Mukesh ka time aa gaya

Lutyens' Delhi, the Khan Market gang and people like us need to shape up or ship out

OUT OF THE BLUE

ANJULI BHARGAVA

I'm not a Hollywood or Bollywood enthusiast but one of the few and best films I have seen in the last few years is Zoya Akhtar's *Gully Boy*. The words of the theme song of the film were echoed to me by my cook Mukesh the other day post the 2019 election results. He said, "*Hamara time aa gaya*."

Mukesh, in his early 30s, is a die-hard Modi fan. His family of 100-odd — all of who live in and around Dehradun — swear by him and the Bharatiya Janata Party (BJP), although they have been BJP supporters well before Modi burst into the scene. He's very patriotic — often his WhatsApp display picture is the Indian flag. While maintaining a strict protocol that's restricted to instructions on food, ingredients and the like, twice a year, he sends me enthusiastic messages for August 15 and January 26.

A few days after demonetisation, I asked him how he was coping. He'd had to wait in queues for weeks to withdraw cash but he'd be willing to do it again as he felt this was a move that favoured people like him. While he clarified that he didn't wish people like me badly, he said there were many wealthy people who didn't make their money honestly and the PM had tried to check that.

I explained a few months later that the move that thrilled him may not have hit its target and caused more disruption than was anticipated. He heard me out but remained firm: He would be quite happy to go through it all again if need be. He felt it was well-intentioned. Displaying the famed Indian resilience, he pointed out to me that everything cannot work the first time it's attempted.

I asked him if he was aware of the numerous lynchings and unwarranted deaths that have happened in the name of the sacred cow. Yes, he'd heard about a few killings. He blamed the emergence of the "goonda" element among the unemployed exacerbated by the support such elements find through various social media. He didn't think any specific group was to blame but was puzzled on why the government had condoned these and mildly disappointed with its lack of action.

Pushing my point a bit further, I asked whether the Muslims — there's a large Muslim population near his house — he knew were feeling particularly persecuted, threatened or insecure in some way. He said that they were, still did and have been feeling all this for the last 70 years ever since India's independence. He didn't think the last five years stood out in any manner. "They complain but co-exist," he added. Moreover, he argued that he's tired of being apologetic about his own religion. He's a proud Hindu and there's no reason why he shouldn't say it.

I asked at another point whether he knew that some institutions of the government had been compromised in some way to cater to the political agenda of the ruling coalition. That four Supreme Court judges had revolted against the interference with the affairs of the highest judicial body of the country. Was he aware that various pillars of the Indian democratic system had been under the threat of subversion? He had heard of some controversy involving the judges but he pleaded ignorance of the rest, arguing that these were matters for "people like me". He didn't have the luxury of worrying about such subjects.

He, in turn, pointed out two or three things that had helped improve his and his family's lot. His wider family in the hilly regions of Kumaon had benefitted from the gas connections that had been handed out. Road access has improved all around, bringing untold benefits to them. Education remained a no-go but health facilities were better. Open defecation had been checked if not eradicated. People who still went out in the open had started feeling "sheepish" about it. Even the need to keep their surroundings cleaner had begun to dawn in his view. When I asked him why he thought the Congress got the drubbing it did, his message was straight forward: "*Hamara time aa gaya*".

In other words, this genie is out of the bottle. Lutyens' Delhi, the Khan Market gang and people like us have to wake up, smell the latest coffee brew, shape up or ship out. To quote General Eric Shinseki, a former US chief of army staff: "If you don't like change, you're going to like irrelevance even less".

PS: This Mukesh's second name is Bhandari, in case you are still wondering...

Skies clear up for Tata's airlines business

With Jet Airways out of the picture, the airline is finally ready for take off with a new international flight plan

SURAJEET DAS GUPTA

Five years into its aviation journey, the Tata group's joint ventures are still far from being counted as major players in the market.

Vistara and AirAsia India together have cobbled together just 9.5 per cent share of the domestic skies in the first quarter of this calendar year. This was lower than low-cost carrier SpiceJet's 13.5 per cent, even though it was flying fewer aircraft— 13 of its Max planes were grounded following a safety scare— and a whisker ahead of Go Air's 8.9 per cent.

TAKE TWO

Aviation analysts blame this lacklustre performance on both airlines' excessively cautious expansion plans, questionable strategies — Air Asia initially decided not to fly from Delhi and Mumbai, the country's largest markets — and, of course, the adverse impact of controversies that buffetted the airlines. So despite a booming double digit passenger growth year-on-year, Vistara, the 51-49 joint venture with Singapore Airlines (SIA), added only 14 planes over the past five years, taking its fleet to 23. In contrast, IndiGo, the largest airline, added a staggering 123 new planes to its fleet during the period.

Two quick changes at the top in AirAsia India (in which Tatas have only recently acquired a majority 51 per cent stake), added to the turbulence. The airlines' first CEO Mittu Chandilya left in a huff and his successor Amar Abrol went back to AirAsia group headquarters in quick succession. Then, senior executives, including those from theTatas, were summoned by the Central Bureau of Investigation for allegations of trying to influence government to change norms for international flying.

