

Conjecture & surmise in imagined realities

The use of statistical tools might give exit polls a semblance of science but that does not make the inferences anything more than conjecture



WITHOUT CONTEMPT

SOMASEKHAR SUNDARESAN

By the time you start reading this column, the actual final results of the Lok Sabha elections may not yet be fully out. Exit polls are loud and clear (perhaps more loud than clear) in terms of which way people have chosen. All exit poll outcomes (barring two) have returned a sweeping runaway victory for the NDA and a rout for the UPA.

The exit poll results have led to extensive airing of firm views on the real deal with India's politics. Even a seasoned poll pundit like Yogendra Yadav has said the Congress party must die for a change in the political situation. Despite being a politician himself, he is usually dispassionate enough to keep his aspirations and hope out of his assessment of the reality. However, are exit polls adequate for such firm conclusions to be drawn?

Response to questions put to a sample of voters, forms the basis of drawing inferences and statistical conclusions as to the outcome of elections. While this exercise may feed the insatiable curiosity of the human mind, even with the best standards of integrity in the conduct of exit polls, astrology can remain a close competitor.

There is many a parallel in the real business world, and in particular, in business regulation, where similar extreme conclusions get drawn and policy choices are made, based on con-

jecture and surmise akin to exit polls. While exit polls results may at worst lead to some shooting of blood pressure in television studios, in the real world, expensive choices get made despite similar lacunae. Just two facets are worth noticing.

First, our ballot is a "secret ballot" for a reason. The law guarantees the secrecy of the vote cast so that the citizen casting her vote does so without any fear of reprisal. A citizen who is then asked to confess who she voted for, can only be expected to volunteer and waive the right to secrecy. Of course, a diehard loyalist would proudly declare her choice. Indeed, many could answer truthfully, only because they are asked — computer hackers will tell you that the easiest way to get someone's password is to simply ask for it. But those strong-minded or fearful about their secrecy being violated are bound to recoil. Often, speculative consumer choices are sought to be discerned by competition law regulators,

say, when they have to consider if they should approve a merger of owners of two competing brands. They are prone to making the same mistakes as placing much in store by exit polls.

Second, the mere peppering of statistical tools that can give a semblance of science would not result in the outcome being more than conjecture or surmise. There could of course emerge realities in election outcomes that match the exit poll outcomes — but these would be more in the realm of being fortuitousness than in the realm of a scientific cause-effect relationship being established. Factors other than truthfulness too matter — for example, how one selects a sample, what size of sample is selected, how representative the sample is, and so on. Just consider how deeply controversial the selection of samples are in computation of television rating points, and of course how violent disagreements are over how to assess which news publication is read the most. The cause-effect confusion that boggles the mind, too comes up often in market abuse investigation — a typical vexed issue is determining

whether a person who sold securities in large numbers was cutting losses or whether it was her sales that led to an unfair fall in prices.

By the time you finish reading this column, the actual final results may be out. If the exit polls are proven right, remember it is a random match despite lacunae. If they are proven wrong, you know the randomness did not work out a match. Publication of exit poll results until completion of polling is banned for this very reason — their absence of reliability is inversely proportional their impact.

What is vital is to remember is that real strategic decisions on whether to dump a product (winding up the Congress party), or hold someone guilty (say, of market manipulation) or discharge someone of suspicion (say, approval of a large merger), has to be founded on firmer reality and not solely on extrapolation from responses to sample-based surveys. It is vital to own statistical tools and not let these tools own you.

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

CHINESE WHISPERS

Return of king of good times



That's right. Beleaguered industrialist Vijay Mallya will appear on the big screen soon. Word is that a documentary is in the works on Mallya and his life, complete with anecdotes and points of view from those who knew him well. That includes voices of employees, fellow industrialists, and senior members of his management team. Siddharth Mallya, his son, will likely be involved in the film and recently registered his name with the Los Angeles Screen Actors Guild. While it isn't clear when the documentary-style movie will be released, what is certain is that it will be launched on Netflix and talks are on with the OTT player. Neither Netflix nor Mallya's press team commented on the movie. Mallya, who left the country in 2016 to live in the United Kingdom, faces extradition.

Fine-tuning' strategy

The Bharatiya Janata Party's (BJP's) pick for Bhopal, Pragya Singh Thakur, ensured a charged up campaign in which much bitterness was exchanged between her party and the Congress, which fielded Digvijaya Singh against her. What neither of the two sides would have imagined was a musical and somewhat harmonious end to the campaign outside a counting centre where electronic voting machines (EVMs) are kept in the constituency. As a bunch of supporters from each side gathered to "guard the EVMs against manipulation", they thought a game of *antakshari* would be the best way to pass time. Bollywood numbers from various decades began to flow. And as it happens often these days, a video of the episode soon found its way to Twitter, prompting one user to comment that democracy was a great leveller.

