Supreme Court *door ast*

The vacation bench can move south on an experimental basis, avoiding political heat, dust and 'fixers'

OUT OF COURT

M J ANTONY

Next week, the Supreme Court will close down for its conventional two-month summer vacation. A bench will remain to hear urgent matters and another to clear old matters, if the lawyers in them choose to remain in Delhi. It is the silly season for law.

The time has come to review the tradition of long summer recess that came down from the colonial days when Delhi was deserted by the rulers who went up the hills or sailed to their native lands. There was no air-conditioning, no internet, no e-library, no e-filing facilities and video conferences. All that has changed now. There is little reason to justify long vacations because of summer heat and dust of the north. Now the library is on the net and even the Supreme Court judges' library can be accessed from any part of the globe. There is no need to trundle books to other cities and no cost is involved either to the court or to the litigants. Counsels often argue with laptop in front. Some are e-courts without paper. Therefore, as an experimental measure, the sittings in the summer could be moved to a cooler place like Bengaluru.

Last week, another strong reason came to the surface with allegations of 'fixers' and power brokers roaming about the court. The capital is a power hub, swarming with lobbyists and influence peddlers in every field of state activity. Two years ago, a whistle blower brought to the Supreme Court the log book kept at the official residence of a former CBI director, which showed that wheeler dealers trooped to his house for nocturnal conclaves. Last week's events, followed by the setting up of a committee headed by a former judge to look into the shady dealings around the court, tended to confirm what was till then rumours.

The court itself has discounted geographical distances in legal procedure. Last week, it directed examination of a witness in Nigeria by a sessions court in Churu, Rajasthan, via video conference. Earlier, a similar order was passed by an Indian court to reach persons in the US. Dangerous prisoners in Bihar are often examined in criminal court on video. Therefore, Delhi is not the only place to conduct legal proceedings.

However, Supreme Court judges have persistently objected to setting up of benches in places other than Delhi. Their main objection is that it would affect the unitary character of the constitutional court and dilute the integrity of the institution. This argument has again become weak in the electronic age when AI is poised to take over much of judicial work including research. There is also some irony in the judges' stand as they pass conflicting judgments sitting in 14 adjacent court rooms. That is why hundreds of cases are referred to larger benches. In any case, the integrity of the court will not be affected if a vacation bench moved south for two months.

A vacation bench consisting of one or two judges now hears a limited number of urgent matters. Such benches used to sit only one or two days a week, though the number of sittings has increased lately. Even then they finish the list of some 30 new petitions before lunch time. Half of them are dismissed at the threshold, the judges remarking, "No urgency". The bench passes mainly interim orders. This summary exercise can be done in any other city as well. It would lead the way to permanent benches or circuit benches in later stages. It would allay southern discomfort.

The Supreme Court has so far kept a stony face confronted with at least eight Law Commission reports and a Parliamentary Committee report that recommended establishment of benches in other parts of the country. A 2015 petition pointing out the constitutional power under Article 130 to set up benches in other places was dismissed with the Chief Justice sternly telling a litigant from the south, "Article 130 can be used some other time. Not now".

As a result of such uncompromising stance, litigants have to grin and bear wrong judgments only because they cannot afford to travel to Delhi and pay exorbitant fees charged by lawyers there. This has been proved by several independent studies which had shown that the number of appeals is the highest from states near Delhi. Appeals from north-eastern states, for instance, are comparatively few. The curse of a Sufi saint on a Delhi king ("*Dilli* is far away") is squarely applicable to the commoners who approach the Supreme Court.

How farmers are losing the plot

Lack of literacy is compromising the ability of farmers in India and China, two of the world's most populous countries with the smallest farm size, to raise productivity without losing soil fertility

KUNAL BOSE

The world's two most populous countries China and India have the onerous challenge of ensuring food security for 2.75 billion through seasons of good rains and drought, with their ownership of farmland and water resource disproportionately small compared to the global total.

