A disturbing rise

For two successive years, registrations for external commercial borrowing have shot up. It is a trend the govt can't afford to ignore

RAISINA HILL

A K BHATTACHARYA

India's demand for external commercial borrowing (ECB) saw a huge jump last year. Data compiled by the Reserve Bank of India (RBI) shows that registrations for ECB in 2018-19 shot up by 45 per cent to $41.92 billion, compared to $28.87 billion in the previous year. Isn't this a cause for concern?

Remember that ECB registrations had declined in the three consecutive years from 2014-15. They fell by 14 per cent to $28.38 billion in 2014-15 and again dropped by another 14 per cent to $24.37 billion in 2015-16 and further declined by almost 10 per cent to $21.98 billion in 2016-17.

The trend changed from 2017-18, when the ECB registrations shot up by 31 per cent to $28.87 billion. With a 45 per cent increase in ECB registrations in 2018-19, policy makers in North Block, headquarters of the finance ministry, should be as concerned over the trend as those in the RBI.

It is to be noted that such data is based on applications made for ECB or foreign currency convertible bonds (FCCB), against which registrations are allotted during this period. This may not be the same as the actual amount brought into the country through the ECB route during the year, but it reflects the trend in the demand for such borrowings. Since this will be eventually captured in the country's balance of payments with minor adjustments, the rising trend is an advance indication of the nature of pressure ECBs could put on India's management of the external sector.

A recent study by CARE Ratings has drawn attention to the many aspects of the sharp rise in the ECB registrations. Among the factors that need to be kept in mind, according to the CARE Ratings study, are: The relatively elevated levels of interest rates, before they began declining a bit, tightening liquidity in the domestic economy putting pressure on companies to look for external sources of financing, slowing activity in the corporate bonds market and the continued stress in the banking sector.

But, as brought out by the study, there are quite a few other interesting trends in the rise in ECB registrations. The average maturity of the borrowings has seen a steady decline — from about 6.5 years in 2014-15 to 6.1 years in 2017-18 and further down to 5.22 years in 2018-19. Similarly, out of the total 1,012 registrations in 2018-19, only 17 had applied for borrowings above $500 million and these accounted for $18.1 billion of registrations.

In other words, less than two per cent of the applicants had accounted for 43 per cent of the total borrowing amount registered last year. The skew appears even more pronounced if you note that over 95 per cent of the applicants had sought individual approvals for ECB below $250 million. And these accounted for just about a third of the total value of ECB registrations.

In January 2019, the RBI had relaxed the guidelines for approval of ECB applications. These relaxations included an expansion in the list of eligible borrowers, raising the cap on such borrowings from $500 million to $750 million for all categories of applicants and up to $10 billion for oil marketing companies and reducing the minimum maturity period for such borrowings.

Earlier, the minimum maturity period was three, five and 10 years, based on the purpose and quantum of the ECB. With the relaxation, the minimum maturity period was reduced to three or five years. The new guidelines, therefore, allowed Indian entities to borrow more under the ECB route and with a shorter maturity period.

It is clear from both the registrations data and the policy relaxations that Indian companies find ECB to be an increasingly preferred and attractive route for meeting their financial needs. This may be a comment on the banking sector's inability to meet the Indian corporate sector's fund requirements on attractive terms and the tight liquidity situation in the domestic economy. But, as the study rightly points out, two risks cannot be ignored.

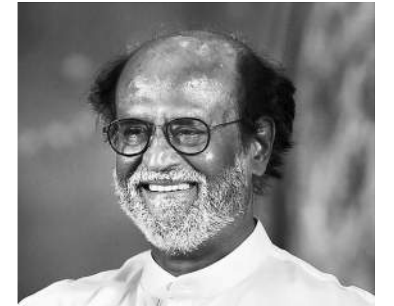
The share of ECB in India's total external debt of over $510 billion is on the rise — it was estimated at 37 per cent in September 2018. The reduced maturity period for ECB could adversely impact India's overall external debt profile. Finally, the exchange rate fluctuations could be a big risk. The last five years have seen an annual rupee depreciation against the US dollar of around three per cent. There are no guarantees that the exchange rate would not fluctuate by a higher margin. While companies applying for ECB should always be on their guard, the government too should not be unmindful of the dangers of increasing reliance on such borrowings with external risks.

CHINESE WHISPERS

Tagore in the world

India's soft power is mostly gauged in terms of the global popularity of yoga, Bollywood films and cuisine. One less acknowledged trend is the enduring popularity of Rabindranath Tagore. Ironically, nowhere is this more visible than in China. Not only have Tagore's works been translated into Mandarin, a selection of his poetry, essays and short stories is part of the national school syllabus. Even more improbably, Tagore appears to be revered in Kazakhstan too. Recently, a visiting delegation of the National Cadet Corps to this Central Asian republic attended a memorial programme on the occasion of the poet's birth anniversary and reported a surprisingly high turnout.