From hotels to bhawans

Lok Sabha Secretary General Snehlata Shrivastava on Wednesday said the newly elected members of the Lower House of Parliament would no longer be put up in hotels but in state bhawans or Western Court, a transit hostel for parliamentarians, and its annexe building. With the counting of votes for the Lok Sabha polls scheduled for Thursday, the newly elected members are expected to start arriving in the capital from Friday. MPs were often lodged in hotels earlier; sometimes they stayed on for months while their bungalows were renovated, stressing the exchequer. "The Lok Sabha secretariat has done away with the system of transit accommodation in hotels," Shrivastava said.

Green clearances: Small tweaks, big effect

The NDA proposed key changes to the Environmental Impact Assessment notification in the last month of its term

NITIN SEHJ

At the beginning of its first term, the National Democratic Alliance (NDA) government introduced a slew of measures to simplify the process by which environmental clearances are granted under the Environment Protection Act (1986). At a larger level, it tried to provide a time-bound delivery of such clearances to applicants through standardised processes. At a more micro-level, it responded to requirements of specific industrial sectors to tweak particular provisions and standards.

In its last month of this tenure the NDA government has proposed a more substantial rewriting of the key enabling notification called the Environment Impact Assessment of 2006. The proposal has been sent to states for comment but has already attracted criticism from environmentalists for significantly diluting the spirit of the Environment Protection Act (EPA).

This was possible because the EPA itself has generic provisions that allow great latitude to the political executive to detail the process of clearance purely through notifications. Such notifications, significantly, do not need Parliamentary approval.

The Environment Impact Assessment notification, which was first fashioned in 1994 and then over-

hauled in 2006 to give states more control over clearances for projects up to a particular size. This quasi-decentralisation was meant to reflect changed political and economic realities, in that states had a greater role to play and industrial expansion after economic liberalisation required more federal oversight.

Successive governments focused on altering the clearance processes but

largely gave a pass to the second, and essential, element of environmental regulations for monitoring pollution levels and how industries followed conditions laid down for clearances. In fact, in 2009, an analysis by the Centre for Science and Environment showed that the financial, technical and human capacity of the state pollution control boards — the state-level arms of the environment ministry which monitor industries under the law — had either stagnated or fallen over time.

This diminution in monitoring capacity has continued even as industrial output has increased manifold.

The NDA addressed this lacuna by providing for the online monitoring of individual industrial units for pollution levels but the mechanism remained opaque and is yet to show credible results.

The rewritten notification brings into one place all the piecemeal regulatory tweaks the government made



CHANGE AGENT

Key changes proposed in the draft Environmental Impact Assessment notification

- Transfer of environmental clearances for coal blocks when leaseholders change now extended to the entire mining sector;
- Responsibility for granting environmental clearance process partially devolved to district-level authorities;
- "Empanelled" government-recognised institutions to monitor industrial activity instead of depending on dedicated state capacity
- Role of public consultations for industrial expansion to be scrapped under specific conditions, including if holding them poses an administrative challenge

during the five years. For example, the government had allowed a smooth transfer of environmental clearances for coal blocks when leaseholders changed. This was done in reaction to the Supreme Court orders cancelling coal blocks in 2014, requiring their redistribution to new leaseholders. The proposed EIA notification, logically, extends this facility to the entire mining sector.

The proposed EIA notification also devolves some of the responsibility of granting environmental clearance process to district-level authorities. The government tried to do so earlier in haste and was stopped in its tracks by

courts. The devolution of powers to the third tier of urban governance is proposed with an elaborate administrative mechanism this time around. Again, the question of whether district authorities would have the capacity or the independence to carry out this function efficiently remains as doubtful as it has been in the case of states.

Through the proposed notification, the government has also revived a proposal to leverage "empanelled" government-recognised institutions to monitor industrial activity instead of depending upon dedicated state capacity. Alongside, the government proposes to diminish the role of public con-

sultations for industrial expansion under specific conditions and to do away with such consultations on discretion if holding them poses administrative challenge.

Several environmentalists have complained about the proposed dilutions since the draft EIA notification was leaked. Government officials, speaking off the record, defend it. They say it is a draft open to improvement, but also a logical product after five years of the government's experience, in tune with the mandate for putting in place ease of doing business, decentralised regulations and efficient environmental governance.