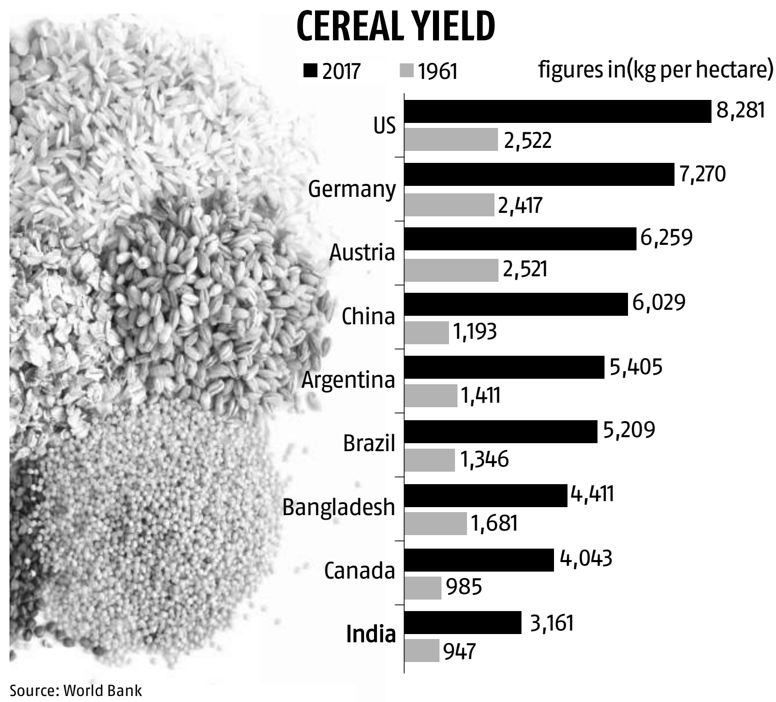
India, with 18 per cent of world population, has 9.6 per cent, that is, 179.8 million hectares (mh) of global net cropland area. More worryingly, it has a meagre share of 4 per cent of global water resource. China, which hosts about one-fifth of the world population, has ownership of 7 per cent of the earth's farmland. The country's share of global fresh water resource at 7 per cent is, however, higher than India's. Another common handicap is that the average farm size in the two countries is among the smallest in the world. That poses a challenge to any worthwhile mechanisation.

TAKE TWO

According to the 10th agriculture census, not only did the average Indian farmland size shrink in excess of 6 per cent to 1.08 h from 1.15 h between 2010-11 and 2015-16, but the share of small and marginal holdings ranging up to 2 h rose to 86.2 per cent from 84.97 per cent of total holdings. During the survey period, the number of small holding was up 7.34 per cent to 125.86 million (m) from 117.25 m.

What about China? According to the country's ministry of natural resources, the combination of land diversion to construction, natural disasters and environmental degradation led to a fall in total arable land for a fourth year in a row in 2017 to 134.86 mh, down by 60,900 h from the previous year. Not only that, of this about 15 mh is marked as polluted or set aside for time-consuming rehabilitation. Much akin to the Indian situation, well over 90 per cent of about 200 m farms in China are less than 1 h in size. No wonder, then, a National Geographic correspondent has found the Chinese agricultural landscape "less like a blanket green" found in the West than a "patchwork quilt." The Indian farm landscape outside Nagaland, Punjab and Haryana — where the average farm size is a lot higher than the national average — looks no different than in China.

How then will the vast majority of farms in China and India compare in terms of productivity with the ones in Western countries, particularly the US where the average farm size in 2018 was 180 hectares? The World Bank data show that all countries across the board had raised cereal productivity between 1961 and 2017 – some such as Austria, Canada, France, China and the US significantly, while others such as India and Bangladesh moderately and still others in Africa at a snail's pace. During this period, the per hectare cereal productivity in China was up from 1,1193 kg to 6,029 kg, the US from 2,522 kg to 8,281 kg and India from 947 kg to 3,161 kg. Spectacular progress in farm productivity in Western countries and in China has got much to do with their intense focus on agricultural research and ensuring early transfer of research results from laboratory to farms.



Source: World Bank

Interestingly, our neighbour Bangladesh, which found its rural economy in tatters at the time of independence in 1971, managed to put things in order earlier than the rest of the world expected to lift per hectare cereal productivity to 4,411 kg in 2017 from 1,681 kg in 1961, when it was part of Pakistan. Whether it is China, India, or Bangladesh, there is predominance of marginal and small farmers and a good percentage of them in the latter two countries is illiterate. India's 2017-18 Economic Survey says lack of literacy stands in the way of "absorbing technologies and adopting risk-mitigating measures."

What certainly is not good for Indian farming is that 30 per cent of marginal and small farmers are still illiterate. That compromises their capacity to manage farm inputs in appropriate combinations for specific crops, which is a sure way to raise productivity without losing soil fertility, the survey observes. From all indicators, China has scored over India in spreading literacy among farmers and at the same time sustaining highly effective extension services. Over the years, the country has assiduously promoted literacy among rural masses through programmes like nine-year compulsory education and adult education. Hasn't professor Amartya Sen said investment in universal education and health provides the fuel for growth in developing economies?

Whether it is India's democratic system or one-party rule in China, for the government to secure political legitimacy it must ensure food security. Towards this end, both the countries have the challenge of preserving the quality and volume of arable land in the face of urbanisation and also consolidating farmland without causing social tensions. In the face of growing claims of land for other uses, Beijing has drawn a "red line" that says the country must have a minimum of about 125 mh at all times. Many Indian states have also become highly selective in permitting farmland to be used for other purposes.