Countdown has begun



When will south superstar Rajinikanth *(pictured)* enter the poll fray? The wait is likely to be over soon if one were to go by the signals coming out of the Rajini camp. The 68-year-old actor has been terribly busy lately, ostensibly adding the finishing touches to most of his projects. His Rajini Makkal Mandram (Rajini People's Organisation) has been up and running for two years now, though he has said time and again that he would not contest election in 2019, but would be ready to take the plunge during the next Assembly elections in Tamil Nadu. In Trichy some days back, Rajini's brother Sathyanarayana Rao Gaikwad said, after inaugurating their parents' memorial, that the actor will make an announcement after May 23. So there you are...

Out of retirement?

Looks like former West Bengal Chief Minister Buddhadeb Bhattacharjee, who had all but withdrawn from active politics after Mamata Banerjee defeated his Left Front government in West Bengal in the Assembly elections of 2011, is planning to come out of retirement. In an interview to the Communist Party of India (Marxist) or CPI (M) mouthpiece *Ganashakti*, he had a word of warning for the state's CPI (M) cadre. He said quitting Trinamool to join the Bharatiya Janata Party was like jumping from the frying pan to the fire. Among other things, he also insinuated that the Trinamool and the BJP were hand in glove. "We need to uproot this kind of politics," he added.

Will corporate India be up for sale?

We must bring in private equity and patience capital in funding promoters against pledge of shares. If it's too late, India Inc might lose its shirt

BANKER'S TRUST

TAMAL BANDYOPADHYAY

ILLUSTRATION BY BINAY SINHA

Last week, the share price of Essel group companies fell sharply on worries about the process of stake sale by the group being delayed — something the lenders needed yesterday. The share price of Zee Entertainment Enterprises Ltd, the flagship company of the group, crashed after Reliance Mutual Fund reportedly sold its entire holding, worth around ₹400 crore, in the market.

If the promoters are not able to pay back the bank loan by September, the lenders may sell the shares of the group, pledged to them. However, the fund houses that have exposure to the group are fast losing their patience.

A May 7 statement of the group said, "The stake sale process of Zee Entertainment... undertaken... is in steady progress and at an advanced stage." Earlier in April, it had said, "As per the arrangement with the lenders, a resolution for the repayment will be achieved by September 2019. Essel Group is confident to complete the repayment towards each and every lender."

The Khaitans of the B M Khaitan Group are also in search of a new owner for Eveready Industries Ltd, its flagship entity, even as shares of the battery maker as well as McLeod Russel Ltd, its tea plantation company, are being hammered.

In February, the Agarwal and Goenka families, promoters of Emami Ltd, sold 10 per cent of their stakes for ₹1,600 crore to pare the debts of group companies such as Emami Cement Ltd and Emami Power Ltd, among others. The sale pared the promoters' holding in Emami Ltd by 10 percentage points from 72.74 per cent. As the group brings down its debt, its ability to release the shares of holding company pledged with the lenders will get a boost.

Reportedly, the promoters had pledged at least 47 per cent of their stakes to raise money for funding the capital-guzzler cement and power projects. At a conference call with its investors after its third quarter earnings, the promoters had said that the group would look at a reduction in the pledged shares to around 30-35 per cent.

These incidents illustrate a new malaise of corporate India that might change the rules of the game forever. Many groups are under severe stress and looking for ways to sell or win back their pledged shares. Going by BSE data, the value of shares pledged by promoters was to the tune of ₹2.25 trillion in the last week of April. More than 50 per cent of the promoters — 2,932 out of 5,126 BSE-listed companies — have raised money, pledging their shares; during the March quarter alone, the promoters of at least 125 companies had raised the quantum of shares pledged.

Clearly, we need to take a fresh look at the so-called debt to EBITDA or earnings before interest, taxes, depreciation and amortisation — a measure of profitability of a company — as it doesn't reflect the real health of a company. In addition to the debt of the operating company, we need to take into account the debt of the holding company too, which the promoters raise pledging their shares. Loosely speaking, it's something like looking at the fiscal deficit of both the federal government as well as the states simultaneously to gauge the strength of an economy.

Typically, the promoters raise debt pledging the shares of the holding company to pump in money in their operating companies, diversify, or any other purpose and seldom they clear the debt to claim back the shares. The average yield of Sensex stocks is around 1.5 per cent and that of the listed universe is around 0.5 per cent. How will they clear their debt? Besides, the lenders are always willing to roll over the debt, one lender replacing another — playing passing the parcel game.