At best, it does so incrementally. The proposed EIA amendment is not more than a series of tweaks. It does not require the government to go through a deeper overhaul of a law or regulatory framework, which would require some legislative amendments at the Centre and bringing states on board for yet others.

The Environment Protection Act was legislated partly in reaction to India's first (and still the biggest) industrial disaster, the Bhopal Gas Tragedy, in 1984. The basic framework for environmental clearance and monitoring was set up under this law in 1994 when India had only begun to liberalise its economy.

Regulations to mitigate environmental degradation, mediate in contestations over natural resources and address the climate crisis, in today's India present a challenge that tweaking a vintage EIA notification, wide-angled as it might be, cannot match. Whether the NDA retains power or another political arrangement takes over at the Centre, reimagining environmental governance would require greater political will.

INSIGHT

Push the envelope on market reform



DHIRAJ NAYYAR

There is a paradox at the heart of India's post 1991 political economy. India has grown at its fastest (currently the world's fastest) after it liberalised its economy. Many more people have been alleviated from absolute poverty in the last three decades than in the five preceding decades. And yet, there is no political party which is explicit or unabashed in its endorsement of a market economy. That can only be because there is no substantial constituency for market reform. Therefore, the question to ask, on the day India elects its next government, is why the apparent success of a market-led economy, in terms of both growth and poverty alleviation, has failed to create a political constituency?

Three plausible explanations stand out. First, in public perception, the market economy has been most closely associated with crony capitalism, rampant corruption and fleeing (the law) capitalists. Combined with the old socialist-era legacy of viewing all profit as vice/evil, it is a lethal cocktail which politicians unsurprisingly prefer to avoid in their public pronouncements. Perhaps, to get its moment in the sun, India's capitalism needs saving from at least some of its capitalists.

Second, it may be argued that the process of market reform post 1991 gave inclusion short shrift or paid only lip service to it. Here, inclusion is not defined as some form of dole but in the broader sense of participation in the mainstream economy — by being part of the banking system for example or getting a quality education or receiving first rate healthcare. Much of these are the fundamental responsibility of the State. By falling short, India's governments have let down markets. In fact, in the lexicon of centre-left parties, government failure has been masked as market failure.

Third, it is reasonable to posit that politicians have failed to articulate the merits of the market economy in sectors where it has brought great benefit to hundreds of millions of Indian, like in telecom or in aviation. In the quest for votes, it is likely that these would be advertised as successes of government rather than of the invisible (to voters) hand.

Recently, several commentators have lamented the unwillingness of Prime Minister Narendra Modi to embrace market reform, which is indeed necessary to raise India's growth trajectory to double digits. The reality is that Modi is too savvy a politician to push ideas or policies which do not have mass support. He realised that quickly when he tried to reform the land acquisition law in a market friendly way early in his term. Instead, Modi spent the last five years in a concerted effort to try and neutralise the adverse public perceptions around the market economy.

There was a concerted effort at cleansing the economy of rampant cronyism and corruption. A series of policy measures, from demonetisation to GST from the Indian Bankruptcy



Code to the Benami Properties Act and RERA were targeted at creating a "fair" economy. Increasing tax compliance, ensuring promoters lose control of bankrupt businesses, clamping down on black money in real estate and so on would all help in restoring the faith of the people at large that the market economy is not rigged to favour a few.

The PM Jan Dhan Yojana may yet go down in the history books as the most important reform of the Modi era because it universalised the possession of bank accounts. For the excluded and marginalised, that is the first point of entry into the mainstream economy. The decision to move to direct benefit transfers with the help of Aadhaar and mobile phones has put money into those bank accounts. Not only has leakage been cut, money in bank accounts has allowed people to access loans and purchase other financial instruments like insurance. In fact, the government's life insurance and accident insurance schemes bolstered Jan Dhan, just like direct benefit transfer did. The attempt

at inclusion subsequently moved to health care with the implementation of the Ayushman Bharat scheme. The vast improvement in the government's ability to facilitate genuine inclusion of the poor in the mainstream is significant because eventually they will become stakeholders in the well being of the market-based system.

Modi has also tried to communicate to the public about the importance of entrepreneurs and job creators who are the fulcrum of any market economy. His emphasis on start-ups, and new technologies, will enable the creation of a new class of Indian capitalists who will have grown without any support from the government. They will be the best advertisements for free markets. The challenge for Modi, should he win re-election today, is to build on the efforts of the last five years to push the envelope on market reform. He probably will. As should anyone who becomes India's next Prime Minister.