All this definitely slowed growth, but a new phase could be opening up for the airlines aided by the demise of Jet Airways which has left a void in the market. Both Vistara and AirAsia India, along with their partners, are quietly putting together an aggressive plan to become a formidable force in the skies.

At the core of this new push is their plan to go international this financial year. Vistara recently received permission to fly abroad after a delay of over a year due to the investigation in the alleged bribing and lobbying charges against AirAsia India. And AirAsia India is expecting to join the party (it asked for permission in January) so that it can fly abroad from September this year. To back their plans, the Tatas, according to sources, have lined up ₹4,500 crore for the two airlines. If everything goes to plan, they would be the only player in India to straddle both the low-cost carrier as well as the full-scale service space in the international arena among private players.

Aviation analysts expect the two joint ventures to double their fleet to around 80 (Centre for Asia-Pacific Aviation has projected that Vistara would have a fleet of 32 but it has excluded the six planes leased from Jet recently) by April next year. That would bring them closer to SpiceJet (which has crossed 100 planes) and substantially bridge the gap with ailing Air India (109 planes). They also project that in the next two years, the two collectively would capture around 15 per cent of the domestic airlines market (from 10.9 per cent in April).

AirAsia India has already pulled the joystick. It plans to double their fleet from 21 to 40 aircraft by April next year. Sanjay Kumar, chief operating officer of the airlines, says: "We are targeting to get a market share of 8-9 per cent in the domestic market in the next two years. We will hopefully also double the number of flights per day by April. And will expand from 19 cities to 21-22." The airlines are also for the first time focusing on corporate clients, and so flight timings have been changed for key routes like Delhi to Mumbai so that they have a morning and evening option.

On the international route, Kumar says, about 5 per cent of their capacity would be deployed in the first year, and gradually increased to 40 per cent in five years. That would bring them in direct competition with IndiGo as well as SpiceJet and even their own partner company AirAsia as they would be flying on the same routes — Kuala Lumpur, Bangkok, Singapore followed by CIS countries as well as China.

The other joint venture Vistara will start with A 320 neos flying to short-haul destinations. Yet long-haul destinations are equally important for the airline. A Vistara spokesperson points out: "As we add more aircraft starting next year, such as the Airbus A 321 neo and Boeing B787 -9, we will further expand on medium- and long-haul routes."

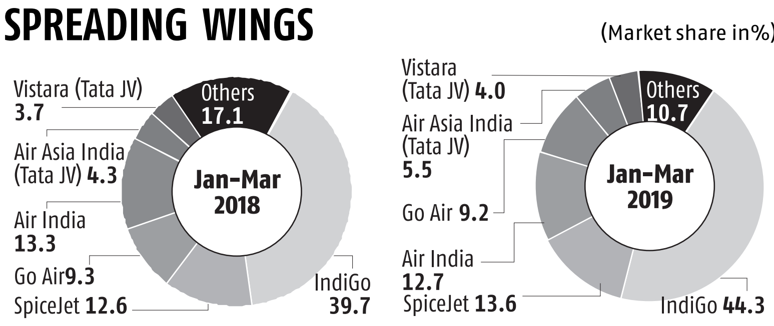
With Jet out of the picture, Vistara is well placed to fill in the void in the European market as Air India is embroiled in its own financial problems and therefore not looking at expansion. And if it decides to fly long-haul to the US, it would only have Air India to contend with.

The strategy sits well with SIA's ambition to have a larger share of the Indian market as well. Despite Singapore being the second largest market for international passengers (7.7 per cent) to and from India, SIA is not even among the top 10 airlines in terms of passenger market share in the country. That is because West Asia accounts for over 45 per cent of international passengers from and to India and SIA has no share in this market. With Vistara, it will get an entry into this lucrative market and compete with the likes of Emirates, Etihad and Qatar Airways. Also, seats between India and Singapore have already been exhausted from both sides, impacting growth despite a growing demand. But once more seats are opened, SIA would be able to grab a part of this from both sides.

Then, there is the trump card in Air India. With a new government in place, the terms for buying the state-owned carrier are looking more favorable and many analysts say that the Tatas might put in a bid. Given Air India's vast reach and size, it could turn out to be a game winner for the Tatas.

SPREADING WINGS

(Market share in%)



Source: DGCA, domestic market share of key players

CHINESE WHISPERS

Impersonating spokespersons

After the Lok Sabha results, the Congress has stopped sending its spokesperson to debates on television news channels. The Trinamool Congress is beset with a different kind of problem. It finds that news channels invite people not associated with the party to present views on behalf of the party. On Monday, the Trinamool said it had only "six approved national spokespersons" — Derek O'Brien, Sudip Bandyopadhyay, Saugata Roy, Kakoli Ghosh Dastidar, Mahua Moitra and Dinesh Trivedi. "We have noticed that some channels are inviting guests on shows and referring to them as Trinamool supporters when they are not authorised to speak on behalf of the party to the national media," said O'Brien. He added: "If you still choose to invite any other person on the show other than an approved spokesperson, please do not call them Trinamool supporters, or use TMC, Trinamool, AITC or any other term related to the party to describe the panellist".

