Leadership mindset hazards

The only solution is for CEOs to behave at exemplary standards, well above the legal prescription

THE WISE LEADER

R GOPALAKRISHNAN

Success can make a person rich but can also pose personal and reputational risks. After my book was published recently, a few readers expressed incredulity about how power could actually "damage" the brain. Unfortunately, bad things do happen to excellent CEOs. The causes arise from: (i) behaviour of the CEO/board, (ii) politics of the country, (iii) judgements of the judiciary, (iv) public perception, and (v) bad luck. Here are some recent incidents, exemplifying these causes, each with a cautionary lesson.

First, there is Rajat Gupta, the effervescent Indian-origin business leader who attended IIT, HBS and went on to lead McKinsey globally. At the peak of his professional accomplishments and friendship with the who's who of the world, he was trapped in a saga of cell phone calls and others' share dealings; Gupta was convicted in 2012 on insider trading charges and sentenced to prison. After release, Gupta wrote Mind Without Fear, wherein he stated, on the advice of his lawyers, what he earlier did not. Acts like calling his business partner, Raj Rajaratnam, within 16 seconds of a board meeting probably nailed the circumstantial evidence. He has argued that making calls within 16 seconds of the conclusion of a board meeting is normal. Some who heard him wondered whether he might have lost touch with reality.

High profile Thomas Middelhoff had led the largest German publishing group, Bertelsmann, with great distinction until 2002 when he was eased out. By then, Middelhoff was an international business icon. He then joined German retailer, Arcandor, which had fallen into troubled times. After some years of leading Arcandor, he was accused of inappropriate corporate conduct such as taking private trips on company-chartered aircraft and lavishly redecorating the office. A judge in an Essen court sentenced him to three years in prison for embezzlement and tax evasion in 2014. Middelhoff was jailed despite his intention to appeal.

Released from jail in 2018, he said that he did not feel ashamed because, according to him, "99 per cent of the German people already know that I am a convict." He denied that he was wrongfully convicted. He did not regard himself as a criminal, but he fully accepted his sentence. He had never wanted to enrich himself, but, regrettably, he had been neglectful of not following proper procedures. Middelhoff stated that he had "become out of touch with reality." Nightmarish! Auch in Deutschland?

Eike Batista, a Brazilian mining tycoon, was a daring and fabulously successful entrepreneur, a symbol of flair in Brazil. He was well connected, worked incredibly hard and was the seventh richest person in the world in 2012. Dilma Rousseff, former president of Brazil, had hailed Batista as 'a national pride'. However, the popular perception was that Batista had connections with all political parties, hence his empire was also sinister. In the changed scenario after Rouseff's regime, in July 2018, Batista was sentenced to 30 years in jail. He was allotted an ordinary prison cell with a squat toilet and cold water without recourse to 'Mallya in British courts' tactics. Nightmarish!

Zhang Wenzhong, the high-profile and successful promoter of Chinese supermarket, Wumart, was convicted in 2009 on charges of fraud, bribery and embezzlement. After 10 years of incarceration, in a different political environment, the Chinese supreme court ordered his release with the judgement that he was innocent in the first place. High profile and undulating politics make nightmarish bedfellows, *jinfang* (beware, in Chinese).

Former Nissan-Renault CEO, Carlos Ghosn, has already spent more time in Japanese jails than he ever imagined. All the facts are not yet known, at least they are not clear to this writer. But it disturbs the peace of mind that he was held in jail without trial for several weeks. In polite Japan? *Nihon demo*?

The mind of the leader has a delicate equilibrium. In his book, *The Wisdom of Psychopaths*, psychiatrist Kevin Dutton describes one of the leadership mindset hazards as psychopathic behaviour, a condition combining ruthless power, oozing charm and gratification — like James Bond, according to the author.

A CEO is under intense public scrutiny, and can be convicted in the public perception long before the legal processes. The only solution is for CEOs to behave at exemplary standards, well above the legal prescription. More about this aspect in the column next month.

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CHINESE WHISPERS

Eco-friendly yoga

The government has a new theme for International Yoga Day 2019. It wants to promote the use of eco-friendly accessories and products during the celebrations. The Ministry of Ayurveda, Yoga and Naturopathy, Unani, Siddha and Homeopathy, or AYUSH, has prepared a concept note to raise public awareness on opting for eco-friendly yoga accessories. The note urges ministries to not use PVC mats with a "large-scale presence of cheap varieties" available in the domestic market because they are not recyclable, has contaminants, and adds to air pollution. It has asked ministries to use yoga mats made from jute, rubber and other materials. "Government bodies, yoga institutions and yoga teachers are all potential influencers who can help create more awareness about the same," the concept note, circulated in various ministries, said.

Yoga Day in Ranchi

The main event for this year's Yoga Day is set to be held in Ranchi, the capital of Jharkhand. Prime Minister Narendra Modi *(pictured)* will perform yoga and deliver a short address there. Interestingly, Jharkhand is scheduled for Assembly polls in October. The PM on Thursday tweeted a video clip with the hashtag Yoga Day 2019. "Doing Tadasana properly would enable you to practice many other asanas with ease. Know more about this asana and its benefits," he tweeted. The main event of the first Yoga Day in 2015 was held in New Delhi. In 2016, it was held in Chandigarh. Punjab was slated to go to the polls in early 2017. The PM attended the 2017 Yoga Day event in Lucknow. UP had elected a Bharatiya Janata Party government just a couple of months before that. In 2018, Dehradun hosted the main event with the PM underlining the importance of the state of Uttarakhand as the birthplace of yoga.

