How organisations become institutions

It is credibility that converts an "organisation" into an "institution"

WITHOUT CONTEMPT

SOMASEKHAR SUNDARESAN

This column is not about the Supreme Court and the merits of what lies at the heart of the current crisis of confidence. For a practising lawyer, discussing such subjects is fraught with the risk of being misread as being a commentary on the merits of who is right and who is wrong, with potentially grave consequences at the hands of the fraternity (and sorority). In fact, even the usage of the word "crisis" can be an emotive issue.

Instead, this column is about institutions and societal expectations that lie at the heart of how "organisations" transform into "institutions". When the organisation is the one that sits at the apex of justice delivery, there is an unstated requirement of credibility beyond interpreting law, that lies at the core of societal acceptance of its decisions.

Constitutionally and legally, the Supreme Court is always right because it is final. It is not final because it is always right. Decisions by any institution can be open to being perceived as either right or wrong. That dispute has to end somewhere and that road ends at the Supreme Court. However, like any other organisation, it has to be manned by human beings. A core essential feature of being human is being fallible — we are liable to make mistakes, and can go quite wrong. And therefore all controversies and disputes end there. Society accepts that ending not just because our Constitution (also man-made law) says so, but also because society builds an acceptance of its conduct due to the court's pristine credibility.

It is credibility that converts an "organisation" into an "institution". It is not for nothing that it is said that justice must not only be done but must also be seen to be done. There are judges from whose courts, the party given an abject defeat would leave with a sense of satisfaction of having been heard well. And there are judges from whose courts, the party with a fabulous victory would leave with a sense of relief that luck favoured her, with no real satisfaction of having had a deserving win. All of this is because, it is only humans who can run the system.

Where humans function, there will be differences of opinion. There can be bickering. There can be healthy debate. There can be false and genuine allegations of wrongdoing. There can be acute unfairness perceived in how decisions on human resources are taken — it is an essential feature of any organisation. How these differences of opinion are handled, how the bickering is resolved, and how allegations are handled in the organisation, are what define whether an organisation is an institution.

For any institution to have longstanding credibility, how its own people and the people who come to it are treated, is a vital feature. Censoring differences of opinion or beating up the messenger can come easy in an organisation that is not an institution. A real institution would factor in dissent, differences of opinion, and be transparent about it. Justice Ginsburg and Justice Scalia of the US Supreme Court have had views diametrically opposite to each other — the former a "liberal" and the latter a "conservative" — but they were the best of friends and aired their differences in approach to law and justice through their judgements.

Cut to a different constitutional functionary — the Election Commission which sits at the apex of conduct of elections in our country. We now learn that one of the Election Commissioners has been dissenting on its recent decisions but the anxious majority of two has been taking up technical and specious arguments to suppress the dissenting views by arguing that the decisions are only administrative decisions.

The Election Commission's views on right and wrong, however differently they may be perceived, are vital for the smooth running of elections. Elections will indeed take place and the results will by and large bind society (there will indeed be challenges to its decisions). But at the end of the polls, for the entire nation to feel that it has had "free and fair" polls, the credibility of how the Election Commission conducted itself would point to whether the Commission was merely an organisation that organised polls, or if it was an institution that presided over the sacred task of running the process of letting people decide who should serve them and rule their destiny. The Supreme Court must not be seen merely as an organisation that handles the last and final appeal on disputes and must remain being seen as the institution that presides over the sacred task of justice delivery.

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

Patanjali's slippery quest for oil

The valuation hurdle over its acquisition of Ruchi Soya could delay its plans to boost growth

ARNAB DUTTA

Just when it seemed on the brink of ending to Patanjali's management, its battle for acquiring beleaguered edible oil maker Ruchi Soya has hit another hurdle. This time, the objections have come from a couple of creditors of the debt-laden firm — DBS Bank Singapore and DBS India.

DBS India, the local unit of Singapore-headquartered financial services group DBS, and DBS Bank Singapore have approached the National Company Law Tribunal (NCLT) in Mumbai challenging the recently approved deal to sell Ruchi Soya. The group — one of the many creditors that dragged the edible oil maker to the insolvency tribunal — told NCLT that it finds the deal insufficient to cover its dues. And it wants a larger share of the money that Patanjali has offered to pay for Ruchi Soya.

TAKE TWO

According to Ruchi Soya's latest release, dated April 26, DBS Bank Singapore and DBS India are two of its financial creditors to whom it owes ₹297.24 crore. In the pecking order of the amount of money due, DBS Bank Singapore is Ruchi Soya's 15th largest creditor with pending dues worth ₹242.96 crore, and DBS India stands at 23rd place with dues amounting to ₹54.28 crore.