Growing urbanisation in India and China calls for radical structural changes in agriculture where livestock and dairy must have an increasingly greater weight in gross value added in the sector. The World Bank says that half the Indian population will be living in urban centres by 2050. China is already 60 per cent urban and by 2030, 1 billion of its people will be living in cities. Urban residents with higher per capita income than their counterparts in rural centres will have meat, fish and dairy products in their diet. As migration to urban centres will reduce the numbers of agricultural workers, the two countries will be left with no alternative to mechanisation of farming suitable for small holdings.

CHINESE WHISPERS

Adding fuel to the fire

A fire broke out at New Delhi's Shastri Bhavan on Tuesday. Shastri Bhavan houses several union ministries, including information and broadcasting and corporate affairs. The Delhi Fire Service pushed half a dozen tenders into service. Congress President Rahul Gandhi *(pictured)* was quick to tweet this: "Modi*ji* burning files is not going to save you. Your day of judgement is coming." Fire department officials maintained nothing of any importance was burnt. "The fire broke out on the top floor in the waste material of cooler and electrical wires. The reason behind the fire has not been ascertained," a fire official said. However, the Congress social media team latched on to the incident to trigger some wild theories, including one about important files being burnt.

What's in a meme

While politicians of our era might consider social media to be the best thing to have happened to them, here's at least one person who thinks it has done more harm than good. During the launch of a book, *The Real Face of Facebook in India*, in the capital on Tuesday, Delhi University professor and public intellectual Apoorvanand pointed out how one of the problems with Facebook is that it has reduced public conversations to memes. And memes, in turn, have reduced the whole discipline of public debate into a game one-upmanship. "Phrases like *aag laga di* (destroying something) or *khaat khadi kar di* (putting someone in great trouble) have entered the discourse, which is not a good thing," he said. The book has been authored jointly by Paranjoy Guha Thakurta and Cyril Sam and, as the name suggests, talks about the hidden dangers of Facebook.

Call data

The tribal majority district of Dhar in Madhya Pradesh has taken pride of place in an Election Commission (EC) ranking. According to district-wise data of calls received by the EC's call centre, people of Dhar made some 1,700 calls since the implementation of the model code of conduct, catapulting the district among the top callers. Of these, only 72 were made to lodge complaints. As many as 659 calls were made to offer suggestions and another 223 calls were about poll-related query. Of course, the highest number of calls in the state were made from Indore. People from the city made 6,574 calls, of which 5,765 calls were made to seek information and another 618 to lodge complaints.

INSIGHT

Why the UK CMA report is relevant for India

The report gives a pragmatic framework that calls for a shift if statutory audit is to survive as a private sector activity

VISHESH C CHANDIOK

The CMA of UK recently released its much awaited report on changes necessary in the audit profession. There is absolutely no doubt that the current audit market in most countries suffers from dated and artificial restrictions, which end up preventing the growth and development of multiple credible audit firms in the profession, in the end harming audit quality.

An audit business is run as a partnership (or LLP) and not as a company. An amalgamation of many senior professionals who come together as co-owners (provide capital and their skills) to deliver the promise of protecting public interest and assume joint and several liabilities in the process. The model, therefore, has an infinite ability to self-finance and grow provided there is demand.

Anything that artificially restricts the ability of a group of capable professionals getting together and competing in a profession will not serve public interest, on the contrary, it shall restrict choice for not just companies and users, but also for the practitioners themselves.

The Big4 tag, is one such artificial restriction that has become a barrier to allowing companies to choose an auditor outside those that are a part of this group, and provide a false and artificial halo of quality linked to size. Audit is perhaps the only service industry or profession where size is perceived to be synonymous with quality. Just consider are the best hospitals, the best lawyers, the best hotels also the biggest by size? Has one ever asked to be taken to a Big3 hospital or served by a Big5 lawyer or be only booked in a Big2 hotel chain?

Just like Europe banned any restrictive covenants on auditor selection (so called Big4 only clauses), and India has also adopted a similar approach (in the case of FDI), we ought to go further. It's an absolutely travesty how many quality audit firms have nearly gone out of business in India because investors insist on a 'BigX' auditor (a term that itself was not prevalent in India or relevant to this market, where we had many quality firms of our own). Remember even today over 100 Indian audit firms have connections with an overseas firm, and each of these firms is as capable as any-one else.

If we adopt some of the changes, suggested by the UK CMA and all concerned think a little beyong self-interest, audit cannot just survive but actually thrive

The challenge is demand, not supply. If there was demand for their services, many of these 100 firms could beef up their supply by attracting partners and staff. It is a chicken and egg situation but demand will create the supply, and without these artificial barriers being removed there won't be demand.

The UK CMA report which recommends mandatory joint audit (MJA) between a Big4 firm and a non-Big4 firm for FTSE 350 companies is path-breaking in this respect as it addresses all these issues head on, extends accountability to audit committees, and does so in a manner that is gradual and leaves room to revert to Single Audit Firm (SAF) in a few years once this problem has been fixed.