At least 60 per cent of such pledged shares are with non-banking finance companies (NBFCs) and mutual funds (MFs). The banks are not allowed to fund companies against pledged shares but they can ask for such shares as a security to ensure repayment of loans. Of course, individuals can raise money against pledge of shares. Insurance companies and pension funds do not fund against pledge of shares.

The fund-starved NBFCs want money and debt mutual funds are under redemption pressure as their investors are wary of the health of some of the promoters to which the funds have taken exposure. Typically such loans are given against a hefty margin (for a ₹ 100 loan, a promoter may need to pledge shares worth ₹150 or even ₹200). When the value of its shares fall, the promoters need to put in more shares on the table to maintain the margin, or else, the lenders (in this case, the NBFCs and MFs) sell the shares to recover their dues. In the process, the promoter's stake in the company goes down; it also puts pressure on the stock price. As the prices fall, more shares are sold, creating a vicious cycle.

Whether the lenders are selling the shares or promoters themselves doing it, the erosion in stake and fear of losing ownership are real for many promoters. That's the problem of corporate India. How about the NBFCs and MFs? Many feel that the MFs have no business of giving money to the promoters taking shares as collateral and the market regulator should clamp down on them. Similarly, the banking regulator should restrain the NBFCs from lending against promoters' pledge of shares.

This is a legitimate way of raising money and there is nothing wrong in giving money against pledge of shares as they are as good an asset class as, say, a factory, gold or real estates. Globally, private equity funds play a major role in this segment but they aren't there in the Indian market.

While the promoters must stop unrelated diversification or even fund diversion, in some cases, the NBFCs and MFs need to take a fresh look at this segment. For instance, once an investor redeems a debt fund, the money is given the next day, following the so-called T+1 trading system. The redemption pressure can be avoided if MFs find ways how such an exposure can be part of close-ended alternate investment funds (AIFs). Less than 10 per cent of the ₹23 trillion assets under management of the Indian MF industry consist of AIF. We also need to bring in private equity and patience capital in funding promoters against pledge of shares. If it's too late, India Inc may lose its shirt.

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INSIGHT

Needed: A de novo assessment of capability

Naval Assemblies are more than just about pomp and show

PREMVIR DAS

Much has been written in recent weeks about the International Fleet Review hosted by the Chinese Navy (PLAN) at the port of Qing Dao in which two Indian naval ships also participated. Similarly, the next few days will see joint naval exercises between the Indian and French navies, termed Varuna, on the west coast of India with aircraft carriers and nuclear submarine participating. Many think of such interfaces as mere spectacles; others ascribe to them a somewhat larger dimension. The truth lies somewhere in between.

There is, of course, ceremony and spectacle including parades, but at the core of such gatherings is the theme that participants are on good terms with the host nation. So, there is something of diplomacy, leave aside the naval nature of these events. International Fleet Reviews carry a message and intent. The premise that they are meant to symbolise the host navy's prowess is simplistic. That is known widely and followed closely and does not need to be proved through displays.

Then come the exercises, joint as they are termed such as the one scheduled to take place early next month. Both India and France are major Indian Ocean maritime powers with coalescing interests in the region. Such exercises are an annual feature of interfaces at sea between our navy and those of the USA, Russia, UK, Australia, Japan, Singapore; the scope of each depends on the operational needs of the participants. With some navies, exercises at sea termed "Passex" are routinely done as part of port visits. Engagements of the first category enable professional interaction at sea and enable us to review our own practices but more important, sends a message to others that the bilateral interface flows from mutuality of strategic maritime interests; the Passex variety are less substantive but still have value. All of them essentially flow from a diplomatic synergy.

This is the context in which International Fleet Reviews and Joint Exercises at sea should be seen. They are not just gatherings of naval ships or ceremonial show but a visible demonstration of how nations wish to interact with respective host nations. Foreign policy and resultant diplomacy motivate them and they are, therefore, a reflection of how participating nations view their maritime interests and seek to safeguard, even enhance them. Only maritime forces — read navies — possess this intrinsic capability to symbolise the national interest in this manner. Hence, such events are increasingly being used internationally in concert with foreign policy objectives.

This brings us to how India deals with its maritime interests and interfaces them with others in the manner that it does. Even though it is essentially the major Indian Ocean regional power, its interests stretch across the Indo-Pacific theatre given that more than half of its overseas trade traverses that route. It is for this reason that its ships are deployed in the South and East China Sea waters routinely, interacting with navies of several littorals and participating in events such as the one recently held in Qing Dao. These deployments are, naturally, not as extensive as in the Indian Ocean where our interests are clearly more dominant. What happens in the waters of the North Indian Ocean is a primary concern and the southern littorals which sit astride access to them such as Seychelles, Mauritius and Mozambique and those more south — namely, France (Reunion Islands) and South Africa are important as they can act to our advantage or otherwise. It is for this reason that one hears of operating facilities being sought for our maritime forces in that region. The northern waters extend from the eastern entries which come through South East Asia to the western routes leading up to the Suez Canal. This is the context in which our maritime interfaces should be seen. They are visibly naval but they flow from the larger national interest.