DBS' opposition has come at a time when it seemed that Patanjali had bagged one of the largest edible oil companies in the country, after the Committee of Creditors (CoC) approved the Ayurveda major's proposal last week. Now though, according to informed sources, other private lenders, too, are planning to revisit the blueprints of the proposal.

The problem is rooted in the Indore-based firm's valuation. According to Ruchi Soya's calculations, it owes its creditors ₹12,146.58 crore against a total claim of ₹13,742.86 crore. Out of the total amount claimed by its financial and operational credits and various government departments, Ruchi Soya disapproved claims worth ₹1,596.28 crore. The oil maker's 27 financial creditors, of which DBS is a part, have approved dues worth ₹9,384.75 crore, while the approved amount of the operational creditors is ₹2,716.6 crore. (*see table*)

However, the money that financial creditors of Ruchi Soya would receive, if the Patanjali deal goes through, is a little less than ₹4,350 crore — or just 46.35 per cent of their approved dues. The banks are reluctant to take the haircut at a time when the cumulative non-performing assets (NPAs) of top six private banks is in excess of ₹1 trillion and even higher for public sector lenders. Global ratings agency Fitch, in a February report, said loans worth ₹3.5 trillion have not yet been recognised by banks in India as non-performing assets and they run the risk of turning bad.

Patanjali's revised bid of ₹6,000 crore, against Ruchi Soya's total approved debt of ₹12,146.58 crore, is not enough to cover even the half of the debt. Patanjali had virtually lost the race in mid-2018, when the CoC had given its consent to Adani Wilmar's bid. Then, in December, Adani Wilmar withdrew its proposal to acquire Ruchi Soya, citing prolonged delay as a concern, while Patanjali revised its offer to ₹4,350 crore for financial creditors — from ₹4,100 crore.

The latest round of trouble may be of greater concern to the Haridwar-based firm. After growing at a breakneck pace between 2011 and 2016, its top line growth has muted to less than 15 per cent in 2017-18. And its scope for portfolio expansion has reduced significantly, after a period of aggressive product launches and entry into new but unrelated categories.

The company is now more dependent on financial lenders to fund its capacity expansion plans and thus more open to scrutiny. At least five new food parks are coming up across the country — in Uttar Pradesh, Maharashtra, Andhra Pradesh among others.

This is having an impact on its ratings. In April, rating agency ICRA revised Patanjali Ayurved's long-term credit rating to 'A plus' and for short term to 'A1'. On March 30, another rating agency, Brickwork, reduced the firm's ratings for bank loan facilities to ₹2,612.15 crore from ₹3,005.55 crore. "The revision in the ratings takes into account the overall declining financial performance during 2017-18, sharp increase in debt borrowings with increase in interest cost and financial charges owing to large debt-funded capex incurred over the past two years and lower turnover and profitability levels reported in 2017-18 and first nine months of 2018-19", it noted.

Ruchi Soya could have gone a long way in lifting its fortunes. Edible oil is the largest packaged food category in the country (₹1.63 trillion in size) and is growing at over 20 per cent, according to Euromonitor International. Ruchi Soya's wide portfolio of brands and export markets is expected to fit well into Patanjali's scheme of things, as it looks to expand into West Asia and the US.

RUCHI'S LENDERS

Top financial creditors	(₹ cr)
SBI group	1,816.0
Central Bank of India	816.0
Punjab National Bank	743.3
Standard Chartered Bank	608.5
Corporation Bank	540.0

Top operational creditors	(₹ cr)
RaboBank International	865.0
Standard Chartered Trade Support (Hong Kong)	336.5

IT ALSO OWED MONEY TO 15 PLUS GOVERNMENT AUTHORITIES/ DEPARTMENTS

Source: Ruchi Soya Industries

CHINESE WHISPERS

That sinking feeling

A floating restaurant on Tehri lake, which the Uttarakhand government had launched last year to boost tourism in the state, sank partially in the lake earlier this week. While no one seems to know how it got submerged, local authorities are working to pull it out. The restaurant, named Marina, was a first-of-its-kind restaurant in the region and had wowed many when it was unveiled. However, the boat was not in use for months since its opening — apparently none of the local tour operators came forward to take it on lease or rent, as hoped by the state government. Some jumped on to social media to ask if it represented the fate of the state government too.