The author is chief economist, Vedanta

LETTERS

Justice denied

While Prime Minister Narendra Modi went bragging about the Balakot bombing by the Indian Air Force as a muscular response to the Pulwama massacre, he kept under wrap a very tragic incident — of our own surface-to-air missile downing an IAF Mi-17 helicopter on February 27. Such an incident, euphemistically called a "friendly fire", killed seven IAF personnel and a civilian and yet there was not a word of remorse from the PM during his campaign. It is obvious that admission of the incident would have embarrassed his government. Both the PM as well as the defence minister need to explain their silence on the issue. Unfortunately, the IAF top brass seemed to acquiesce. While a detailed inquiry report is pending, prima facie, this is not just a case of professional incompetence and gross criminal negligence, but also of culpable homicide not amounting to murder. I hope justice is done and steps taken to prevent recurrence of such "friendly fire".

S K Choudhury Bengaluru

Culture is key

I read Mihir Sharma's article, "Do 'jobs' even matter in politics?" (May 22) with great interest. Indians carry a long history on their shoulders that they cannot just shake and throw away because someone who studied in the West wants to forget history. The country needs to include sustainability of culture in policy making because that is what most

Indians want. And in a democracy, the majority does count first. This means the ban on cow slaughter will continue and people will continue to search for glory in the past. Is there anything wrong in this? Not really. The new economics of growth in India will have to factor this in. Those who cannot do this will no longer be accepted in the economic analysis of India.

Chandrasekhar G Ranade Washington

It's hara-kiri

Apropos your editorial "Questions over Huawei" (May 22), in view of the growing tension between the United States and China, India needs to protect its 5G rollout. The Indian government and companies will undoubtedly ask Huawei to address all concerns of security and dependability of equipment supplies. It is highly unlikely that Huawei will provide satisfactory and acceptable responses. Equally or perhaps more important is the scenario of "a world without Android, Intel, Qualcomm, Cisco, Google and Apple". If America continues its nationalist crusade. It is akin to committing hara-kiri. Is Trump bent on carrying forward the bogey of nationalism to its illogical and irrational end?

Krishan Kalra Gurugram

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HAMBONE



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Bailout dilemma

Special credit window for NBFCs isn't a good idea

Dewan Housing Finance Ltd's (DHFL's) decision to freeze premature withdrawal of deposits is the latest in a series of bad news coming from non-banking finance companies (NBFCs). The problems began in September last year when infrastructure finance company IL&FS defaulted on payments to banks and term deposits and failed to meet the commercial paper redemption obligations. It caused panic in the markets as it impacted banks, mutual funds and investors. A spate of rating downgrades over the past month has also stoked fears of a liquidity crisis, with a cascading effect on the broader markets, leading to the demand that the Reserve Bank of India (RBI) should extend a special credit line to NBFCs to help them tide over the crisis. Those who back this demand say without a dedicated credit line, the NBFC segment is going to sink, and they will certainly not be alone in that. The RBI's own Financial Stability Report in December showed how the interconnectedness was increasing in the financial system. Mutual funds were the largest net lenders to the financial system, and NBFCs and housing finance companies (HFCs) were the largest net borrowers, the report said.

The asset liability mismatch is indeed stark and scary. Among the various players within the financial sector, NBFCs and HFCs together had a gross payable of ₹13 trillion, whereas the receivables were only ₹97,000 crore. The money due was mainly to banks and mutual funds. Supporters of a special credit line also say it is wrong to paint all NBFCs with the same brush. If they were really such a concern, why did the regulator allow more than 10,000 of them to come up in the system? Since the IL&FS defaults in September, the sector is now dependent upon its own cash flow, and that means the balance sheets would scale down. And it is but a matter of time before the real economy starts showing signs of a slowdown simply for the want of credit.

While the arguments have some merit, the RBI's reported decision against a special borrowing window should be welcomed. Such bailouts can fuel the problem of moral hazard because other financial institutions may expect a similar lifeline in the future. After all, quite a few of them are highly leveraged mainly due to their reckless lending in the past — they lent to weaker companies, including the real estate sector, and the quality of the security is suspect. The tactics some of the NBFCs use to get marginal funding advantage by relying on short-term borrowing have led to the crisis. In that context, the RBI has done well to ask the management of large NBFCs to submit concrete plans, with specific timelines, for capital infusion and asset monetisation. The central bank is already keeping a tab on the liquidity position of these firms on a monthly basis and recently asked NBFCs with assets over ₹5,000 crore to appoint a chief risk officer. There are several other questions on how a special window would work. For example, there is no clarity about the collateral against which the RBI would lend to the NBFCs. The RBI should thus try to focus on taking steps to address the structural problems that contributed to the crisis, instead of hurrying through a bailout package. The demand that NBFCs are regulated like banks, given their asset size and growth, is also a broadly valid argument.