French Rafales and Indian Navy MIG 29 flying past INS Vikramaditya during the joint exercises

Does India have the wherewithal to meet the challenges that this geopolitical seascape poses is a question that may be asked including whether we are over-bidding, to use a Bridge term. The answer is both yes and no. We are, even as of today, the major regional maritime power and must be able to deploy wherever that may become necessary. We can also extend this reach through our island territories and the ability to operate large aircraft from airfields in southern India, leave aside carrier borne air power. There are weaknesses, no doubt, such as in our force level of submarines, in ships capable of carrying men and materiel over distances. Unfortunately, defence allocations, as a percentage of GDP, have been among the least in the last few years inhibiting strengthening of capabilities. It seems unrealistic to expect that this can be remedied anytime soon given competing demands but what is possible is that relative shares of land, air and naval power be critically reviewed and readjusted. Our existing approach is not much more than continuation of perceptions formed over six decades with some small adjustments here and there. The need is for a holistic and 'de novo' assessment of our national security interests and matching military power.

The writer has been member of the National Security Advisory Board. He is a former Commander-in-Chief of the Eastern Naval Command

LETTERS

Unfair point

This refers to the editorial "Justice denied" (May 9). According to the editorial, the judiciary has faltered on transparency and fairness test. I completely disagree with this view.

This is a procedural matter that is liable to be interpreted liberally and strictly by all judgments of the Supreme Court unanimously. That being the principle of interpretation, one cannot go on picking holes in the procedure all the time. Substantial justice has been done to the complainant by letting her appear before a set of three judges, two of whom were women. Even her complaint about one judge having been chosen earlier, who was apparently the friend of the chief justice of India (CJI), had been addressed as that judge recused himself. Not allowing a lawyer in the hearing is not a new thing. In cases of detention under the Conservation of Foreign Exchange and Prevention of Smuggling Activities Act 1975 also the detained smuggler is not allowed any lawyer before a bench of three judges. This is going on for the last 44 years and no objection has been raised so far. Your editorial has described the three judges as having "reporting relation" with the CJI. Such description is based on a misunderstanding of the relation between the CJI and the judges. They do not report to the CJI and, in any case, are not subordinate to him. They frequently give dissenting judgments and their seniority is intact.

The most serious fact that your editorial is ignoring is that the inquiry is a fact finding one and not a legal one. What exactly did the CJI do to her that she considers as sexual harassment was the main issue? She deliberately walked out of the enquiry on some technical ground that a lawyer was not allowed. What would the lawyer narrate that she could not narrate herself? It was a deliberately planned ploy not to allow the inquiry to proceed.

Another pertinent incident that the editorial does not take into account is, as many as four big and long articles have been written by a senior lawyer named Dushyant Dave in *The Hindu*. Was not one article enough? Such fire work of articles within a few days in one newspaper raises definite suspicion that somebody is pressing a point too much. More cannot be written on this but one must understand the significance of it.

Finally, the last line of your editorial is patently wrong. The arresting of the agitating women lawyers was not done by the order of the SC judges but by the usual police staff, headed by a deputy commissioner of police.

Your editorial has been unfair and has denied justice to the SC judges.

Sukumar Mukhopadhyay
New Delhi

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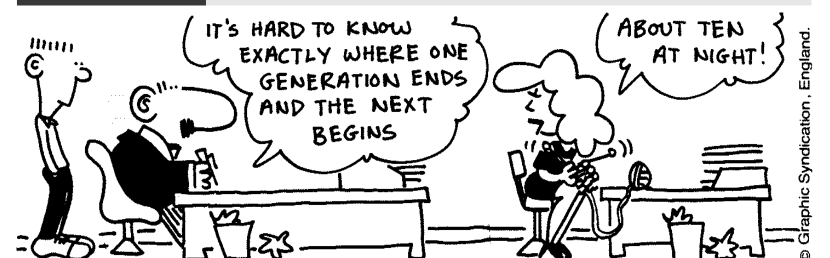
HAMBONE



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See no evil...