Shock and awe

After facing repeated complaints on the widening trade deficit from US Commerce Secretary Wilbur Ross, Commerce and Industry Minister Suresh Prabhu (*pictured*) chose to calm US nerves in a rather unconventional way. Addressing a large public gathering of US officials and industry, Prabhu said while India's exports to the US far outpace its imports now, a day might come when the exact opposite will happen, forcing India to deal with it's own trade deficit crisis. While US officials appreciated Prabhu's candour, some Indian representatives in the room were visibly shocked, fully aware of New Delhi's own problems in controlling runaway imports from China.

Hoping for divine intervention

Looks like the two top contenders in the high-stakes battle for the Bhopal Lok Sabha seat are hoping for divine intervention to see them through. Congress candidate Digvijaya Singh (*pictured*) and Bharatiya Janata Party candidate Pragya Singh Thakur (*pictured*) have been frequenting temples and other holy places in the area. In the last 43 days of campaigning, Digvijaya Singh has visited as many as 83 temples. Pragya Singh Thakur, who started campaigning since April 19, has visited 21 temples since then. Such is the fervor that on Wednesday when Congress' Singh took part in a roadshow with religious leaders, groups of people were seen roaming around with saffron scarves draped around their necks. While many claimed they were police personnel in civilian clothes, the state police rejected the claim, stressing that the organisers had enrolled volunteers and that these volunteers were free to wear whatever they wanted.

INSIGHT

A five-step ignition to private investment

The agenda for reform for the new government is huge but action and commitment on a few headline items could ignite animal spirits

DHIRAJ NAYYAR

ILLUSTRATION BY BINAY SINHA

After several months of high voltage politics, the next government that takes office later this month will inevitably have to shift focus to the economy. The new government will inherit an economy growing reasonably fast with only moderate inflation. That should permit a generous dose of ambition. Of course, a new government, even a reelected one, will have a plethora of items on its agenda, not least the gamut of manifesto promises. That could diffuse focus. It would make eminent sense for economic policy in the next six months to singularly focus on one variable: private investment.

The fact is that growth is being powered by consumption and government spending. The other two — arguably more powerful — engines of growth, namely, private investment and exports are still sluggish. Indeed, if private investment gains momentum, the consumption and government spending engines (as also exports) get more fuel. When India grew its fastest (2003-08), private investment as a share of GDP was around 36 per cent. It is hovering around the 29 per cent mark now.

The outgoing government did well to spend, particularly on infrastructure, to make up for the sluggishness of private investment. As a short-term strategy, it works. In the medium term, government capacity to spend productively and speedily is limited. It is also distracting for the finance ministry, which is the most pivotal ministry in any government. Its focus tends to be entirely on maximising revenue and building elaborate expenditure plans, rather than plotting structural reform. For private investment to be at the top of the menu, within the ministry of finance, the balance of power needs to shift away from the departments of revenue and expenditure to the departments of economic affairs and financial services. This doesn't mean the government should adopt austerity, but if the challenge is to deliver more jobs and better paid jobs, then priority must be given to reviving private investment.

The agenda for reform is huge but action and commitment on a few headline items could ignite animal spirits. First, the new government must commit that it will not apply any policy change with retrospective effect and that it will not change the rules of the game abruptly and suddenly. The Modi government missed a trick by not repealing UPA's infamous retrospective tax amendment and while it has been mostly disciplined on policy certainty, there have been a couple of missteps.

Second, the new government must execute the strategic disinvestment/privatisation plans approved by the outgoing government. A loss-making and inefficient public sector is a burden for the whole economy and causes distortions which deter private participation in several sectors. If there are no buyers forthcoming for these PSUs, they must be closed down rather than being forced down the throat of the handful of performing PSUs. And if the government really wants to give a booster shot to private investment, it must put out its better and larger assets, PSUs and others like roads, airports, ports, for strategic sale. It can do so via the stock market and diversified shareholding or through transparent auctions.

Third, the government must do away with all FDI caps that remain across sectors. They make no sense in a 21st century economy, especially when import dependence in the most strategic sectors like defence is growing steadily and when Indian firms don't have the capacity to take over failing firms in some other critical sector. For example, if only foreign airlines were permitted to own 100 per cent of an Indian airline (it is capped at 49 per cent), there might be buyers for Jet Airways and Air India which would save thousands of jobs and benefit consumers through competition and lower airfares.

Fourth, rein in the taxman. While it is the duty of the tax department to collect all taxes which are due, the current approach of setting targets for tax officials is often counter-productive. The system cannot become coercive and extractive and therefore a deterrent to investment. A reorientation in strategy is urgently required.