'Transfer-posting industry'

The Kamal Nath (*pictured*)-led Congress government in Madhya Pradesh has been transferring officials with unfailing regularity. So much so that members of the opposition Bharatiya Janata Party (BJP) have branded his government a thriving "transfer-posting industry". In about 165 days that it has been in office, the Congress establishment has transferred its IAS and IPS officers more than 450 times. Some of these officers have been transferred four times in the period. If the lower rungs of the bureaucracy are included, the number of transfers would cross 15,000. The BJP had made such frequent transfers an issue during the just concluded Lok Sabha polls. Time and again, Prime Minister Narendra Modi had referred to the "transfer industry" in Madhya Pradesh and linked it to the recovery of ₹281 crore during raids carried out by the income tax department.

A migratory bird

In 2009, the Communist Party of India (Marxist) expelled A P Abdullakutty from the party for praising Narendra Modi, who was then Gujarat chief minister. Abdullakutty then joined the Congress. On Monday, the Congress expelled Abdullakutty from the party days after he praised Modi for the Bharatiya Janata Party's massive Lok Sabha win. In a Facebook post, Abdullakutty said the NDA's victory was an acceptance of Modi's development agenda and the secret of his success was that he had adopted Gandhian values. Kerala Pradesh Congress Committee President Mullapally Ramachandran said the Congress party had sought an explanation from Abdullakutty for praising Modi and got a "mocking reply". Abdullakutty was making "insulting" remarks against senior Congress leaders through the media, thus violating party rules. Criticising Abdullakutty, the Congress party mouthpiece *Veekshanam* said, "Like a migratory bird, Abdullakutty came to Congress from CPI(M) riding on hopes of being in power. He is pinning his hopes on the saffron party to migrate there."

ON THE JOB

Comparing PLFS and CPHS estimates

MAHESH VYAS

The government finally released the Annual Report of the Periodic Labour Force Survey (PLFS) 2017-18 and the Quarterly Bulletin PLFS. The caveat emphasised is that the estimates therein presented in these are not strictly comparable with those obtained by NSSO's Employment and Unemployment Surveys (EUS) conducted earlier.

The differences between the two surveys, as presented in the report, do not make a sufficiently strong case to suggest comparisons would be misleading. And, the report itself makes plenty of comparisons.

First, the labour force participation rate (LPR) fell below 50 per cent for the first time. At 49.8 per cent for all people over 14 years of age, it marks a sharp fall from the 64 per cent level in 2004-05. Male labour participation rate fell from 84 per cent to 76 per cent and from 43 per cent to 23 per cent for females.

The reference period for classifying a person as part of the labour market above is a year. This is the Usual Status (ps+ss), which is a relaxed definition. If the reference period is reduced to a week, called the Current Weekly Status (CWS), the LPR drops to 48 per cent; 75 per cent for men and 21 per cent for women.

LPR is the proportion of the adult population that offers itself for employment. What the official data are telling us is that an increasing proportion of people apparently do not want to work.

This column has chronicled the fall in LPR since demonetisation in November 2016. We have used CMIE's Consumer Pyramids Household Survey (CPHS) to demonstrate this fall. This is a good time to compare CPHS estimates with PLFS estimates although there are minor differences in definitions.

The closest comparison can be of the CWS estimates of PLFS with the "Greater" measures of unemployment from CPHS. We explain the concept of "Greater" below.

CPHS considers only those people to be unemployed who actively seek employment and still do not get employment. Merely being available for work, but not actively seeking work, is not a sufficient condition to be considered unemployed in the CPHS definition of unemployed. However, those who are available for work (called "willing to work" in the CPHS parlance) but are not actively looking for employment is also measured separately by CPHS. If we add the unemployed who are actively looking for employment to those who are willing to work but not actively looking for employment we get what CPHS calls the "Greater Unemployed". This definition is comparable to the PLFS's definition of the unemployed.

Finally, to make appropriate comparisons, we need a matching time reference. PLFS 2017-18 refers to the period July 2017 through June 2018 when the survey was carried out.

According to CPHS, the comparable labour participation rate during July 2017-June 2018 was 44.5 per cent (48 per cent PLFS); 73 per cent for men (75 per cent PLFS) and 12.9 per cent for women (21 per cent PLFS).

We believe that female labour participation is much lower than reflected in the PLFS.

The popular unemployment rate quoted from the PLFS is 6.1 per cent. This is based on the highly relaxed Usual Status definition. The CWS definition of the PLFS shows the unemployment rate to be much higher at 8.7 per cent. Rural unemployment rate was 8.4 per cent and urban unemployment rate was 9.5 per cent. These are very high unemployment rates by any standard.

The comparable CPHS rates were a Greater unemployment rate of 9.1 per cent; rural at 8.6 per cent and urban at 10 per cent.