EC's reputation has taken a few hard knocks

The Lok Sabha elections of 2019 will go down in history as some of the least edifying in terms of the decorum that politicians on all sides of the ideological divide jettisoned without compunction on the campaign trail. A significant portion of the responsibility for this lies with the Election Commission (EC), a constitutional body that seems to have emerged with its reputation for independence somewhat tarnished. It is a matter of some concern that an institution that has been widely respected for its non-partisan character, which has been carefully built by successive chief election commissioners since T N Seshan in the 1990s, now attracts doubts about its impartiality. It is worth noting that the EC had to be prodded into action by the Supreme Court against hate speech by Bharatiya Janata Party politicians Maneka Gandhi and Yogi Adityanath, and Bahujan Samaj Party's Mayawati. The Commission's 72-hour campaign ban on Ms Gandhi, Mr Adityanath and others also proved an inadequate response.

It is true that the EC has limited powers at its disposal to discipline erring politicians, but it is a pity that the Supreme Court had to remind the EC of the powers that it always had. If it had chosen to utilise the tools it does have with promptness, and to their fullest extent, the EC would have done much to send out signals for politicians to dial back on unsavoury rhetoric. Its failure to do so only encouraged politicians to push the boundaries of propriety. For instance, the EC dragged its feet on the complaints piling up against Prime Minister Narendra Modi and Bharatiya Janata Party President Amit Shah until the Supreme Court ordered it to do so. Then, in a sudden rush, it disposed of those cases in a manner that imitated the three monkeys: See no evil, hear no evil ... The clean chits it gave to both appear to fly in the face of evidence — and the reports of EC officials on the ground. It is hard to see how Mr Modi could have been given a clean chit for his dig at Rahul Gandhi for choosing to fight from the Wayanad constituency in Kerala. The decision, Mr Modi said, was akin to taking "refuge in areas where majority is in minority". Election Commissioner Ashok Lavasa's view that it went against the spirit of the Model Code of Conduct (MCC) and the Representation of the People Act, which disallows candidates to invoke religion as a way to seek votes, was brushed aside as a minority opinion.

It is also unclear how the EC deemed Mr Modi not to have violated the model code of conduct when he chose to invoke Balakot and Pakistan in exhorting people to vote for him and his party. Here again, Mr Lavasa reportedly wanted the EC to send a formal communication to the prime minister, seeking cooperation in the implementation of the MCC as a first response to the complaints. Even this was ignored as the majority opinion of the EC was for a clean chit. That the EC has eschewed its honourable tradition over the past few months is also evident from its decision to ignore Mr Lavasa's reasonable view that the Commission's orders on these complaints should be put out in the public domain, mentioning his dissenting view. The result of such behaviour may not necessarily affect the outcome of the elections, but it has damaged the reputation of the Commission.

The Deveshwar legacy

He redefined ITC and Indian professional management

Yogesh Chander Deveshwar, who died in Gurugram on Saturday at the age of 72, was the epitome of a company man. Educated at the Indian Institute of Technology and Harvard Business School, he joined ITC in 1968 and was still serving the organisation, as non-executive chairman, when he passed away, although he had stepped down from being chief executive in 2017 — a job he first took on more than two decades earlier. The only time he left the company briefly was in the 1990s, when he served as chairman of Air India. He rose meteorically through the ranks at ITC — running a factory before he was 30 and a division at 31, before becoming a director before he was 40. He became chairman when the company was in crisis and under siege, with his two immediate predecessors in jail and the management embroiled in a nasty tax dispute. From there he multiplied shareholder wealth manifold.

Deveshwar will be remembered for two things above all: That he successfully managed the diversification of the tobacco major into multiple different sectors, and his defence of that diversification against ITC's largest shareholder, British American Tobacco or BAT. If ITC is known today as being almost the hallmark of a professionally managed Indian organisation, that reputation is owed in no small part to Deveshwar and the battles that he fought in the 1990s. The board and management had decided to diversify the company; the largest shareholder was unhappy. In many cases, the diversification would have been quietly rolled back, especially after a few bad years. But Deveshwar used the power of the state and that of domestic finance to keep BAT at bay, and to keep the diversification going. But that process was unsentimental — ITC under Deveshwar exited many sectors if it appeared that they were not, in the end, the right fit. Deveshwar's insight was that the ITC brand was widely respected, and could earn money well beyond the cigarette sector — and could be parlayed into a creditable market share in such sectors as fast-moving consumer goods and apparel. This process could be kept going thanks to the victory over the largest shareholder, ensuring ITC remained widely held and ownership was carefully separated from management.

Deveshwar's focus on growth is visible in the numbers: Its revenue grew at a compound annual growth rate (CAGR) of 14 per cent while he was chief executive. Profits grew at 19 per cent year and shareholder capital appreciated 20 per cent as long as he was executive chairman. During his executive chairmanship till 2017-18, ITC's non-cigarette business grew 19-fold, constituting 59 per cent of the net segment revenue of the company. This is an excellent record to be sustained over decades, and is part of the reason why he was one of the most admired corporate leaders in India. That said, growth has slowed in recent years. Its share price has gone up 7.6 per cent since February 2017, whereas the Sensex has gone up 32 per cent in the same period. One of the great problems of Indian corporate life is even the best leaders stay too long and their companies struggle to move on after they leave. Perhaps ITC is no exception.

