more important than creating infrastructure. Without these being administered well, clutter and disorder become the norm, and the TOD model of value creation collapses.

Property prices have already fallen in neighbourhoods with Metro stations where such clutter and jams rule. Merely dumping such functions on local bodies is obviously not enough and a governance model along with answerability of the managers/officials must be incorporated. The TOD policy, therefore, must incorporate specifics on the day-to-day management of public spaces against encroachments, answerability of public officials to the residents and commuters, and quality provision of public utilities.

Third, the TOD plan has rigid elements such as land use classification and without a well-designed mechanism of flexibility and change. It effectively is allocating planning and design to private developers who neither have the capabilities nor the incentive. That is why planning and design should be conducted by empowered and capable public bodies. Finally, there is a strong link between good urban planning and management, the real estate market, and long-term economic growth. Improved planning effort now will yield dividends for long.

## Paradoxes of progress



BOOK REVIEW

ANITA INDER SINGH

**C**hina poses the greatest threat to American world power and to the current world order, according to the book *War or Peace: The Struggle for World Power* by Dr Lal. The author, Dr Lal, is right again: China is currently working hard to build up its world-class armed forces for case, can India really counter China’s deployment by 2050. These three outstanding questions — the actual and political traditions, also War or Peace: The Struggle for World Power a thought-provoking read, challenges the lone superpower but is China’s economic and military strengths are disturbing not just being China or the United States. Its eco-it is an authoritarian state but because this strategy relies on the export of view of international relations rests on the unequal resources for growth. Most of subjective axiom of the inequality of resources are located in the poorly states, with China (the Middle Kingdom) being exploited by China. Dr Lal might have added: At Moscow’s request, of

at the centre, receiving deferential tributes by lesser states. China is unlikely to change its traditional worldview. Dr Lal’s point is correct: China continually invokes its own version of history to claim the territories of neighbouring states. A coalition of economically and militarily strong states must be crafted to counter China’s growing power.

Even a slowdown in China’s growth will not stem its rise, although it may take nearly three decades to develop truly globally. Dr Lal is right again: China is building up its world-class armed forces for case, can India really counter China’s deployment by 2050. These three outstanding questions — the actual and political traditions, also War or Peace: The Struggle for World Power a thought-provoking read, challenges the lone superpower but is China’s economic and military strengths are disturbing not just being China or the United States. Its eco-it is an authoritarian state but because this strategy relies on the export of view of international relations rests on the unequal resources for growth. Most of subjective axiom of the inequality of resources are located in the poorly states, with China (the Middle Kingdom) being exploited by China. Dr Lal might have added: At Moscow’s request, of

course — because the Russians lack the thinking and skills to develop their Far East themselves.

Following the disastrous collectivisation and other economic policies of Mao Zedong, Deng Xiaoping sought “facts from truth,” privatised farming and used China’s labour to promote labour-intensive development. China built up a huge production capacity in the 1990s — and exposed itself to global markets. Through state-led capitalism, Deng led Chinese industry into consumer goods and foreign trade. The decentralisation of foreign trade gave provinces more fiscal autonomy. Market reform included the abolition of price controls and trade liberalisation.

How do the Chinese view their progress? They don’t care about the inequalities it has spawned. China, like India and the US, is an aspirational society, not an egalitarian one. China’s spectacular growth has trickled down to the poor. The Chinese see the wealth of others as an achievement to aim for — rather than to be resented. Socialists, admirers of China

and Indian poverty-fighters, please note!

A strong rule of law and judicial independence are essential to sustain China’s economic advance, but the Communist Party is not at home with such liberal western ideas. The Communists *are* worried about economic slowdown if popular expectations of “achievement” remain unmet. It is then that the communist monopoly of power will be challenged.

Although India’s democracy is premised on the rule of law and separation of powers, its \$3 trillion economy is far behind China’s \$14 trillion one (Dr Lal should have used more updated figures: His are from 2014.)

Here one can take issue with him. Given the ease with which corrupt Indian leaders have flouted the law, the ease with the Modi government has bypassed administrative and legal procedures to advance its own political interests, how effectively can India’s weakened rule of law oil the wheels of progress?

He is rightly critical of India’s dirigisme and unproductive economic management. From this the following questions arise: Are India’s economic prospects really all that bright? Enough to empower it to challenge China’s pos-

sible dominance of Asia?

Thankfully, he is a critic of the Gandhis and their erroneous belief in their self-styled dynasty. India’s economy actually took off under two non-dynastic prime ministers — Narasimha Rao and Atal Bihari Vajpayee. Sonia Gandhi held the reins of Manmohan Singh’s government through her National Advisory Council — and created a dysfunctional dyarchy. Since the link between politics and economic policy can never be broken the author could have made more of the fact that the inefficiency of “dual power” hampered progress and largely contributed to Narendra Modi’s electoral victory in 2014.

But Dr Lal is on thin ground when he labels Mr Modi’s communally destructive gang as “Gandhian”. The violence and hatred that has spread under Mr Modi could never be Gandhian — even if his government had brought about the development without dole that he promised in 2014. Instead, it has destroyed livelihoods through its most important measure — the 2016 demonetisation — and through its ban on cow slaughter. His BJP-RSS combine doesn’t realise that communal violence,

unchecked by the state, is never a recipe for progress.

China, despite being a dictatorship, has created incentives for progress. Why is incentive scarce in the economy of the world’s largest democracy? Has incentive been drowned out by noisy, heavy-handed state intervention that has left India in the bottom one-third of the Human Development Index?