According to the Quarterly Bulletin, the urban unemployment rate during April-June 2018 was 9.7 per cent. The comparable estimate from CPHS places this at 9.1 per cent. In the next quarter, the estimates from PLFS and CMIE are 9.6 per cent and 9.5 per cent, respectively. And in the October-December 2018 quarter, the estimates from PLFS and CPHS are 9.7 per cent and 10.3 per cent, respectively.

These estimates are close. CPHS estimates are likely to be more robust than the PLFS estimates because CPHS uses a much larger sample. PLFS has a sample size of just a shade less than 45,000 households in a quarter. The CPHS has a sample of about 130,000 households in a quarter.

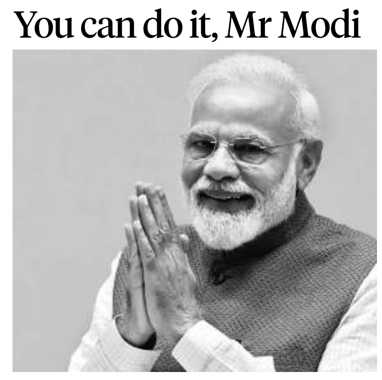
The PLFS is a rich source of data on employment characteristics in India. It includes detailed tabulations on employment by status, industry, occupation, conditions of employment, earnings, hours worked, etc. We look forward to its regular annual release and also to the quarterly releases on the unemployment rate in urban India. CPHS, it appears, will continue to provide such indicators with much greater speed and based on a much larger sample.

Users of employment/unemployment statistics can enjoy the benefits of — initially the speed of private enterprise and then, the stamp of official statistics with a hopefully small time lag.

Disclosure: The author is the MD & CEO of CMIE

LETTERS

You can do it, Mr Modi



This refers to "Tentative trust in mantra of *sabka vishwas*" by Radhika Ramaseshan (June 3). If Prime Minister Narendra Modi (*pictured*) implements his advice to the newly elected members of the Parliament about winning the trust of all including the minorities, he will be heralded as the most adorable prime minister of India.

However, the task itself faces many hurdles. Modi has to first establish that he is sincere about this call -- he reacted very late on anti-minority incidents like cow vigilantism and attacks on people over the alleged consumption of beef during Modi's first tenure. Second, he has to persuade the Rashtriya Swayamsevak Sangh to change its stance on sensitive and emotional issues such as removal of Article 370 and 35A, the construction of a Ram temple in Ayodhya. The solutions should be achieved through consensus and not simply by the rule of majority.

Third, Modi should increase the representation of the minorities in his party -- there is only one Muslim minister from the National Democratic Alliance so far. Four, the government should act firmly as soon as any act of violence against minority takes place.

Five, he should hold elections in Jammu and Kashmir and partner with a Muslim party there while contesting elections. There, he should also offer .an olive branch to the aggrieved while dealing with the terrorists with a firm hand. Last and not the least, Modi should befriend media so that it understands him better and avoids exaggerating every any misdemeanour towards the minority by his party persons.

Among today's leaders, Modi alone has the capacity to bring and hold all sections of the society together. If he succeeds, India will become the most powerful and prosperous nation in the world.

Y G Chouksey Pune

Wait and think

Before taking any drastic step, Bihar Chief Minister Nitish Kumar (*pictured*) should weigh the pros and cons of his action. He has to ask himself whether he can go back to Lalu Prasad Yadav's Rashtriya Janata Dal (RJD) to recreate the "bonhomie" that his Janata Dal (United) shared with the RJD in 2015. If not, the other option is to dissolve the Assembly and face a mid-term poll. What is the guarantee that he will be able to single-handedly form the government in the state? A third choice is to join either the mahagathbandhan or the United Progressive Alliance and wait for the 2024 general elections to see whether his dreams can become a reality.

Arun Malankar Mumbai

Tread cautiously

The Centre has sought to assuage the concerns of the people of Tamil Nadu over the Draft National Education Policy's recommendation on the three-language formula and mandatory Hindi teaching in schools by assuring that the policy will be implemented only after a public hearing. All Opposition parties in Tamil Nadu have taken up the cudgels against the recommendations. To add fuel to the fire, Karnataka Chief Minister H D Kumaraswamy has joined the chorus against teaching Hindi in non-Hindi speaking states. The Centre would do well to tread cautiously on this sensitive issue.

N J Ravi Chander Bengaluru

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

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A new high

Stock markets live on hope

Given the flurry of bad news over the weekend, there was little reason for the stock markets to rally the way they did on Monday. The Sensex closed above the 40,000-point mark for the first time and the Nifty went past 12,000, also for the first time. The March quarter GDP data was weak, suggesting an overall slowdown; auto sales for May continued to be poor and corporate earnings for the fourth quarter of 2018-19 were disappointing. India Inc's leaders are also almost unanimous in their view that consumption, the only engine fuelling the economy, is slowing. Yet, the BSE Sensex is now trading at a two-decade- high price-earnings multiple of 29 times trailing earnings, as foreign portfolio investors (FPIs) keep faith in Indian markets. After being net sellers to the tune of ₹34,000 crore in 2018, FPIs have brought in ₹78,000 crore so far in 2019, fuelling the rally.