ILLUSTRATION: AJAY MOHANTY

The next election

A broad-based coalition would be better to protect dissent and diversity and a cooperative federalism that joins the Centre and the states in shared decision making

NITIN DESAI

We are now entering the last leg of one of the nastiest election campaigns that we have seen in this country. There has been little or no discussion of policies and a virtual absence of any defence of the government's performance. Instead we have had an endless exchange of invectives, the pointless raking up of the distant past, innuendos and even accusations about the patriotism of the Opponents, character assassination, and all this often on the basis of fake 'news', using the anonymity of social media.

Those of us who came of age in the early years of independence have often regretted the loss of civility and restraint in the political discourse. But what we have seen in this election campaign is a deterioration in the quality of political discourse that is so much worse that it threatens the future of our democracy. Statements by senior politicians categorising a constituency as somehow less appropriate because it consists primarily of minorities is a direct affront to the Constitution. This and other divisive statements challenge the equality of all citizens that underlies the universal franchise and is the very foundation of democracy.

The legitimisation of divisiveness is the greatest danger to the unity of the country. In today's political discourse differentiation by religion is being promoted by some for narrow political gains. Such differentiation is explicit in the ruling party's manifesto which focuses on just one religion in the section on cultural heritage. Tomorrow this differentiation could be extended by some politicians to caste or language or even region.

Another dangerous undercurrent is the argument that the country needs a strong central government with a charismatic leader who can rule in a virtual dictatorial fashion. This is dangerous. A healthy democracy requires checks and balances in the political process.

The most important balancing dimension in our political structure is the federal system with a multiplicity of parties ruling in different states. The state governments provide an avenue for participation in political power by a wider variety of religious, caste, and ethnic groups. Anything which threatens this rich and diverse federalism is a threat to our democracy. Together the leadership of the state governments is a visible expression of the diversity of our country and a restraint on dictatorial tendencies in the Centre. Thus, in the early years of independence, even under de facto one-party rule, chief ministers like C Rajagopalachari, Govind Ballabh Pant, B C Roy, Ravi Shankar Shukla, B G Kher, and Gopinath Bordoloi were the political equals of Pandit Nehru. This spirit of collegiality and diverse leadership is what we need to recover.

A virtual dictatorship and a divisive political agenda is a threat not just to our democracy and to social harmony but also to our economic prospects. An all-powerful leader with few restraints can do foolish things like demonetisation, which would never have been done had there been effective checks and balances internally within the ruling party and externally in the broader political space. The government at the Centre must also remember that effective executive responsibility for almost all development sectors rests with the states who are becoming more autonomous as each Finance Commission reduces the scope for conditional grants.

The Indian economy now requires a cooperative federalism that joins the Centre and the states in shared decision making as has been done in the case of the GST Council. A coalition government with regional parties becoming part of the Central government is a better guarantor of cooperative federalism. The belief that coalition governments are bad for the economy is questionable judging by the performance of the economy during the three weak coalitions that we have had.[1]

A dictatorial Centre will strengthen the forces of nativism and localism. This will constrain growth by making internal migration more difficult. The ambitious programme for a Delhi-Mumbai industrial corridor assumes large-scale migration into the western states. The southern states are fast approaching a demographic phase of low working population growth and will require temporary and permanent in-migration. But more than that it will feed incipient secessionist sentiments and worsen the political discourse with the states outside the control of the party ruling at the Centre.

We do not know what we are likely to get on May 23. We all live in echo chambers talking to and hearing people we tend to agree with. The noise from one echo chamber says one thing and from the other echo chamber the exact opposite. Much of this noise is urban even metropolitan. But the outcome is going to be decided in small towns and villages. Will these quiet voters be swayed by their economic condition (farmer distress, small trader difficulties), by their caste loyalties or by nationalist sloganeering?

Whatever be the result, the government that comes into power next month will face a difficult economic situation. The state of the Central Government's finances is not very healthy — a shortfall of ₹1.6 trillion in revenue relative to the revised estimates for 2018-19, an increase in the deficit for that year from 3.4 per cent to 3.9 per cent and a decline in the tax GDP ratio. Rising oil prices will put pressure on the current-account deficit, the fiscal deficit, and inflation. A continuation of the US-China trade war will slow down the world economy. In this difficult macroeconomic situation, the new government will be under pressure to deliver on electoral promises of handouts, subsidies, and infrastructure spending and that may well worsen macroeconomic prospects.