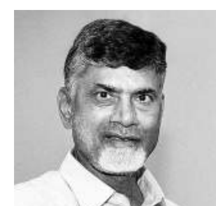
Fifth, there needs to be a dialogue within the government on alternative (to courts) methods of dispute resolution. There is not likely to be any immediate solution to the massive backlog at various levels of the judiciary but the government should strive to take out some of its disputes from that morass and resolve them in a different forum, like arbitration perhaps. If the alternate framework has fewer levels of appeal, it would only help.

If the new government can rev up the engine of private investment in its first six to 12 weeks, it would have accomplished much of the hard work for its entire five years.

The author is chief economist, Vedanta

LETTERS

Hope against hope



This is with reference to "VVPAT case: SC rejects plea of Opposition leaders" (May 8). The summary rejection of the VVPAT review plea of 21 Opposition parties, led by Andhra Pradesh Chief Minister N Chandrababu Nadu (*pictured*), must have come as a bolt from the blue for all of them. The members also included the National Conferences's Farooq Abdullah and Communist Party of India MP D Raja.

It may be pertinent to observe that this group was over-ambitiously looking to persuade the apex court to increase the EVM's VVPAT slips count to 50 per cent in each assembly segment but the Supreme Court did not consider it worthy and simply refused to "review" its order of April 8. Curiously enough, the Court also dismissed the plea of the senior advocates A M Singhvi and Kapil Sibal (both belonging to the Congress party) which later sought the hike in the said verification of slips to the extent of 25 per cent (as a confidence building measure), much to their discomfiture.

Interestingly, they have now petitioned the EC for the same 50 per cent VVPAT verification of EVMs, as the last resort. Should they not have first approached the EC before approaching the top court? While the entire nation may be keen on hearing its final decision, let us not hope against hopes, more so when the SC has already rejected a similar plea.

Anjana Gupta New Delhi

About freedom, incentive

This refers to "Policy to boost exports on cards" (May 7). What the working group is proposing to do will be helpful. However, these are routine in nature and these alone will not provide the required push in export. One must therefore look at other option. Here are a few suggestions:

- Hold discussions with those who have a larger share of the domestic market, compared to the export market;
- Do everything we can to boost R&D in the steel industry.
- The textile industry should go for value added products based on manual design, which can only be done in India.
- The sugar industry should be given freedom and incentive to produce blendable alcohol to reduce import of crude.

N P Sinha Jamshedpur

Letters can be mailed, faxed or e-mailed to:
The Editor, Business Standard
Nehru House, 4 Bahadur Shah Zafar Marg
New Delhi 110 002
Fax: (011) 23720201 · E-mail: letters@bsmail.in
All letters must have a postal address and telephone number

HAMBONE

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More questions on GDP

Next govt must prioritise restoration of faith in official data

Indian official data for both employment and output has increasingly begun to be questioned both internally and internationally. This concern began to be expressed first when the "new series" data for the gross domestic product (GDP) was released in 2015, which revised growth sharply upwards. This growth continued to be relatively robust — according to the government, the fastest among large economies — even as other high-frequency indicators of economic activity appeared to contradict that story. Part of what may have gone wrong has been reported in the *Mint* newspaper. The crucial difference between the "new series" GDP data and the series being used earlier was that the new data chose to measure output by taking into account data on corporate profits. Theoretically, this is a major advance over using output surveys. It adds into the calculation growth in such corporate activities as marketing, for example. According to the official statisticians of the time, this improvement could be incorporated because of the availability of the MCA21 data — the ministry of corporate affair's database of registered companies in India. However, it is now known that this database, at least as used in the GDP calculations, has serious flaws. The National Sample Survey Office, between June 2016 and June 2017, examined the MCA21 and found that over a third — 36 per cent — of the companies considered "active firms" could not, in fact, be traced or were incorrectly classified.

Former Chief Statistician of India Pronab Sen has told this newspaper that this problem may not be as great as feared. Even if some of these untraceable companies are shell companies, Dr Sen argues, their profits still reflect actual transactions in the economy and thus should be taken into account when calculating GDP. However, this argument is limited in two ways. First, the method being used to extrapolate overall private corporate output from MCA21 data was in any case controversial. If some of the base being used for extrapolation was of shell or non-existent companies, then theory suggests that they should have been treated differently. Otherwise, there is a very real danger that output growth is being overestimated — precisely the accusation that has been thrown at GDP data since 2015.