The change in stance began in February when FPIs started pumping in dollars, with March 2019 being the second-highest net investment in the history of the Indian markets. The reason for their change in stance was the US Federal Reserve calling it the end of a rising interest rate cycle. As a result, US bond yields have declined from a decade-high of 3.24 per cent in November 2018 to 2.12 per cent now, which is nearly a five-year low. A lower bond yield and, by corollary, lower interest rates make equities attractive compared to fixed-income assets.

With US bonds no longer being a high-yield safe haven and the Fed's benign rate outlook, the risk-on trade took shape, and India was one of the highest beneficiaries of the flows. Along with the dropping yields in the US, the Indian 10-year benchmark yield too has fallen from its September high of 8.18 per cent to under 7 per cent on Monday. Brent crude oil prices are also down 14 per cent since mid-May, which brightens prospects for Indian companies as it will translate into lower input costs for Indian manufacturers and reduce the current account deficit for the country as a whole. From FPIs' perspective, India is an attractive market, which still promises growth despite the weak Q4 GDP. Moreover, several global markets have been roiled by the US-China trade war but India is relatively insulated. Global brokerages, which had reduced the extent of their overweight position on India in 2018, have also increased it, attracting more money.

India's valuation may be rich compared with its historical multiples, but the index earnings yield of around 3 per cent is still higher than US bond yields, providing enough incentive for foreign investors to make additional bets on Dalal Street. Also, periods of overvaluation supported by liquidity are not new to the Indian stock markets. Besides the fund flow, there are also other expectations built into the recent bull run. On an immediate basis, the market is factoring in at least a 25 basis point rate cut, to be a given at the monetary policy committee meeting this week. The market is also expecting some stimulus and higher spending from Finance Minister Nirmala Sitharaman's Union Budget on July 5, which could revive demand and growth. A disappointment on any front from foreign flows, crude oil, demand conditions, or government policy could mean a nasty surprise for investors, as current valuations appear unsustainable.

Musk's mega bet

Starlink throws up many questions about use of space

SpaceX's Starlink project has kicked up a controversy even though it is still in the early pilot stage. The concept of delivering Internet services via saturation satellite coverage is innovative, and could positively disrupt global data transfer capacity and coverage. But it also will cause lots of light and radio pollution and may pose a serious potential hazard in terms of space debris. Astronomers claim that Starlink may render astronomical equipment worth billions useless, or at the least, severely impair the efficiency of both visual telescopes and radio telescopes. The scale of Starlink is typical of SpaceX founder-CEO Elon Musk's ambitious thinking. Starlink intends to put nearly 12,000 satellites into space, creating a grid to deliver high-speed internet everywhere. The project will cost $10 billion and it will have the capacity to handle around 50 per cent of all global backhaul traffic, and 10 per cent of local high-density Internet traffic.

SpaceX launched the first 60 satellites on May 23. Reports indicate that all these 225-kg satellites have deployed solar panels, and linked to ground communications. Astronomers have complained that the new satellites are very bright, with many visible to the naked eye even in daylight. These bright, moving objects leave large streaks in the long-exposure pictures astronomers must take, thus causing severe disruption. Musk has acknowledged the issue and said that SpaceX will redesign the next series of satellites to reduce the albedo (the amount of light reflected off an object). However, as more of these new satellites go up, they will inevitably interfere with telescopes.

What is more, interference will also occur across the invisible parts of the electromagnetic spectrum. Starlink will broadcast radio signals that make it harder for radio telescopes to function. One solution is relocating telescopes into space. But replacing all terrestrial instruments would be a tall task. The other issue is a traffic jam with possibly catastrophic consequences. There are approximately 5,500 satellites orbiting the Earth and Starlink will triple that number. There could be a "knock-on" effect if any satellite malfunctions, or suffers a meteor hit, and falls out of orbit.

Both these risks must be taken seriously. Technological advancement should not come about at the cost of crippling huge investments in blue skies research, which is ultimately foundational for future technology. The potential for dangerous space debris is also exponentially increased by Starlink. Moreover, OneWeb, Telesat and Amazon have similar plans to provide Internet via satellite, which means the traffic jam will surely increase. Starlink presents an interesting case study. On the one hand, it and similar projects could trigger a jump in global data transfer capacity, with the positive implications of lower costs and better access for all. But on the other hand, it might seriously impede astronomical research and could potentially lead to dangerous accidents. There are rules for putting satellites into space under the Outer Space Treaty but there isn't any international system for real enforcement, or imposing penalties. A project like Starlink should trigger a review of the processes. This is urgent since competitors will undoubtedly follow suit. How policymakers around the world respond to this project will help shape the way space is utilised.

ILLUSTRATION: BINAY SINHA

After neoliberalism

Progressive capitalism represents the best chance we have of escaping our current economic and political malaise

What kind of economic system is most conducive to human wellbeing? That question has come to define the current era, because, after 40 years of neoliberalism in the United States and other advanced economies, we know what doesn't work.