That disturbing and urgent question emerges from this interesting book. But Dr Lal’s optimism about India could be tempered by the facts that India’s democracy is currently functioning poorly. And joining the US in an anti-China coalition will never make India a great power. Only India’s economic progress will.

(The reviewer is a Founding Professor of the Centre for Peace and Conflict Resolution in New Delhi. Website: www.anitaindersingh.com)

**WAR OR PEACE: The Struggle For World Power** Deepak Lal Oxford University Press, 495 pages, ₹795

ILLUSTRATION: BINAY SINHA



## Shaping the welfarist agenda

Competitive welfarism is a consequence of India’s failure to deliver inclusive growth. Can it be shaped so future growth is assured?

**I**t is common now to decry the competitive welfarism that is a feature of recent Indian elections.

The state elections conducted towards the end of last year were won by the Congress party after it promised to waive outstanding agricultural loans. In this year’s general elections, the ruling Bharatiya Janata Party hopes its direct transfer to farmers announced — against all precedent — in the interim Budget would help sway some rural voters. The Congress, meanwhile, has announced a minimum income guarantee scheme that is considerably more expansive — but also appears far more difficult to implement, since it is not directly linked to land title. State parties have been even more munificent, to the degree that they seem able to afford to. It has escaped no politician’s attention that the party currently sitting prettiest in its home territory is the Telangana Rashtra Samithi, which also runs the most welfarist state government in India.

The arguments against competitive welfarism are well known. It is difficult to find the resources for it, and in the end it will have to be paid for either out of taxes or through borrowing and thus, eventually, inflation. Because of a relatively poor direct tax base, increasing taxes is difficult — and if done without major changes to the overall tax system will lead to greater incentives to evade, to relocate, and also contribute in the case of corporate income tax to retaining India’s uncompetitive status as a producer. This latter fact hurts workers in the long run as fewer companies will be set up. While India’s public debt remains relatively moderate on paper, contingent liabilities are growing, which lays the foundation for a future crisis.

Higher borrowing would further crowd out private investment, once again reducing growth and job creation. And higher inflation is of course politically unpalatable as well as another disincentive to invest. Competitive welfarism at the state level also strains the federal structure of India as states begin to question how much money they are paying into the central kitty, how much they receive in return, the

restrictions on their overall borrowing, and why there are constraints on them tapping the markets directly.

However, democratic politics has its own momentum, and it is one born of the lived experience of the population. And it is important to understand that India has not entered another welfarist age for no reason whatsoever. It is the Indian state’s recent failure to deliver inclusive growth to which democratic and electoral politics is responding.

The experience of inclusive growth creates support for responsible economic stewardship. It is not necessarily expressed in that manner — it is more often presented as support for a status quo, or for an existing policy architecture to which in India, more often than not, all political parties implicitly subscribe. In the absence of inclusive growth, that support erodes.

The experience of jobless growth — a form of non-inclusive growth — is particularly problematic. This is because the large army of job-seekers become the most politically sought-after constituency. The temptation to build up the government salary bill in order to partially satisfy them will be great. In the absence of confidence that incomes will be secure and increasing, the sort of confidence provided by the experience of job-creating inclusive growth, voters will demand



POLICY RULES

MIHIR SHARMA

## Same difference in public policy

**T**he taxpayer-funded National Infrastructure Investment Fund has thought fit to bid for failing private airline Jet Airways, which is used by a minuscule fraction of the Indian population. Yet, plans for the redevelopment of railway stations, used by millions of Indians every day, are yet to get off the ground.

Doctors in India frequently make headlines for accomplishing state-of-the-art surgeries and associated medical marvels — so much so that the country has become a hub for cost-effective sophisticated medical tourism. Yet the average Indian’s access to medical treatment remains abysmal. Latest National Health Profile data shows that India has one allopathic doctor per 11,000 population, more than ten times the World Health Organisation (WHO) prescribed ratio (in Bihar, the ratio is a shocking 1: 28,000-odd). As for access to hospital beds, at less than one per 1,000 population, India lags the WHO recommendation of 5:1,000 by a significant margin.

India boasts world-class engineering and management institutions whose graduates can command starting salaries that match global standards. Yet the quality of public primary education is so poor that Pratham’s latest Annual Status of Education Report shows that a 27 per cent of Class VIII students in government and private primary schools cannot read a Class II text. The fact that Pratham flags this depressing fact as a “slight improvement over past years” is a telling indicator

of the failure of public education.

The big picture, then, is this: Post-liberalisation India appears to work for the middle and upper middle classes and the rich. For the poor, not so much.

These are all well-worn truths to be sure, but they exercise a covert influence on the public discourse especially around election time. Ironically, such gross inequalities in access to basic amenities, despite a dramatic reduction in poverty levels since 1991, reflects a curious commonality of outcome across ruling regimes. They also explain why grand populist schemes that sequester huge sums of public money, such as Nyuntam Aay Yojana, the National Rural Employment Guarantee programme, Jan Dhan, Ujjwala, and Ayushman Bharat get so much political traction year after year.

This collective weakness of public policy — irrespective of party ideology — is intriguing, because it is well established that the poor line up at the hustings to exercise their democratic choice in far larger numbers than the middle class and the rich.

To be clear, there is no reason for India not to match global standards in aviation, automobiles, hospitals, telecom, retail, IT services, upscale housing and so on. All of these sectors have done their bit in creating jobs (including the explosive demand for *chowkidar* and associated security and house-keeping services). The problem is that policy priorities have been so lop-sided that the fruits of reform have been top-down rather than evenly distributed, creating inequalities of opportunity that consistently



SWOT

KANIKA DATTA