The reliability and accuracy of macro data in India have never before been in question. It is unfortunate that these issues have begun to plague official data in India precisely when questions about jobs and overall growth have become particularly politically sensitive. For investors, too, this is a fraught time. Private investment has not recovered partly because there is still doubt about the future trajectory of the Indian economy — doubts which are underlined and enhanced by unreliable and possibly overstated growth data. In other words, problematic data prints have real effects on the economy. It is vital, therefore, for the government to emerge from a state of denial and address these problems. After the elections, the next government will need to establish an independent inquiry into what may have gone wrong with GDP and employment data, and also work out how it can be depoliticised and made more transparent. After privacy concerns have been addressed through anonymisation or other methods, the MCA21 data should also be made available to the public so that independent academic research can cross-check official claims. After all, no government would like to prove correct the quotation that is often attributed to former British Prime Minister Benjamin Disraeli: "There are three kinds of lies: lies, damned lies, and statistics."

Justice denied

SC panel falters on transparency and fairness test

The procedure through which the three-judge committee's findings exonerated Chief Justice Ranjan Gogoi raises more questions than answers. One of the anomalies in the apex court is that the CJI's permission is required to proceed with any complaint against an employee. Since he himself is outside the purview of this rule, minimum propriety demanded he followed the highest standards of due process and allowed the formation of an investigation committee that included an external member — Justice D Y Chandrachud had suggested the names of several retired Supreme Court justices. Instead, a three-member panel of judges was set up which was, it was later learnt, not a formal internal complaints committee but some unspecified intermediary called an "internal committee".

In parallel, a one-man panel was constituted to inquire into a charge by one male lawyer that the sexual harassment charges were part of a larger conspiracy to frame the CJI. Note that this investigation has been handed off to an external representative, a retired Supreme Court judge but the specific charges against the CJI were to be examined by three judges who have a reporting relationship with him. This committee then ignored the minimum procedures by disallowing the admission of documents and records that the complainant had set out in her sworn affidavit, of not calling witnesses she identified in her complaint or of allowing her lawyer to be present. When she withdrew rightly highlighting these procedural lapses, this "committee" went ahead ex-parte and found the CJI not guilty.

The reasoning by which the panel came to this decision was submitted under a sealed cover. The minimum requirement of providing the complainant with a copy was ignored. It is also worth considering whether such a serious accusation demands that the document be placed in the public domain. The committee's citing of a precedent in withholding publication of its report has also been proven to be specious. The judgment concerned — *Indira Jaisingh versus Supreme Court and Anr* — concerned a "preliminary enquiry" involving an "in-house procedure" against a High Court judge. This committee had, however, not clarified whether it was following in-house procedures and its findings are not preliminary in nature. By not making the report public, the panel has been found wanting on the requirement of transparency.

It is ironic that four Supreme Court judges — including the Chief Justice of India — appear to have pitted themselves against a significant section of the lawyer community, two brother justices, Chandrachud and Rohinton Nariman, and an organisation called Women in Criminal Law Association over a matter of due process for which the apex court set out pioneering guidelines two decades ago. Even more disturbing is the open display of institutional power against a junior woman employee complaining of sexual harassment by the head of that very organisation. It was a great opportunity for the Supreme Court to walk the talk on fairness, but the apex court faltered when it came to dealing with its own. No less questionable was the crude deployment of state power by arresting women lawyers who were protesting peacefully against the panel's *modus operandi* and demanding that the complainant be treated with a minimum of legal propriety.

ILLUSTRATION: BINAY SINHA

PROGRESS IN ASIA'S POPULOUS NATIONS

Country	Per capita GDP (current $) (1)	(2)	Share of world GDP (%, current $) (3)	(4)	Exports to GDP ratio (%)' (5)	(6)	Female labour force participation rate (%) (7)	(8)	Human Development Index VALUE (9)	(10)	RANK (11)
	1980	2018	1980	2018	1980	2017	1990	2018	1990	2017	2017
Bangladesh	274.3	1,744.5	0.2	0.34	5.5	15	23.6	36	0.39	0.61	136
China	309.4	9,608.4	2.74	15.82	5.9	19.8	73.2	61.3	0.5	0.75	86
India	276.4	2,036.2	1.7	3.21	6.1	18.8	30.4	23.6	0.43	0.64	130
Indonesia	673.2	3,870.6	0.89	1.21	30.5	20.2	44.5	52.2	0.53	0.69	116
Pakistan	384.9	1,555.4	0.28	0.37	12.5	8.2	14	23.9	0.4	0.56	150

Sources : IMF World Economic Outlook, World Bank, UNDP Human Development Reports

Populous Asia: A 40-year retrospect

In 1980, Indonesia was the most prosperous. Today, China is streets ahead of the rest

A PIECE OF MY MIND

SHANKAR ACHARYA

Sometimes it is instructive to step away from the hurly burly of current economic and financial issues in India and glance back at the long-term development record of countries. This column puts together some basic numbers and associated commentary for the five most populous nations of Asia. They (and their respective 2018 populations in millions) are: China (1,395), India (1,334), Indonesia (264), Pakistan (201) and Bangladesh (165). Together these countries comprise 45 per cent of the world's total population of 7.46 trillion in 2018, with China and India singly accounting for 18.7 per cent and 17.8 per cent, respectively.