The Report has recognised that audit is not the only business at Big4, resulting in a financial interests that may cast doubt on their objectivity as auditors, and therefore recommending split of audit and non-audit businesses. In India, the Committee of Expert set up by the MCA recognised this issue as well. The CMA has gone one step further in its recommendations of operational split in the businesses of the multi-disciplinary firms. Indian regulators ought to take note of what proportion are audit revenues to the total revenue of a firm and more particularly for an audit client.

The report has accepted that mindset of a Big 4 while selection of auditors needs to change and therefore recommended audit committee reviews. This is a typical problem in Indian market as well. The selection of audit firms is often driven by a perception that Big 4 brings audit quality, whereas there are a number of alleged failures to counter that perception. Indian regulators hoped that mandatory audit firm rotation would bring in vibrancy and create larger audit focused firms, something that our Prime Minister publicly stated as a vision. However, one needs to evaluate if the mandatory audit firm rotation, indeed helped in that purpose and how many audits of large listed companies moved out of the Big4; and if this concentration is indeed acceptable. The CMA report clearly outlines specific steps to move away from this Big4 concentration and our regulators ought to take a cue from that.

I hope the NFRA and the MCA will take notice of this report and consider adopting a similar requirement for at least the Top 100 companies by market cap as and when they next need to change an audit firm because of 10-year mandatory firm rotation. Whilst this may seem against the interest of the Big4 firms initially, I would urge the partners in those firms to consider if they would rather have more opportunities that will make the whole profession vibrant and keep audit valuable, or continue to hope that artificial barriers remain where only four to five firms continue to serve the market, as even for these firms' audit growth has saturated as a share of their total pie (shift to more profitable 'advisory' businesses).

I also urge the shareholders and audit committees of these 100 largest listed entities in India to support the creation of perhaps 10 large audit firms in India that will, in the long run, help make our capital markets more efficient and attractive, and be open to examine the possibly of MJA.

The CMA report gives a pragmatic framework that will require a shift if statutory audit is to survive as a private sector activity. If we adopt some of these changes, and all concerned think a little beyond self-interest, audit cannot just survive but actually thrive.

The author is CEO, Grant Thornton India LLP

LETTERS

Make things transparent

This refers to "On a high horse" (April 30). The Supreme Court decision will have far-reaching implications. The depositors and public will be able to peruse the annual inspection reports (AIRs) of banks, find out about the quality of management, the efficacy of the internal control systems, the lending and investment practices and the financial health of these entities. Financial indicators regarding liquidity and solvency of banks will be available in the public domain. Issues about how banks deal with big loan defaulters will also be revealed. The AIRs will also reveal the quality of the supervisory mechanism of the central bank. It will be revealed whether important aspects concerning the functioning of banks were looked into and commented on adequately. It will definitely bring greater transparency about how the banking system functions.

However, there are serious pitfalls too. Uninformed readers who don't know about the way banks function could draw wrong conclusions after reading the AIRs and base their analysis on faulty premises. Ill-informed reports and faulty analysis floating around in the public domain could cause serious harm. It is imperative that the information available in the AIRs are studied carefully and that there is balanced analysis and greater responsibility before putting them in the public domain.

Arun Pasricha New Delhi

Gaming the system

This refers to "Do not dilute IBC" (April 25). The conclusion that the mediation should be before the insolvency process and not during, is unexceptionable. At the same time, I want to draw attention to the very succinct comment on mediation made by Debashish Basu in today's newspaper in his article under the heading, "IBC: Towards the inevitable". He has described this mediation mechanism as an impractical quick fix. I agree with him that this mediation will be one of the ways by which the promoters and lawyers will try to "game the system" into inevitable delay. If the promoters want mediation, they can do it before the insolvency process themselves. They do not need any legal provision for this. Once there is legal provision, they will play with it to buy time. According to me, it is easy to see the game. There should be no provision for mediation by amending the law.

Sukumar Mukhopadhyay New Delhi

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

Anti-profiteering authority's term should not be extended

It's close to two years since the new indirect tax regime, the goods and services tax (GST), was rolled out. But the anti-profiteering authority set up under the GST seems to be hitting its stride by taking on cases of various differing values. Recently, it held that Starbucks had raised the base price of one coffee variant after tax rates on restaurants were cut in November 2017 in such a way that consumers paid the same amount before and after; the authority determined that Tata Starbucks made undue profit as a consequence. It has also moved against at least three large fast-moving consumer goods companies, and is expected to widen its scope to investigate other companies. Another sector that is coming under the scanner of the Directorate General of Anti Profiteering (DGAP) is real estate. The DGAP might investigate as many as 50 large property developers to see if they failed to pass on the benefit of input tax credit.