New Delhi isolated

India seeks to block global e-commerce rules, but has few allies

E-commerce and digital trade are likely to be among the biggest value creators in economies — and particularly for the Indian economy. In fact, much of the recent investment in India is in this or related space. The Indian government has also been active in drafting and enacting rules in this space, many of which have greatly upset foreign players. However, it appears that India is an outlier in global terms when it comes to its attitude toward the regulation of e-commerce and digital trade. In particular, there is a strong move afoot to create a multilateral mechanism to govern the international regulation of e-commerce and digital trade. The United States, the European Union, and Japan — three of the four largest trading entities — have come together more than once over the past year to affirm their commitment to the creation of such a mechanism. They are united in seeking to prevent domestic regulations that restrict the free flow of data across borders. There is also a move to prevent domestic governments from bullying transnational companies from handing over source code or proprietary software. The People's Republic of China has also declared its openness to multilateral discussions on what a future World Trade Organization pact on data flows and storage, as well as digital products and services, would look like. Beijing is, of course, considerably more protectionist than the West on these matters, but it also would like to see global trading rules that allow its own multinationals like Alibaba or Tencent to flourish.

India, is, however, determined to try and block any international framework on e-commerce on digital trade. This reflects its own recent moves to force data localisation, which restricts the free flow of data generated by Indian consumers across borders. Multinational companies operating in the e-commerce space have also been subject to increasingly restrictive — and even arbitrary — rules. (The latter is one major irritant that led to the recent coldness in trading ties between the US and India.) India also wants to make sure that the needs of its IT service sector are met. However, it is far from clear whether Indian IT services would be harmed or benefited from a global architecture that opens up these services. After all, Indian companies provide low-cost and competitive solutions in this sector. The question of data localisation is more fraught, and is not settled domestically in spite of recent government efforts. While large Indian companies may benefit from data protectionism and the government has legitimate questions about national security, Indian consumers and smaller companies and start-ups stand to benefit greatly from a free flow of data.

Either way, it is unwise for India to find itself isolated in this manner. Plurilateral agreements that leave India behind would not be to its benefit. It is necessary therefore to seek more allies for its viewpoint. Unfortunately, many countries, including less developed ones, do not have as harsh a view on these issues as the Indian government is adopting. A combination of compromise and outreach will be necessary.

Can local communities save liberal democracy?

Liberals should beware of communitarian romanticism, as 'community failures' are as important as market and government failure

As the job-displacing effects of markets and global integration and the cultural shocks of large immigration have rattled workers, particularly the less skilled ones, their reactive turn to populism in different parts of the world has dismayed liberals. This has been reinforced by resentment against centralised bureaucracies (not just in Brussels or Washington but also in Mexico City or Delhi or Jakarta) run by professionals and technical experts whose dispensations often ignore local realities and sensibilities. The alliance between liberals and workers that used to form the backbone of centrist democratic parties is getting frayed, as in the minds of many blue-collar workers the liberals with their mobile professional skills come across as privileged meritocrats and rootless cosmopolitans ('citizens of nowhere').

Global markets and mobility of capital have required standardisation and harmonisation of local rules and regulations, which some communities feel are ironing out their local distinctiveness and proximity-based personalised networks. Increasing market concentration in large corporate firms, their blocking of small business, capturing of state power in democracies through strong lobbies and copious election funding, and weakening of labour organisations and depressing labour share have made many small people precarious in their livelihood and suspicious of markets.

State-provided public services which are supposed to relieve the harshness of the market are everywhere riddled with bureaucratic indifference, malfeasance, and resistance to reform, while the better-off liberals are increasingly seceding from them. In developing countries the public delivery of social services is often so dismal (with inept, corrupt or truant official providers) that in contrast the image of voluntary community organisations (including charitable religious institutions run by Muslim, Hindu or Christian evangelicals) trying to fill in the gap is often much better than that of the state. Even when the state delivery mechanisms work reasonably well, the projects often do not involve the people but simply treat them as passive objects of the development process. (In rich countries, communities have sometimes rejected negotiations over their heads by corporate and city officials to help investment in the community — as in the recent case of the failed Amazon investment proposal for Queens in New York.)