The first two columns of the table show the per capita GDP, in current US$, of these countries in 1980 and 2018. It is interesting to note that, by this yardstick, in 1980, Indonesia was most prosperous (or least poor), with Pakistan second, China third and India and Bangladesh bringing up the rear. By 2018, the picture had changed dramatically. China's extraordinary 35 years of sustained 8 per cent plus per capita real GDP growth (together with changes in prices and currency valuations) increased her per capita GDP (in current US$) by over 30 times to nearly $10,000 by 2018, two and half times higher than the runner-up, Indonesia, and six times more than bottom-of-class Pakistan. It's not that the other four countries had stagnated; over the period, their per capita GDP (in current $) rose four to eight times their levels in 1980. It's simply that China's explosive growth was historically extraordinary and unprecedented for a large, populous nation.

Columns three and four show how Asia's populous nations have greatly improved their share in the world economy over these 38 years, from a pathetic 5.8 per cent in 1980 to a much more respectable 21 per cent in 2018 (it would be an even more pleasing 30 per cent, if computations were done in terms of purchasing power parities). But here again, the story is dominated by China, whose 2018 share of 16 per cent in the world economy was five times higher than the next largest country's, notably India's. Indeed, if China is omitted, the share of the other four populous Asian countries in global GDP increased from a measly 3.1 per cent in 1980 to an unimpressive 5.1 per cent by 2018.

For much of these 38 years (at least till 2008 and some would argue longer) the world economy and its constituent nations were benefitting from the very substantial (and broadly, rule-based) liberalisation of international trade and capital flows that occurred after 1950. Columns five and six bring out the large increase (approximate tripling) in the share of exports (of goods and services) in the GDP of China, India and Bangladesh, the three poorest countries in 1980. Export shares declined in Indonesia and Pakistan, in the first mainly because of declining oil exports and in the second mostly due to poor policies. As a consequence, China, India and Bangladesh also increased their share of global merchandise exports, with China increasing her share from below 1 per cent in 1980 to nearly 13 per cent in 2017 as she became the world's largest exporter. Over the same period, although India's share of world merchandise exports quadrupled from 0.4 per cent to 1.7 per cent, that was still only one-eighth of China's share in 2018.

Turning to employment conditions and human development, columns seven and eight report cross-country data from the World Bank on female labour force participation rates (FLFPR) in 1990 and 2018. This indicator sheds light on general employment conditions, especially for the usually disadvantaged female half of national labour forces. In 1990, China's FLFPR was a strikingly high 73 per cent, almost two and half times India's. Although the FLFPR declined in both countries over the next 28 years, in ratio terms, the gap widened in China's favour. Indeed, despite the decline, China's FLPFR remained easily the highest among these five nations in 2018. Unfortunately, the decline in India brought her FLFPR down to the lowest of the five countries by 2018, well below Bangladesh's and marginally lower than Pakistan's.

The last three columns report on trends in the well-known Human Development Index published in the UNDP's annual Human Development Report since 1990, when the first one was launched by Mahbub ul Haq and Amartya Sen. Columns nine and 10 show the computed values of each country's human development index (HDI) in 1990 and 2017, while the last column gives the rank for each nation in 2017. (The ranking in 1990 is not shown as it is not comparable with that in 2017, since the number of countries for which the HDI was computed had swelled to 189 by 2017, compared to only 142 in 1990).

Several interesting facts emerge. First, and most significantly, all five populous countries showed substantial increases in their HDI values over the 27 years. Second, in percentage terms the biggest increase was in Bangladesh (56 per cent), followed by China (50 per cent) and India (48 per cent). Third, because of the combination of a high base value in 1990 and a strong percentage increase over the next 27 years, China is far ahead in the most recent (2017) ranking at 86, followed by Indonesia at 116 and India at 130, with Pakistan at the bottom with its rank of 150.