It has also been reported that the government has considered extending the term of the DGAP, which is supposed to have a two-year sunset horizon. The government claims this is because the GST council continues to tweak tax rates and so anti-profiteering continues to be required. Meanwhile, the DGAP itself has also expanded the nature of its operation. It earlier depended upon complaints from consumers to initiate an investigation. It appears it now will seek to buy and cancel invoices, determine if there are prima facie questions on that basis, and begin investigations on its own recognisance. As many warned at the time, the creation of a new form of state intervention is dangerous, purely because once a bureaucracy is created it seeks to find plausible reasons to extend its own life and enhance its intervention in normal commercial activity. This is precisely how things have turned out.

The anti-profiteering authority was neither a good idea in theory nor was it implemented properly in practice. It was poorly implemented because the government did not lay out details on how it would determine that profiteering had occurred — in other jurisdictions that have undergone the transition to a GST, such as Australia, it is specified how the equivalent authority should investigate the net margin on a particular good. But in India, nothing is specified other than the process to be followed. But it is also bad in theory. Companies should be free to respond to tax changes, particularly complex ones such as the GST which have multiple conflicting effects on their costs, in a manner determined by competitive dynamics and commercial considerations. If competitive dynamics are weak and do not allow for proper transmission of tax cuts, that is the business of the Competition Commission. Nor does a permanent authority make any sense. A temporary authority might be required because the purpose of the GST introduction was to minimise the effect on the consumer. But all future tax changes cannot be judged on the same yardstick as the initial introduction of the GST. They might not all be meant to lower prices for consumers — other economic goals might be in play. Thus, the stated reason to extend the authority's term makes little sense. It should be wound up by the scheduled date.

A key shift

Maruti's decision to phase out diesel is prudent

Maruti Suzuki sprung a surprise last week when it announced that it would phase out all diesel cars from its portfolio from April 1, 2020. It was only in March that the country's largest carmaker unveiled a brand new diesel engine, which had more power and more torque than the outgoing unit, to address a long-standing weakness in its product lineup. Since then, it has released newer versions of its best-selling models such as the Ciaz and Ertiga with the new diesel engine. Moreover, one-third of all the cars sold by Maruti Suzuki run on diesel engines at present. There are many segments where the company risks a significant dent in sales. For instance, Maruti Suzuki's Vitara Brezza dominates the compact SUV segment where 70 per cent of the market belongs to diesel engines. Vitara Brezza does not have a petrol version.

Despite all this, Maruti Suzuki has taken a prudent decision. There are two reasons for this. First, India, in line with the rest of the world, is moving towards more stringent fuel emission norms. Diesel cars have lost their shine in Europe, the world's biggest market for diesel cars where sales of many variants have fallen by as much as 20 per cent during 2018. Then, there is diesel's reputation as a dirty fuel, leading the Supreme Court to ban the sale of all high capacity diesel cars, last year. The court directed that diesel cars could only be registered for 10 years in Delhi. This decision had an immediate, huge impact on diesel car sales in the national capital, which is the biggest car buying region. Second, the Indian car market is at Bharat Stage IV, and each shift to a higher level involves costly re-engineering of existing models and engines. Maruti Suzuki Chairman R C Bhargava has said that the shift to Bharat Stage VI emission norms implies that diesel cars will become costlier than their petrol versions. The share of diesel cars in total sales has anyway been dropping from the high of 60 per cent in 2014, driven largely by the government decision to deregulate the price of diesel that whittled down the price advantage of diesel over petrol. In the past, typically, consumers were willing to put up with higher upfront prices of diesel models because the running costs were significantly lower than the petrol ones. But this gap has steadily reduced over the years — for instance, seven years ago, every litre of diesel was ₹27 cheaper than petrol. Today, that gap is barely over ₹6 per litre.

Maruti Suzuki is thus justified in its conclusion that consumers are likely to steadily move away from diesel models for reasons of pricing, which remains a key determinant. It is true that just like the consumers, the whole ecosystem around diesel-powered cars, especially of Maruti which operates mostly at the lower and middle end of the market (almost 70 per cent of small cars sold at present in the domestic market run on petrol engines), are likely to witness significant disruption as a result of this decision. As a fuel, diesel should compete on its own merits in the Indian car market, and not piggyback on fuel pricing policy flaws, as it did so often in the past.

ILLUSTRATION BY BINAY SINHA

Are financial savings under-reported?

If the real repo rate, the term premium and credit spread were to normalise, borrowing rates could fall by more than 2 percentage points

TESSELLATUM
NEELKANTH MISHRA

Are we saving enough? Like it is for households, the question is an important one for the economy too. A paucity of savings would mean inadequate funds for investment, which in turn has two adverse consequences: It makes capital more expensive and also increases the economy's dependence on foreign capital. The latter in particular makes the economy vulnerable to volatility in global capital flows.

Of greater analytical interest are financial savings by households, as they move relatively freely through the economy and are an important driver of the cost of funds; savings by private corporations and by the public sector on the other hand generally get invested within the entity.