In general, in the day-to-day democratic process political parties which used to be viable mediators between the state and society are now in some decay all over the world, and thus the regular political-organisational channels of demand articulation and conflict resolution are clogged. At the global level there is also

a general feeling that in facing the environmental challenges both the state and the market have failed us. Even in the community management of local environmental resources (forestry, fishery, irrigation water, grazing lands etc) the rampant encroachments by market expansion of private business and by the overreaching and collusive state officials have played havoc in many parts of the world. Thus there is widespread disillusionment with both the market and the state. In such a situation some liberals are turning to the local community to provide an anchor for democratic institutions and solidarity.

Communitarians and sociologists have argued for this over many decades, but economists have usually emphasised the resource allocation efficiency and productivity effects of mobility and footloose factors of production for which community loyalties can be a drag. The emphasis has been more on anonymous competition than on social cooperation. The only recipient of the Economics Nobel prize who had extensively worked on community institutions of cooperation, Elinor Ostrom, was a political scientist, not an economist. (When in the early 1990s I linked up with her in connection with my work on community institutions in the local commons of developing countries, she expressed to me her bewilderment why so few of my fellow economists were interested in these issues at that time.)

This is changing now. More economists, persuaded by the ubiquity of both market and state 'failures', are turning to the community as the 'third pillar' of society and economy — as a very sensible and balanced recent book by Raghuram Rajan has called it. Policy suggestions of devolution of power to local community associations, or to village councils and municipal administrations now abound in the economic governance literature for both rich and poor countries.

The main economic arguments in favour of such devolution involve: (a) a better utilisation of local information, ingenuity and initiative, particularly in the targeting and implementation of local public projects, which distant technocrats cannot easily mobilise or sustain; (b) the procedures of trust, coordination and social sanctions of defaulters that undergird local social contracts become weaker as the domain expands beyond small local communities, exit becomes easier, and social norms get diluted; and (c) a desire to keep under control the inequalities that large-scale agglomeration and network externalities inevitably generate (when talented and skilled people gravitate to one another in a small area or entity, others suffer the consequences of the brain drain).

Examples are many, in both rich and poor countries, of devolution leading to better decisions, from



PRANAB BARDHAN

Economic outlook darkens

The government that assumes power after the election results has its work cut out for it on the economic front.

First, there is the global economic slowdown. The International Monetary Fund (IMF) estimates global economic growth at 3.3 per cent in 2019. That's down from 4 per cent in 2017 and 3.6 per cent in 2018.

Global growth of 3.3 per cent is not a crisis. But two developments that have followed the IMF's forecast could make things worse for the world economy. The US-China trade war has escalated. Tensions between the US and Iran have risen to a dangerous level and this has pushed oil prices to over \$70 per barrel. If the situation in West Asia worsens, analysts see oil prices touching \$100 per barrel.

Secondly, tax revenues for 2018-19 have disappointed. Revenues have fallen short of revised estimates by ₹1.6 trillion. The government will have cut capital expenditure sharply towards the end of 2018-19 in order to contain the fiscal deficit. The effects on growth will be felt in 2019-20. Tax revenue projections for 2019-20 too will have to be scaled back which, again, will mean cuts in capital expenditure.

Thirdly, the Non-banking Financial Company (NBFC) crisis has been contained but it hasn't gone away. Public sector banks have played an important role in preventing a collapse partly by buying up some of the NBFC assets and partly by increasing loans to the better quality NBFCs. But the crisis of confidence in NBFCs persists. The better ones can access funds at higher rates than before but not the weaker ones. The housing and consumption goods sectors have been adversely impacted by the problems at NBFCs.

Fourthly, the pace of recovery under the Insolvency and Bankruptcy Code (IBC) process has been well

below expectations. Many PSBs were hoping to return to the black in a big way on the back of recoveries from the 12 top corporate accounts that had been sent to the National Company Law Tribunal (NCLT). This hasn't happened. Credit growth at public sector banks (PSBs) would have been higher had the expectations on recovery been met.

In the short-run, the economy has to reckon with the cumulative effects of a slowing global economy, higher oil prices, cuts in government capital expenditure, problems at NBFCs and constraints on credit growth at PSBs. GDP growth in FY 2019-20 is poised to fall below seven per cent. This is clearly not the best of starts for the next government.

What positives or mitigants do we find in the situation?