So what are some takeaways from this brief 40-year retrospect of key development indicators on Asia's five most populous nations? First, it's really a story of China and the rest. Whether one looks at changes in per capita income, engagement with the world economy or human development, China is streets ahead of the other four countries. This should come as no surprise since only China has become an economic super power. Second, three of the other nations, India, Indonesia and Bangladesh have done reasonably well on most of the indicators. From where matters stood in the late 1970s, in the wake of the second "oil shock", it is possible to argue that both Bangladesh and India have probably done better in the ensuing 40 years than most analysts would have expected. Third, somewhat surprisingly, Pakistan has clearly slipped down the league tables with respect to all indicators and now is firmly at the bottom of the class.

The writer is Honorary Professor in ICRIER and former Chief Economic Adviser to the Government of India. Views are personal

India's enigmatic state finances

PRANJUL BHANDARI

India's public sector borrowings remain stuck at elevated levels. However, the underlying mix has been changing. The period FY13-17 was characterised by the central government lowering its fiscal deficit and the states offsetting these efforts by running wider deficits. Then, in FY18, after lowering the deficit every year since FY13, the central government paused. Meanwhile, after rising almost every year since FY13, the state fiscal deficit fell notably in FY18, according to our analysis. What's driving this? And are we at an inflection point for state finances?

First, we need to address the data limitations we face with state finances. The fiscal data for India's states have several peculiarities. At the start of the fiscal year, every state announces the budget estimate for the fiscal deficit. Towards the end of the year, they announce a revised estimate. And, one year later, they release the actual data. Actual data are superior as they are audited and, therefore, final. The coexistence of three versions of the data would not be a problem but for the fact that the actual aggregate state fiscal deficit has turned out to be lower than the revised estimate over the last few years. And the difference is rising.

This creates a problem. Until the actual data are available a year later, how does one think about the states' fiscal stance? Is it rising, or falling?

We have a technique to figure this out. What is not subject to revision is every state's net market borrowing. Over the past three years we find that net market borrowings are funding about 80 per cent of the state fiscal deficit (excluding UDAY borrowings).

Assuming that the proportion remains unchanged, we can work out a rough estimate of the actual fiscal deficit, long before the data are released. Armed with this, we look into recently released state budgets.

Our study of 18 state budget documents suggests that the FY18 actual could be closer to 2.5 per cent of GDP, lower than the 2.8 per cent actual fiscal deficit in FY17. This marks the first notable fall in the state fiscal deficit in five years.

A lower fiscal deficit in FY18 also makes sense from a bond issuance perspective. The states' aggregate net market borrowing fell in FY18. It is not surprising then that the actual fiscal deficit also came in lower.

And this is not where it ends. The net market borrowings fell again in FY19, by 0.2 per cent of GDP. Assuming that the proportion of state deficit funded by market borrowings remains at 80 per cent, we believe the FY19 actual fiscal deficit to be released next year will be lower than the FY19 revised estimate of 2.9 per cent. Until we get the actual number, we are pegging the FY19 state fiscal deficit at 2.5 per cent of GDP. No worse and no better than the actual fiscal deficit of FY18.

And, finally, our analysis suggests that states are pegging a fiscal deficit of 2.5 per cent of GDP for FY20. In short, after almost touching 3 per cent, state deficits have fallen and seem to be resting at 2.5 per cent.

What's driving this fall? A confluence of factors was pressuring the states during FY13-17: (1) The Seventh Pay Commission (SPC) called for higher wages and pensions; (2) UDAY borrowings raised the interest bill; (3) lower oil prices hurt tax revenues; and (4) the slowdown in the real estate sector depressed stamp duty revenue. Some of these pressures have eased. Most SPC wage increases are completed. UDAY borrowings are done. And oil prices are higher than a few years ago. As such, states are indeed on a better footing.

Unfortunately, this is where the good news ends. State finances are just one part of the fiscal picture. Adding on the central government and the private sector enterprise (PSE) borrowings are likely to remain elevated at 8 per cent of GDP.

Furthermore, there are several risks on the fiscal horizon. State finances are vulnerable to oil prices. Also, over the last year several states have announced farm loan waivers and direct cash transfers. If more states follow suit, without the weeding out of old schemes, this could lead to a ratcheting up of current expenditure.

The outlook for capital expenditure at the government level remains dull. For FY20, all three arms of government — the centre, the states and the PSE — are budgeting for lower capex.

Capex faces a double whammy. The government is not spending much on investment and the private sector is being crowded out as the government is running an elevated fiscal deficit. Over time, this could weigh on India's potential growth.