Historically, gross household financial savings have been about a third of total savings in the economy, and for the last three decades have been between 9 per cent and 12 per cent of GDP. The drop in this ratio to 9.4 per cent in FY17 (the year of demonetisation), a two-decade low, had raised concerns on excessive consumption and the economy's inability to finance investments. At a time when real interest rates have been so high, which generally stimulates financial saving, this was a puzzling number. The strong rebound to 11.1 per cent reported for FY18 has been relatively less discussed, as also the continuing improvement to a likely 11.3 per cent (our estimate) in FY19, a nine-year high. This is when one uses the Reserve Bank of India's (RBI) estimation process, which, as we will see now, may be under-estimating them.

The current account is a metric for aggregate net savings in the economy: The excess of consumption over production. But calculating gross household financial savings (called just "savings" in the rest of this article) is not straightforward, even though, given that they are by definition formal, their estimation requires fewer assumptions than most other macroeconomic variables for the Indian economy. One needs to be careful about double-counting, and at the same time, be as comprehensive as possible to include all savings products.

Drilling into components of financial savings, we discover two large areas of potential under-estimation. First, the jump in mutual fund (MF) inflows: Whereas cumulative flows into mutual funds were ₹3.5 trillion in FY17, of which about ₹1.7 trillion would be from households, the amount mentioned in the reported statistics was just ₹128 billion (7.5 per cent of ₹1.7 trillion). The reported number for "shares & debentures", of which MFs are a part, did jump to ₹1.5 trillion in FY18, but by then, in addition to strong MF inflows, rising retail participation in stock markets had pushed assets under management of Alternative Investment Funds (AIFs) and Portfolio Management Services (PMS) higher by ₹1.8 trillion that year. There is nearly a 1 per cent of GDP gap therefore between the reported financial savings in "shares & debentures" and what one can estimate using parallel sources like the Association of Mutual Funds of India (AMFI) and the Securities and Exchange Board of India (Sebi).

Second, inflows into small savings schemes (like in post offices, or specialised schemes for senior citizens and girl children) have jumped from about half a trillion rupees a year till FY17 to over ₹2 trillion a year now. But the corresponding sub-segment of reported savings (claims on government) still shows an 820 billion number for FY18, nearly half of the inflows that year.

We estimate that in total the under-estimation of savings could be potentially 2 per cent of GDP in FY17 and well over 1 per cent of GDP in FY18. It is quite possible that all the above inflows have been considered for the reported statistics, and that there are some offsetting flows that we have not incorporated (the granularity of data available to a regulator or the government is much better than to us), but placing the two sets of charts next to one another makes that appear unlikely.

There is a second big concern among observers — that state and central governments are distorting the country's finances by appropriating a larger part of savings due to delayed fiscal consolidation and large extra-budgetary spending. However, contrary to popular fears of a deterioration, public sector savings have been largely unchanged as a share of GDP for several years, as savings of non-government public entities have offset government revenue deficits. Even at a net level, that is, after adjusting for borrowings by public sector enterprises, the drain on private savings has reduced (at least till FY17, the last data available). In the last two years, quite possibly, the situation may have worsened on the extra-budgetary spending front, but this slippage is unlikely to be more than half a per cent of GDP: Far less than the improvement in household financial savings over the same period.

These are not just statistical nuances, but can have significant impact on the cost of funds in the economy. The interest rate at which an entity borrows can be split into three parts: the repo rate, the term premium, and the credit spread. The first is the rate set by the Monetary Policy Committee (MPC), the second is the difference between the yield on the 10-year government bond (the GSec yield) and the repo rate and the third is the difference between the rate at which a company borrows and the GSec yield. All three are elevated currently; the real repo rate (that is, the repo rate minus inflation), is inordinately high given the slowing economy, the term premium is close to decadal highs, and capacity issues in the financial system are keeping credit spreads high as well. If the real repo rate, the term premium and the credit spreads were to all normalise, borrowing rates could fall by more than two percentage points.

While the repo rate may drift down with inflation being persistently lower, the credit spread may not compress anytime soon, given capacity issues in the financial system. But the term premium is unjustifiably high and should fall with better clarity on the two statistics discussed above, translating to the share of financial savings appropriated by governments being significantly lower than feared and also compared to what it has been historically. Economic growth has suffered, as the government has tried to tighten fiscally, but the benefits of that have not appeared in monetary conditions that have remained too tight. As a broader theme, this further demonstrates the need for better quality data for better functioning of markets.

The writer is co-head of Asia Pacific Strategy and India Strategist for Credit Suisse

My best growth forecast ever

ROBERT J BARRO

America's real GDP growth rate of 3.2 per cent for the first quarter of this year is impressive, as was the 3 per cent average growth in 2018 (measured from the fourth quarter of 2017 to the fourth quarter of 2018). Since the end of the Great Recession — from 2011 to 2017 — the US economy grew by only 2.1 per cent per year, on average. What accounts for the recent acceleration?