A big positive is the willingness of the central bank to loosen monetary policy consequent to the change in leadership last December. Annual consumer price inflation was 2.9 per cent in April, so inflation

is hardly a concern at the moment. The combination of low inflation and weakening growth strengthens the case for a policy rate cut in June.

Secondly, the infusion of capital into PSBs and the exiting of six banks from the Prompt Corrective Action has helped boost credit growth. Banks' non-food credit grew at a healthy 14 per cent in March 2019 over the previous year. However, the share of industry in non-food credit has declined by 1.7 percentage points in the period. The share of retail loans has risen by 0.9 percentage points and of NBFCs by one percentage point. If manufacturing is to be revived, the flow of credit to manufacturing, especially to small and medium enterprises, needs to improve. For PSBs to take the necessary

the point of view of efficiency as well as equity. Technological changes have now made it administratively somewhat easier for lower levels of government to handle certain tasks. Politically, the arena of local democratic contestation and governance is also a good training ground for future democratic leaders at the national level. And, in a world of rampant ethnic conflicts and separatist movements, devolution of power can diffuse social and political tensions and ensure local cultural and political autonomy.

But liberals should also beware of communitarian romanticism. Compared to central entities where many rival groups contend, small local community institutions may be more susceptible to capture by local overlords, oligarchs and majoritarian tyrants — think of white supremacists in the localities of US South, the tyranny of dominant castes in Indian villages, or mafia capture of local institutions in Sicily. In all these cases outside intervention has been necessary to relieve institutionalised systems of local oppression. In India, during the freedom struggle, important social thinkers like Gandhi and Tagore had emphasised the centrality of the village community, but Ambedkar, the leader of a marginalised oppressed group (who later as one of the founding fathers of the Indian Constitution tried to do something about that oppression through liberal-constitutional means), used to call the Indian village community a 'cesspool... a den of ignorance, narrow-mindedness and communalism'. When there is such 'community failure' for the socially marginalised groups, the anonymity of the market or an intervention by the distant state with its impersonal legal procedures may be welcome.

At a somewhat less oppressive level of associational life, all of us are familiar with too much insider control in local bodies for zonal restrictions or professional licensing, not-in-my-backyard-type resistance to new projects (even liberal but expensive cities like San Francisco are, for example, divided on the issue of public housing projects), and local property tax based school financing, that work against the interests of the poor and disadvantaged. Decentralisation can thus exacerbate inter-community inequality; under devolution of power and more autonomy communities with initial advantages build on them and advance faster. Then there are related issues like externalities and spillovers where local control mechanisms are inadequate, as in the case of upstream deforestation causing flooding and soil erosion in downstream communities. Intra-community economic inequality can also have an adverse impact on trust and cooperation. For instance, in my empirical work on south Indian irrigation communities, I have found statistical evidence that across villages when land is more unequally distributed, farmers' cooperation on resolution of water conflicts breaks down more easily.

The small scale of communities can also be a disadvantage when they face covariate risks (for example, natural disasters or local market mishaps affect most members of a local community simultaneously), so risk-pooling to keep insurance costs under control requires supra-local involvement and larger scale. Small scale is also a disadvantage when infrastructure investments require raising large amounts of external finance.

(Tomorrow: Dilemmas of community participation)

(The article was first published in the international blog *3 Quarks Daily*) The author is professor of Graduate School at University of California, Berkeley. His most recent two books are *Awakening Giants, Feet of Clay: Assessing the Economic Rise of China and India*; and *Globalisation, Democracy and Corruption: An Indian Perspective*

risks, they need a more comfortable level of capital. The government must infuse at one go whatever capital is required instead of providing it in dribbles.

The great white hope for the next government must be the Bimal Jalan Committee on the economic capital framework for the Reserve Bank of India (RBI). The committee can provide a shot in the arm to the government by settling for a lower level of reserves at the RBI, whether contingent reserves or revaluation reserves. If the former, the committee will be putting cash in the hands of government. If the latter, by extinguishing some of the government debt, it will be opening up space for more government borrowing. Either way, the government will have room for manoeuvre in what is otherwise a tight situation.

R Gandhi on Yes Bank board

There could be no sorrier comment on the state of governance at private sector banks than the RBI's appointment of Mr R Gandhi, former deputy governor, to the board of Yes Bank.

The appointment comes in the wake of several decisive interventions the RBI has made in respect of private banks. The promoter of Yes Bank was ousted from the board. The grapevine has it that the RBI had a role to play in the appointment of its new CEO. The former CEO of Axis Bank was refused an extension despite one being offered by the bank's board. Both the government and the RBI seem to have had a hand in the appointment of the present Chairman of ICICI Bank.