The real difference in the consequences of the outcome are in the political space and the answer that the voters give to the divisive agenda. The chances are that we will have a broader coalition than at present, with the present ruling party or, if it does very badly, some other as the dominant partner. In either case the threat to diversity will be attenuated. 'Flexible' politicians (and there are many such) will move away from divisive sloganeering and personalised electoral strategies. This is welcome. But a coalition government will also mean that fresh elections will be considered to be imminent and posturing for elections will continue. This may be a price to pay for keeping democracy and dissent alive. We will have to wait for the real answer from the voters on the India they want for a couple of years till the next election.

[1] *Nitin Desai "Coalitions and the Economy"* Business Standard, *February 18, 2019*

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Achche din? Not with the state as a doer

IRRATIONAL CHOICE

DEBASHIS BASU

For the 2014 elections, the Bharatiya Janata Party (BJP) had put out two versions of its election manifesto, a detailed one and a shorter one. I had placed the shorter one on my laptop's main screen. I thought I would track India's transformation as it unfolds, given that we were promised a different government — a "minimum government with maximum governance." About six months later, I deleted it. I noticed that we only had a change of leadership and but no structural difference in the way the government intended to function.

Indeed, over the following years, things worsened. In the first two weeks of this month we have headlines like "Maruti slashes production for a third month amid subdued demand". Or, "Industrial output in India contracted for the first time in 21 months". Or, "FY19 growth at three-year low". Or, "The IBC is going the way of previous failed laws on bad loan". Or, "Narendra Modi's most distinctive economic policies were his worst". What went wrong?

A year after the Modi government started announcing various schemes, thinker and writer Arun Shourie described the government as "UPA (United Progressive Alliance, led by the Congress) plus cow". This memorable description was apt. The hallmark of the two UPA regimes was job guarantee schemes, continued support for unproductive public sector companies, bloated infrastructure projects for cronies, a controversial scheme for tagging every resident called Aadhaar, budgetary gimmickry to hide the fiscal deficit, tax terrorism, giveaways to farmers, etc. It was the same expansive, intrusive government.

The BJP-led government came to power with a clear majority, the first time by a party after 30 years, and an unprecedented mandate to focus on development and job creation. Instead, Prime Minister Narendra Modi changed the names of UPA schemes and expanded them; he added a few more of his own. Taking a leaf out of the book of previous Congress governments, it announced a loan *mela* called MUDRA. There was no reform of the public sector, no meaningful disinvestment, only sleight-of-hand, such as ONGC buying Hindustan Petroleum and Power Finance Corporation buying Rural Electrification. Billions of rupees have been taken out of government companies as dividend, denuding them. A couple of them don't have enough to pay salaries. Ownership, corruption, lack of accountability in public sector banks remain unchanged, with the result that hundreds of billions of rupees of taxpayers' money has been injected into them just to keep them alive. Instead of a miracle identification project to cut wasteful subsidies, Aadhaar has turned into a surveillance tool. The promise of minimum government, maximum governance turned out to be a joke.

Two major reforms of the Modi government were the goods and services tax and (proposed by the UPA) the Insolvency and Bankruptcy Code (IBC). But high GST rates and draconian rules reiterated the extortive nature of the Indian state, apart from innumerable glitches. The bureaucratic and flawed IBC architecture has ensured that the new system is rapidly descending into utter chaos and has started resembling previous bankruptcy resolution efforts — a cesspit of seedy deal making, long inaction, stymied resolutions and a long list of unresolved cases.

A new government will take charge in a few weeks from now. What can it do to make a structural difference? In the tech world, they say, try to make something 10 times different, to really get noticed and gain traction. To make a dramatic difference to the lives of millions of Indians living in poverty, we need a 10x shift in governance. This cannot be achieved by doing more of what hasn't worked so far, such as do-gooding schemes, more subsidies and higher taxes. A structurally different approach is required, which would be making the government a facilitator, not a doer. This would be a 10x shift in approach.

We have been led to believe that government policies and action are needed to solve every problem area — farm loans, jobs, housing, poor health care, or bad infrastructure. However, if we dig deeper we will know that the government is the problem, not the solution. Every scam or wasteful expenditure has its roots in licensing, public sector, tenders, or opaque systems, for which the government alone is responsible.

There was a time in the 1950s and 1960s when private capital and skills were scarce and the government had to step in to set up industrial projects. From there on, the state expanded relentlessly, limiting the growth of private enterprise, fostering crony capitalism and corruption, in the process forcing the most brilliant Indian minds to migrate. This path has to be retraced. The government has to shrink dramatically, not only because it is a wasteful, largely unproductive and unaccountable system. Today the talent, capital and strength of private institutions are well-established both in the "for profit" and "non-profit" space.