The tax reform of 2017, which took effect in 2018, was viewed prospectively, and now retrospectively, as a contributor to growth. But there was — and remains — a great deal of controversy over the size of the macroeconomic effects of the tax changes.

In January 2018, in the spirit of resolving some of the controversy, the Brookings Institution recruited Jason Furman (chair of the Council of Economic Advisers under President Barack Obama) and me to write a joint paper focusing on the prospective growth effects of the tax changes. No doubt Brookings thought that combining a liberal viewpoint (Furman's) with mine (which I view as pro-market) would avoid political bias and thereby generate estimates closer than usual to the "truth." I leave it to other observers to assess whether this bold attempt at consensus was successful.

Much of our analysis emphasised the tax changes for businesses, including a cut in the federal tax rate on corporate profits from 35 per cent to 21 per cent (for C corporations, which include the largest businesses) and a smaller reduction in the tax rate for pass-through businesses (partnerships, S corporations, and sole proprietorships). All businesses benefited from a move to full expensing for equipment, though this change did not apply to structures. Our research predicted a substantial long-term increase in capital accumulation, which would generate sizable gains in labour productivity and real wages. Real GDP growth was predicted to be higher over 10 years by an average of about 0.2 per cent per year. Thus, the predicted growth effect was moderate but long-lasting.

The other important change in the 2017 tax package was an almost across-the-board reduction in marginal income-tax rates on individual incomes. On average, the decline in the marginal tax rate was around 2.3 percentage points (adjusted downward from 3.2 points to take account of the reduced tax deductibility of state income taxes). By comparison, the average cut in marginal tax rates was 4.5 percentage points under President Ronald Reagan's 1986 legislation; 3.6 points under President John Kennedy and President Lyndon B Johnson's tax cuts, passed in 1964; and 2.1 points under President George W Bush's 2003 reform. Furman and I estimated from previous research that President Donald Trump's cut would propel GDP growth by a substantial 0.9 per cent per year for 2018-19, but would not contribute to growth after that. Thus, the predicted growth effect was larger than that of the tax cuts for businesses in the short run, but smaller in the long run.

When we computed the overall boost to short-run GDP growth, we got an estimate of 1.1 per cent per year for 2018-2019. When added to a baseline growth forecast of 2 per cent (reflecting contemporaneous consensus views and recent history), our estimated incremental effect from the 2017 tax law implied a forecast of real GDP growth of 3.1 per cent per year for 2018-19. Frankly, although there is doubtless a large element of luck here, this is the best growth forecast that I can recall ever making. Moreover, our forecast in early 2018 of incremental effects from the 2017 law contrasts with many economists' predictions of recession.

As an aside, I have a bet with a famous Harvard colleague who has promised to eat his proverbial hat if 3 per cent GDP growth persists over a longer period. I recall that the bet specified the period as the full two years — 2018 and 2019 — but he now remembers it as the three years from 2018 to 2020. I think I must be right, because I never forecasted high economic growth for 2020.

Of course, it is always possible to find reasons for why one's forecast turned out badly. A currently popular argument of this type is that the Federal Reserve has turned out to be much more expansionary than one would have predicted. Similarly, expectations that a trade war with China and other countries would dampen economic growth — a particular concern of mine last fall — have brightened (though I remain worried on this score).

Basically, a prediction such as the one for 3.1 per cent GDP growth that Furman and I advanced in early 2018 should be viewed as a non-contingent forecast that can always be conditioned on (or explained away by) an array of unanticipated events. And, more generally, there is always a lot of uncertainty in annual GDP growth rates, which is why the accuracy of our forecast has to be viewed as reflecting a good deal of luck.

I take it as self-evident that faster economic growth is better than slower economic growth. Underlying this sentiment is that millions of people benefit from higher growth rates, which are typically accompanied by higher wages and lower unemployment, which especially help the worse-off. Yet today, the antipathy toward the Trump administration is so intense that many people, including some of my economist colleagues, are rooting for lower economic growth just to deny Trump a political win.

I understand this viewpoint, but I still think that the direct benefits from a better economy outweigh this kind of political calculus. More to the point, the beneficiaries — which include most people and most voters — must favour faster over slower growth.

The writer is Professor of Economics at Harvard and a visiting scholar at the American Enterprise Institute.