The neoliberal experiment — lower taxes on the rich, deregulation of labour and product markets, financialisation, and globalisation — has been a spectacular failure. Growth is lower than it was in the quarter-century after World War II, and most of it has accrued to the very top of the income scale. After decades of stagnant or even falling incomes for those below them, neoliberalism must be pronounced dead and buried.

Vying to succeed it are at least three major political alternatives: far-right nationalism, center-left reformism, and the progressive left (with the center-right representing the neoliberal failure). And yet, with the exception of the progressive left, these alternatives remain beholden to some form of the ideology that has (or should have) expired.

JOSEPH E STIGLITZ

The center-left, for example, represents neoliberalism with a human face. Its goal is to bring the policies of former US President Bill Clinton and former British Prime Minister Tony Blair into the twenty-first century, making only slight revisions to the prevailing modes of financialisation and globalisation. Meanwhile, the nationalist right disowns globalisation, blaming migrants and foreigners for all of today's problems. Yet as Donald Trump's presidency has shown, it is no less committed — at least in its American variant — to tax cuts for the rich, deregulation, and shrinking or eliminating social programmes.

By contrast, the third camp advocates what I call progressive capitalism, which prescribes a radically different economic agenda, based on four priorities. The first is to restore the balance between markets, the state, and civil society. Slow economic growth, rising inequality, financial instability, and environmental degradation are problems born of the market, and thus cannot and will not be overcome by the market on its own. Governments have a duty to limit and shape markets through environmental, health, occupational-safety, and other types of regulation. It is also the government's job to do what the market cannot or will not do, like actively investing in basic research, technology, education, and the health of its constituents.

The second priority is to recognise that the "wealth of nations" is the result of scientific inquiry — learning about the world around us — and social organisation that allows large groups of people to work together for the common good. Markets still have a crucial role to play in facilitating social cooperation, but they serve this purpose only if they are governed by the rule of law and subject to democratic checks. Otherwise, individuals can get rich by exploiting others, extracting wealth through rent-seeking rather than creating wealth through genuine ingenuity. Many of today's wealthy took the exploitation route to get where they are. They have been well served by Trump's policies, which have encouraged rent-seeking while destroying the underlying sources of wealth creation. Progressive capitalism seeks to do precisely the opposite.

This brings us to the third priority: Addressing the growing problem of concentrated market power. By exploiting information advantages, buying up potential competitors, and creating entry barriers, dominant firms are able to engage in large-scale rent-seeking to the detriment of everyone else. The rise in corporate market power, combined with the decline in workers' bargaining power, goes a long way toward explaining why inequality is so high and growth so tepid. Unless government takes a more active role than neoliberalism prescribes, these problems will likely become much worse, owing to advances in robotisation and artificial intelligence.

The fourth key item on the progressive agenda is to sever the link between economic power and political influence. Economic power and political influence are mutually reinforcing and self-perpetuating, especially where, as in the US, wealthy individuals and corporations may spend without limit in elections. As the US moves ever closer to a fundamentally undemocratic system of "one dollar, one vote," the system of checks and balances so necessary for democracy likely cannot hold: Nothing will be able to constrain the power of the wealthy. This is not just a moral and political problem: Economies with less inequality actually perform better. Progressive-capitalist reforms thus have to begin by curtailing the influence of money in politics and reducing wealth inequality.

There is no magic bullet that can reverse the damage done by decades of neoliberalism. But a comprehensive agenda along the lines sketched above absolutely can. Much will depend on whether reformers are as resolute in combating problems like excessive market power and inequality as the private sector is in creating them.

A comprehensive agenda must focus on education, research, and the other true sources of wealth. It must protect the environment and fight climate change with the same vigilance as the Green New Dealers in the US and Extinction Rebellion in the United Kingdom. And it must provide public programmes to ensure that no citizen is denied the basic requisites of a decent life. These include economic security, access to work and a living wage, health care and adequate housing, a secure retirement, and a quality education for one's children.

This agenda is eminently affordable; in fact, we cannot afford not to enact it. The alternatives offered by nationalists and neoliberals would guarantee more stagnation, inequality, environmental degradation, and political acrimony, potentially leading to outcomes we do not even want to imagine.

Progressive capitalism is not an oxymoron. Rather, it is the most viable and vibrant alternative to an ideology that has clearly failed. As such, it represents the best chance we have of escaping our current economic and political malaise.

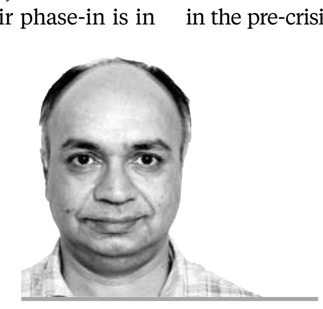
The writer, Professor at Columbia University, is the co-winner of the 2001 Nobel Memorial Prize, former chairman of the President's Council of Economic Advisers, and former Chief Economist of the World Bank. His most recent book is People, Power, and Profits: Progressive Capitalism for an Age of Discontent. *©2019 Project Syndicate.*

Unanswered questions about global finance

With the 14th G20 Summit scheduled in Osaka later this month, it is time to take stock of what the G20 itself saw as one of the ultimate causes of the 2008 Global Financial Crisis (GFC), namely the failure of financial regulation.