In 2014, the PJ Nayak Committee on bank governance had recommended that the government be distanced from the appointment of CEOs and independent directors of PSBs. We are now in a situation where the government or its arm, the RBI, cannot distance itself from top appointments at private banks. What do we make of the contention that privatisation is the answer to poor governance at PSBs?

The writer is a professor at IIM Ahmedabad. ttr@iima.ac.in

Books and ballots



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MIHIR SHARMA

Many of us will be glad that these apparently interminable elections are finally over. It will now be possible to have conversations about things other than voting percentages and observe mortal, electoral combat between air strikes. But it is also possible that, for the Blues and the Buffs, Dickens, who some of us, there will be withdrawal symp-

toms. Electoral politics has been discussed threadbare for months — and now, suddenly, we are supposed to stop thinking about it?

Let us not despair! For, even if the daily newspaper now turns to such trifles as a slowing economy or a trade war, there is always the bookshelf. If your preferred party was humiliatedly trounced, then lose yourself in an imaginary election in which you can pick the side that wins; if your party instead scored a famous victory, then reading a spirited description of another election might keep the euphoria going.

And no description, no election, is surely more spirited than that of the borough of Eatonsville, to which Charles Dickens' Mr Pickwick repaired in order to things other than voting percentages and observe mortal, electoral combat between air strikes. But it is also possible that, for the Blues and the Buffs, Dickens, who some of us, there will be withdrawal symp-

real one that he witnessed as a journalist, to the constituency of Northumberland North is at his cynical, amused best in this passage. There is no trace of the sentimentality that weighs down much of his work; instead, here he is positively Mark Twain-esque in his savagery, and there is no greater compliment. The parties have divided the town between them, he explains; he parodies the vicious tone that partisan newspapers take with each other, and has the candidates' agents gleefully list the various breaches of ethics in which they intend to indulge.

Dickens observed his bye-election in 1835; and it is amusing to note how, some decades and much reform later, little had changed when Anthony Trollope came to write about elections in turn. He too had observed elections close at hand, but as a candidate, in 1868. He came dead last in an election so famously corrupt they actu-

ally dissolved the constituency. He mined that experience in *Ralph the Heir*; but his books are chock-full of parliamentary and political chicanery, and deeply observant about the compromises that men without means of their own must make to rise in politics. Yet, as befits a man who seriously sought to enter Parliament, his cynicism is tempered with a deep respect for the democratic system that Dickens or Twain never would have shown. "When a man lays himself out to be a member of Parliament," Trollope declared in *Doctor Thorne*, "he plays the highest game and for the highest stakes which the country affords."

The notion that elections are corrupt, that voters are bought, that honest outsiders cannot take on the machine of money and influence, is as old as representative democracy itself. But there are few better descriptions of how machine politics works — and of its limitations — than a now little-remembered novel by the Pulitzer Prize-winning journalist Edwin O'Connor. *The Last Hurrah* was written

in 1956, and it tells the story of a veteran machine politician seeking re-election as mayor in an American city obviously modelled on Boston. The mayor, named Skeffington, is an instantly recognisable figure for Indians. He is the arbiter of claims between religious and ethnic communities, the dispenser of patronage, both destination and source of the illicit gold that keeps the wheels of commerce and politics turning in a large town. Yet *The Last Hurrah* tells the story of how he is defeated by a handsome newcomer with no record but a telegenic presence. Patronage mattered less in a country that had begun to see big national welfare schemes. And the spread of television to every home — O'Connor was in fact a TV critic — meant that suddenly, the telegenic challenger with a vacuum message had an advantage over the grand old party. This story of a changing political landscape feels almost painfully relevant to today's India.

But, for Indians, there is surely only one novel in English that perfectly cap-

tures the many nuances of our vast and complicated electoral process: Vikram Seth's *A Suitable Boy*. Most readers might remember Seth's masterpiece as a book about a girl choosing between three men. But the other thread of the story, the other choice, is the Republic of India's first election in the winter of 1951-52. No other book about India has ever approached Seth's ambition here: He tells us of the Hindu nationalists hoping to capture power and the Muslim aristocracy trying to hold on to what influence they have left; of the war being waged by Nehru for the soul of Congress, and the battles being fought by zamindars against land reform. Preparations for India's first great democratic choice run through the novel alongside Lata's evasion of her own choice of husband, and the two stories reach their climax together. But the election story is in many ways finer: there is a twist at the end which reminds us that we never can predict how elections will turn out, and also that we might never know the full story of why.