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Javanka Inc

BOOK REVIEW
KANIKA DATTA

The ascent of Ivanka Trump and her husband Jared Kushner as presidential advisors is one of multiple controversies that assail Donald Trump's presidency. His regime that has seen unprecedented turnover at senior levels — Mr Trump is on his third Chief of Staff, that too in a temporary capacity. But his daughter and son-in-law have displayed more resilience than achievement. What makes this underachieving power couple tick? Journalist and author Vicky Ward attempts to answer that question in *Kushner Inc: Greed. Ambition. Corruption.*

Bannon, Donald Trump's powerful White House Chief Strategist, bestowed on the couple. Mr Bannon was sacked after Michael Wolff's book *Fire and Fury*, the sensational insider account of the Trump regime, revealed him as the principal informant of Mr Kushner and Ms Trump's shenanigans. But the nickname has endured.

Much of the information in this book is not new but taken together, the facts suggest a Third World regime than the rule-based democracy of the world's most powerful nation. Mr Wolff's book quotes Mr Bannon as saying that Javanka were using their stints to prepare for future presidential bids: first Ivanka, then Jared. Ms Ward sort of confirms this but suggests that their immediate interests are more prosaic: for Jared to save his family from a disastrous real estate deal — the purchase of 666 Fifth Avenue — and Ivanka to pursue her fashion line.

Ms Ward paints a picture of two dysfunctional families led by billionaires with elastic morals and ethics. Donald Trump's scandal-ridden history is well documented. But as Jared came into the limelight, the Kushner family came under scrutiny, and it's not a pretty story either. Kushner Senior is a devout and domineering patriarch, self-appointed doyen of the Jewish community and realtor extraordinaire. But he is also a convicted felon, spending 14 months in federal prison for tax evasion and related misdemeanours (a saga that included blackmailing his sister and brother-in-law).

Ms Ward supplements published reportage with wide-ranging interviews — not difficult in this leaky White House — that recreate Javanka's gilded world. Neither, it is clear, is the sharpest knife in the box but both have the street smarts to exploit their access to power.

As she writes, "It was felt both at the offices of the *Observer* [the paper Jared's father bought for him to run] and at 666 Fifth Avenue that the couple was well-mannered and more self-controlled than either of their volatile fathers, but beneath the polish was a toxic mix of arrogance and ignorance. Elizabeth Spiers, a former *Observer* editor, noticed during a visit to Jared and Ivanka's apartment that there was not a book in sight and the pair had zero intellectual curiosity. (Others refute that 'no books' claim: they recall a few art books — or 'decorator-curated books')."

There are other digs at the couple's sub-par intellect. Jared had up on his office wall a frame containing the famous opening lines of Charles Dickens' *A Tale of Two Cities* —"It was the best of times, it was the worst of times." He loved the phrase, he told a reporter. But when a visitor sought to discuss the classic, Jared admitted he hadn't read it.

As for Ivanka, her supposed moderating impact on her father have been a conspicuous failure (his creepy relationship with her is duly noted). Her ostensible agenda to promote the cause of working women has had a modest impact, though it allows her to globe-trot on taxpayer dime. Her claims to have contributed to tax policy have been hotly refuted. According to Ms Ward, she arrives late to the office, hair and make-up professionally done. Last year, she wound up her business after consumers and retail outlets shunned her brand but, mysteriously, her companies continue to amass patents in China in the midst of a trade war between the two countries.

Jared's survival is no less mysterious. He has a weighty portfolio by any standards: from forging peace in the Middle East, to solving the opioid crisis, to government reform, criminal justice reform, liaison with Mexico, with China, with Muslims. We know how all of that has turned out. Yet he has escaped scrutiny on his meetings with Russians, his role in the sacking of FBI chief James Comey, his limited divestiture from his businesses (last year his sister offered Chinese investors US visas if they invested in Kushner Companies) and his secretive bromance with Saudi Arabian crown prince Mohammad Bin Salman (who privately told the UAE crown prince that he has Jared in his pocket).

Like the Mueller report, Ms Ward's book points to much circumstantial evidence of ethical transgressions. Her contributions to the mass of reportage on Javanka are two. First, that Mr Trump told John Kelly, "Get rid of my kids, get them back to New York." Apparently, he thought they were giving him bad press. When the FBI declined to grant Jared top-level security clearance, Kelly obliged by savagely downgrading his access. Then, nothing happened. Instead, Kelly exited; Javanka are still around.

Second, early in the presidency, Ivanka tried to reorganise the East Wing, traditionally the preserve of the First Lady, and was thwarted in no uncertain terms by Melania. In an interview, Ms Ward said only the reclusive first lady can counter Javanka's influence with President Trump. Implausible? In the Mad Hatter's Tea Party that is the Trump White House, all bizarre options are on the table.

From the Adams to the Roosevelts, Kennedys, Bushes and Clintons, dynasts have been part of the US political scene for at least two centuries, and those in power have not hesitated to promote their relatives. But even by those amoral standards, Javanka have lowered the bar. That is, the bar as set by American standards. Indians inured to the deep-rooted corruption of our myriad political dynasties may wonder what the fuss is all about.

KUSHNER INC: Greed. Ambition. Corruption
Vicky Ward
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