All told, elevated borrowings and insufficient capex are likely to keep us on our guard, despite some improvements in state finances.

The writer is chief India economist, HSBC Securities and Capital Markets (India)

AI's dystopian future

BOOK REVIEW

AJIT BALAKRISHNAN

Both these books have one mission: They are cautionary tales. They endeavour to caution a thinking person about the dangers that lie ahead as the Information Age dawns. And it's important to note that neither of them is a left-leaning, anti-capitalist missionary. Lucie Greene works for the international advertising agency J Walter Thompson and Amy Webb teaches at New York University's Stern School of Business. So, in a sense these are cautionary tales from insiders.

Both paint a dystopian future in which elected governments have slipped into the background and the world is ruled by what one calls "Big Tech" and the other calls "Tech Titans". Greene's Big Tech is made up of Amazon, Facebook, Apple and Google and Amy Webb's Tech Titans have these four plus the Chinese web players, Alibaba, Tencent, Baidu and Microsoft and IBM.

A reader would be well justified in raising an eyebrow and wondering what possible harm could these entities do other than making us all spend too much time away from our near and dear ones and sit gazing at laptops and mobile phones, or waste time gossiping with online friends or, at worst, tempt us to buy things online that we really don't need to live a normal life.

Both spend considerable effort to point out that the people who run all these giant worldwide companies are drawn from a narrow segment of the populations of their own countries (America and China) and the world where their services dominate over all other players. First, their leaders and key employees are, according to both authors, overwhelmingly male. Women are rare to find among their leaders or among the venture capital and private equity firms who supply them with capital. These male stars are, in America, almost exclusively drawn from private schools (signaling wealthy parents) and Ivy League universities and are overwhelmingly white with almost no representation of Blacks or Hispanics. China's dominant search engine Baidu is dominated by graduates of the same elite American universities; Carnegie Mellon, MIT and University of California Berkeley. Collectively, they form a tribe of their own; Amy Webb's name for them is "AI Tribes", where the AI stands for Artificial Intelligence. A common trait among these AI Tribes is that they have spent years immersed in mastering programming language skills plus disciplines like game theory and computational biology and neural nets. They have had no time or energy to study, for example, the role of Muslim women in literature, or the history of colonialism and other such topics that deal with learning about the human condition.

A critical point that both the author make is that this narrow world from which the leaders of these giant companies and their key employees come from and live in creates in inbuilt bias into the algorithms they design: They assume that the users of their services are all like them.

Both authors point to the heavy hand of the governments in the creation and support of these tech giants. Amazon has a $10 billion contract with the Pentagon and Google has helped the US Department of Defense analyse Drone footage. They say that NASA contracts are increasingly being given to Silicon Valley companies, be it to Musk to build space ships or to startups devoted to predictive policing techniques. The links between the Chinese tech giants and the Chinese state are not publicly advertised but is believed to be as close. In normal times, such relationships would have been laughed off (or condemned) as crony capitalism, but both the authors express concern because companies involved in such projects have to tread "a tricky path between national security and full transparency".

Both authors warn that the cultural influence that these prestigious tech giants have today far outranks governments or academia or even Hollywood, so what they say tends to be given greater credence than these hitherto prestigious groups.

And both echo an even more serious concern that a very small group of tech giants end up making deciding what news you get to read, what and who you converse with…in other words this small group will make decisions for the rest of us.

The authors believe (one says so directly and the other implies) that the people in power today, be they politicians or civil servants or intellectuals, are completely "unaware of technology and have no literacy around it at all." Both the authors speak of the decision-making elites lack of preparedness to deal with AI and the scope with which it is developing and taking over many functions in human society. "What happens to society when we transfer power to a system built by a small group of people that is designed to make decisions for everyone? What happens when these decisions are biased toward market forces or an ambitious political party?"

Where can all this lead to? One of the authors conjectures that we will all live in a "post-border" world, i.e. a world order in which national borders do not exist anymore, national governments don't matter as well, power is exercised only by the tech giants. Digital feudalism reigns supreme and human beings are like "the wooly livestock of a feudal demesne grazing under the watchful eyes of barons in their hilltop Cloud Castles".

Both authors go well beyond such cautionary tales and have specific (though different) suggested plans of action to deal with this frightening future.

SILICON STATES: The Power and Politics of Big Tech
Lucie Greene
HarperCollins, 288 pages, ₹699

THE BIG NINE: How the Tech Titans and Their Thinking Machines Could Warp Humanity
Amy Webb
Publicaffairs, 320 pages, ₹599