Financial regulatory reform, like most G20 initiatives, was attempted through advisories to multilateral institutions, such as the Basel Committee on Bank Supervision (BCBS) for commercial banks, and the International Organisation of Securities Commissions (IOSCO) for non-banks and shadow banking. Monitoring of these reforms is being done by the G20 through the restructured Financial Stability Board (FSB). These reforms were supplemented by national initiatives, such as the Dodd Frank Act in the US, the Vickers Commission in the UK, and the Liikanen Report of the European Union.

The reforms for commercial banking to make the regulatory structure less pro-cyclical, known as Basel III, have been completed and their phase-in is in progress. The source of the last crisis, however, lay not in commercial banking, but shadow banking. While the FSB appears sanguine that the exposure of commercial banks to shadow banking has been contained, and the latter is now being monitored, it remains outside the regulatory umbrella.



ALOK SHEEL

With commercial banking reined in through Basel III, shadow banks have seized this regulatory arbitrage to grow faster. They no doubt have an inclusive aspect, penetrating markets that commercial banks cannot reach, shadow banking nevertheless remains the most innovative and riskiest component of the financial system. New financial technologies only magnify complexity and risk.

While shadow banking is still a small segment of financial systems in EMDEs, its fastest growth since the crisis is not in advanced economies but in China. It is only a matter of time that its role in EMDEs grows. Can shadow banking be regulated? Are regulators taking adequate steps to educate and protect consumers of complex opaque products emanating in shadow banking?

At the outset of the crisis, the Alan Greenspan view that central banks cannot, and should, not call asset bubbles was challenged. There was a sense that central banks would wipe the dust off their original raison d'etre, namely financial stability. This challenge appears to have petered out, with monetary policy instruments considered too blunt, the mantle falling instead on macroprudential policies. Are these reining in asset bubbles? And is it still the view that asset bubbles are too difficult to call?

It is now recognised that the financial sector is a public utility. Some financial institutions are too big to be allowed to fail and bring down the financial system. But in the reconstruction that followed, big banks have become bigger. Systemically important financial institutions (SIFIs) are now better monitored by regulators, are required to hold more capital and draft "living wills" with a resolution framework in the event of their demise. Have these measures abated the threat of major tax-funded bailouts?

Excessive leverage underlies all financial crises, and the GFC was no exception. While financial sector debt has shrunk, the reforms have been unable to rein in the pre-crisis growth in leverage because most of the growth since has been in the public sector. Non-financial corporates in both advanced economies and EMDEs also took advantage of low rates to lever up. The overall debt/GDP ratio remains virtually the same. The underlying liquidity driving this leverage prior to the crisis was global imbalances. After the crisis, it is central banks. What does this mean for financial stability and monetary policy, going forward, especially when rates rise?

There is apprehension that as memory of the crisis recedes, and animal spirits return, regulatory reforms are being gradually rolled back, as in the post Great Depression era. No matter how comprehensive the reforms, nobody is making the case that there will be no more financial crises. In a globalised world, domestic and regional crises can be triggered simply by policy spillovers, and despite good macroeconomic management.

Purely domestic financial crises can be handled through fiscal and monetary policies. But when crises spill over regionally or globally, where a country cannot fund its external liabilities, either as a result of a sudden shock, or unsustainable external debt, the robustness of the safety nets of the International Financial Architecture (IFA) will be tested.

These safety nets have expanded dramatically in the post-crisis period. But is the extant three-layered architecture, comprising a global safety net (IMF), regional arrangements such as the plurilateral Chiang Mai multilateralisation and the BRICS Contingency Reserve Arrangement, and national "self-insurance" mechanisms comprising foreign currency reserves and bilateral swaps, robust enough to handle future crises?

The adequacy of IMF's resources, the nimbleness of its lending and surveillance instruments to respond timely, the "stigma" attached by markets to countries that access its preventive instruments, remain debatable. The absence of effective surveillance continues to constrain the deployment of regional arrangements. Consensus on the levels and desirability of reserve accumulation by developing countries as self-insurance against policy spillovers, BOP crises and the monetary policy trilemma remains a work in progress. Has the recent decline in capital flows made EMDEs more vulnerable to a rate rise?

The GFC raises two new interesting issues relating to the extant IFA. First, the major international liquidity provider during crisis was not the IMF, but the US Federal Reserve through market confidence boosting bilateral swap arrangements. What is the role of the issuer of the de facto global reserve currency in the IFA? Has the Federal Reserve effectively replaced the IMF as the global lender of last resort, especially in a major global financial crisis? This adds a new dimension to what is termed the "triffin dilemma".