What I am suggesting is not mere clichés like "government has no business to be in business", which I first heard 35 years ago. India can prosper dramatically if the government were to act as a referee to maintain peace, deliver quick justice, and minimise frictional costs, while encouraging private institutions to act out their enterprise and vision in every area possible. If we do that, the government will need to raise much less tax as well, fuelling further exponential growth — the real *Achche din*.

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Stiglitz's prescriptions

BOOK REVIEW

DANIEL W DREZNER

A diverting Beltway pastime during the heyday of the Washington Consensus was to gently mock Joseph E Stiglitz. It was remarkably easy for pundits to wave away his prestigious awards (Nobel Prize in Economics) and positions (World Bank chief economist, chairman of Bill Clinton's Council of Economic Advisers) and dismiss his warnings about "market fundamentalism" as overripe hyperbole. In 2004 the financial columnist Sebastian Mallaby described Stiglitz as "like a boy who discovers a hole in the floor of an exquisite house and keeps shouting and pointing at it." Fifteen years later, the house that capitalism built looks rather shabby. Maybe, just maybe, more people should have taken Stiglitz seriously.

This is certainly what Stiglitz, now a professor of economics at Columbia, is hoping for with his latest book, *People, Power, and Profits*. He argues that the American system of capitalism has fallen down and needs government help to get back up again. This book builds on Stiglitz's earlier work and adds some pretty big ambitions.

Stiglitz's diagnosis of what ails the American economy will have a familiar ring to anyone who has followed these debates. The rules of the game have been stacked in favour of the haves over the have-nots. This has widened economic inequality and increased the concentration of market power among leading firms in every sector, slowing down broad-based productivity growth. These firms and wealthy individuals are converting their riches into political power, further revising the rules to entrench their position at the top. They advocate for tax cuts and the deregulation of everything except intellectual property rights. Anyone who relies on countervailing institutions, like public education, labor unions or social safety nets, loses out.

People, Power, and Profits goes beyond diagnosis to treatment. At the core of Stiglitz's plan is the strengthening of the state. "The view that government is the problem, not the solution, is simply wrong. To the contrary, many if not most of our society's problems, from the excesses of pollution to financial instability and economic inequality, have been created by markets." He proposes a whole host of reforms, including significant investments in public goods like basic research, more stringent regulation of firms and measures to preserve and protect the voting franchise.

A cruel irony of *People, Power, and Profits* is that in arguing the free market has declined, Stiglitz is competing in an extremely crowded marketplace. The genre of "How has America gone wrong?" is overstuffed; we are living in a golden age of authors telling Americans that we no longer live in a golden age. Given the plethora of books on this topic, does Stiglitz's stand out?

One of his book's comparative advantages is that while Stiglitz has impeccable economic credentials, he also recognises some of his profession's blind spots. He observes, correctly, that standard textbook economics talks a lot about competition but little about economic power. He also excels at swatting away bromides about the miracles of markets and the failures of governments. He notes, for example, that the Social Security Administration is far more efficient at disbursing retirement benefits than private pensions.

Stiglitz could have done much better, however, if he had narrowed his focus to the sharpest arguments in his policy quiver. For instance, he discusses the idea that taxes on carbon or financial transactions "can simultaneously increase economic performance and raise revenue." This sounds like the progressive doppelgänger of the Laffer Curve, that is, a concept that would be good policy and good politics. Stiglitz should be selling the hell out of it; instead, he breezes through it in one page.

Some of his other ideas seem less thought out or more politically toxic. On antitrust, for example, he encourages a doctrine of pre-emption: "Regulation of mergers must take into account the likely future shape of markets." This would require considerable foresight, so it is a problem that 75 pages later Stiglitz allows that "often there is far from perfect information about where a market will be evolving, and the world turns out to be different from what we expected." He fails to explain how regulators would handle this conundrum. Another of Stiglitz's ideas — a public mortgage financing system that could access an individual's IRS and Social Security data — sounds unpalatable in the current low-trust political environment.

Indeed, I wish Stiglitz had taken seriously his pledge to take politics seriously. At one point, *People, Power, and Profits* rules out the idea of a universal basic income because the necessary tax increases would be politically impractical. That was the only moment in the book in which Stiglitz seemed to think at all about how any progressive policy reform would be, to use the language of economics, "incentive compatible." There is no discussion whatsoever of polling data or other metrics to gauge public support for his ideas.

The policy shop of every 2020 Democratic candidate for president would be wise to pore over *People, Power, and Profits* and cherry-pick its best ideas. Other readers should feel free to browse the genre a bit more widely.

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PEOPLE, POWER, AND PROFITS
Progressive Capitalism for an Age of Discontent
Joseph E Stiglitz
W W Norton & Company; $27.95; 371 pages