The second new issue is IMF lending to issuers of fully convertible currencies in the IMF reserve basket. Was its lending to countries within the eurozone justified by its Articles of Agreement? Was it necessary since the countries in crises could be bailed out by euro funding? It was the commitment of the ECB to provide unlimited liquidity, and not IMF intervention, that stanched the market revolt in the EU periphery. Although the crisis in the eurozone has subsided, the underlying fault lines remain. Who should be its lender of last resort, the IMF or the ECB?

Apart from real time coordinated management of the 2008 GFC, financial regulatory reform and strengthening the safety nets that can respond to crises are amongst G20's signal achievements so far. With the current chair still suffering from the aftershocks of a financial crisis that occurred over two decades ago, the Osaka Summit could perhaps provide answers to some of these outstanding questions.

The writer is RBI Chair Professor, ICRIER

Rebuilding the reform consensus

BOOK REVIEW

AVINASH M TRIPATHI

India is among the world's fastest growing economies. Yet, many economic challenges remain. Corporate investment and exports — twin engines that typically propel growth in most economies — are sputtering. The labour market is tepid. Jobs are scarce. Tax buoyancy has failed to materialise. Banks are undercapitalised. Increasingly, Non Banking Finance Companies (NBFCs) have started showing signs of stress. And the debt-fuelled consumption binge has come to an end.

How did we reach this "growth without story"? The question is both important and urgent. To paraphrase Nobel Laureate Paul Romer, once one starts thinking about these questions, it is difficult to think about anything else. Puja Mehra's *The Lost Decade* chronicles the policy choices that provide a coherent explanation of some of these puzzles.

The first interesting thing about the book is its periodisation. There is a strong temptation to see economic outcomes solely through the lens of electoral politics. The author admits that she was asked initially to write a book on the economic performance of the National Democratic Alliance (NDA) government, starting from the swearing-in of Narendra Modi in 2014. This temptation should be resisted. Given the institutional continuity in key ministries, economic cycle rarely coincides so neatly with the electoral cycle.

By taking a longer horizon like a decade as the unit of study, and by subdividing this decade into four sub-periods — which roughly coincide with the change of guard at the finance ministry — this book has captured the policy regime switches more cogently.

The periodisation pays off not only in explaining the growth dynamics, but also in the discussion of the policy-making process. A discussion of nearly every major policy decision in the last decade follows. Without being exhaustive, the list of topics discussed includes management of the global financial crisis and the taper tantrum, fiscal stimulus, food inflation, policy paralysis during United Progressive Alliance (UPA) regime, Goods and Services Tax (GST) and the inflation targeting monetary framework, twin balance sheet crisis and last but not the least, demonetisation.

In each case, the discussion is at once panoramic and detailed. Complex issues are elucidated. For example, the way issues surrounding GST are summarised is a treat to read. In any case, the book is a ready reckoner of sorts for students of contemporary economic history.

Development economists have an idea called path dependence. It explains how minor chance events end up having a disproportionately large impact on macro outcomes. For want of a nail, the kingdom is lost. Ms Mehra argues, convincingly in my view, that similar chance events — such as the bypass surgery of the then Prime Minister Manmohan Singh—had a large impact on the policy choices during the second UPA government. It affected the ongoing V-shaped economic recovery and ultimately proved to be the undoing of the UPA regime. This is a provocative and sharp hypothesis which future historians would like to revisit and debate.

Some observations go beyond the cut and dried world of economics textbooks. My favourite anecdote is about the erstwhile Planning Commission. When Prime Minister Narendra Modi decided to dismantle this relic of the planning era, he held a meeting with the chief ministers to discuss the role of the institution and the possible alternatives.

One would have assumed that much of the discussion would revolve around the relevance of planning in a liberalised economy. Chief ministers would discuss pros and cons of the institutions such as the Planning Commission and Finance Commission for distributing resources in a federal polity. No such luck. In reality, the most pressing complaint chief ministers made to the prime minister concerned the seating arrangement in Planning Commission meetings! Apparently, the seating arrangement had placed non-elected officials centre stage, which chief ministers, being elected representatives, thoroughly resented!

Ms Mehra notes: "When a big institution cracks, it doesn't crack on its big failures. It cracks on bruised egos and status symbols." An interesting, yet understudied insight. Perhaps the time is ripe for some behavioural economist to write a treatise on the role of such ego management devices in institution-building.

The Lost Decade tells a story that is riveting and worrisome in equal measures. It is well documented, analytical and interspersed with delightful nuggets. At the same time, the thrust of the book is that the economic reforms that steered the Indian economy towards the growth turnpike have run their course. As the author notes, "We need to rebuild the consensus for a steady stream of reforms." Incrementalism is not sufficient and there is no time to lose.

One hopes this book not only generates debate about the issues it discusses but also leads to the ideation about future policies. Only then could a sequel to this book be written with a more hopeful title. Millions of young men and women entering the labour market each year deserve as much.

The reviewer is associate research fellow (economics) at Takshashila Institution. Views are personal

THE LOST DECADE (2008-2018)
Puja Mehra
Penguin Random House, ₹599, 340 pages.