No kissing up to the boss

Guna Sub-Divisional Magistrate Shivani Garg issued an intriguing order to her subordinates: "All patwaris, revenue inspectors, nayab tehsildars and tehsildars, please note: If any one of you provide liquor or chicken to additional district magistrate (ADM), I will have to take action against you. I will propose an action for providing undue advantage to your senior officer," she said in the official WhatsApp group. After the message went viral on social media, she issued a clarification. The ADM would frequently demand that her subordinates bring liquor and non-vegetarian food for him. Fed up, they submitted a memorandum to the district magistrate, which elicited no response. So Garg took it upon herself to issue the warning. Meanwhile, the Madhya Pradesh government has issued immediate transfer orders for the ADM, Dilip Mandavi.

The markets couldn't have asked for more!

More than the rate cut, change in the stance of the policy and RBI's commitment to ensure "adequate" liquidity will encourage banks to cut loan rates

BANKER'S TRUST

TAMAL BANDYOPADHYAY

The suspense is over. Staring at a faltering growth and encouraged by tamed inflation, the central bank in Asia's third largest economy yet again announced a 25 basis points rate cut on Thursday at the end of three-day meeting of its rate-setting committee — the third time in a row. One basis point (bps) is a hundredth of a percentage point. It has also changed the stance of the monetary policy, from neutral to accommodative.

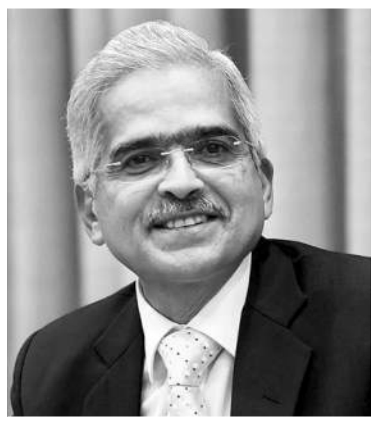
More than the rate cut, the bigger takeaway from the Reserve Bank of India's (RBI's) second bi-monthly monetary policy in fiscal year 2020 is the change in the stance of the policy. It had changed the stance from "calibrated tightening" to "neutral" in February while making the first rate cut in the current cycle.

Theoretically, a neutral stance means the policy direction can be either way — the rate can go up or down, depending on the incoming data. Going by RBI Governor Shaktikanta Das' explanation of the accommodative stance in his post-policy media conference, any rate hike is "off the table" for now. He couldn't be more explicit but it's clear that there could be more rate cuts, depending on the estimated fiscal deficit in the current financial year (we will get know this on July 5 when the Union Budget is presented) and the trajectory of the monsoon (which will have a bearing on the inflation).

Another key takeaway, again, more important than the rate cut, is the governor's statement that the RBI "will ensure that adequate liquidity is available in the system for all productive purposes". This is for the first time in recent history the Indian central bank is committing to ensure "adequate liquidity" in the system. In the earlier policies, it had indicated the actions taken to infuse liquidity in the system in the form of buying government bonds from the market under the so-called open market purchase operations (OMOs), longer term variable-rate repo auction, foreign exchange buy/sell swaps and tweaking the so-called liquidity coverage ratio norms, among others, but it had not given any forward guidance so explicitly.

This will soothe many frayed nerves and help in monetary transmission. For the record, liquidity in the system turned into an average daily surplus in early June after remaining in deficit during April and most of May due to restrained government spending.

The 25 bps rate cut has brought down the RBI's policy rate to 5.75 per cent, a level last seen in July 2010 when the central bank was cutting the policy rate and flooding the system with liquidity to ward off the impact of depression that enveloped large part of the world, following the collapse of iconic US investment bank Lehman Brothers Holdings Inc. We had seen such a series of rate cuts twice in recent past — in January-July 2015, when then governor Raghuram Rajan brought the rate down from 8 per cent to 7.25 per cent and, also in January-June 2013, when D Subbarao cut the rate by an identical margin — from 8 per cent to 7.25 per cent.



CLEAR CUT **Going by RBI Governor Shaktikanta Das' explanation of the accommodative stance in his post-policy media conference, any rate hike is "off the table" for now**

Subbarao had done it to spur economic growth, estimated to have slumped to 5 per cent in the year ended March 31, 2013, the slowest pace in a decade. However, unlike now when RBI has changed the stance of the policy to accommodative, Subbarao had sought to temper expectations of further rate cuts with a warning that the risk of a resurgence in inflation left "little space for further monetary easing". In 2015, the rate cuts did happen outside the policy meetings too. And, of course, unlike now when the monetary policy committee (MPC) is taking the call on interest rate, on both occasions in the past, it was the governor's call.

Importantly, unlike the past two rate cuts in February and April, the June rate cut decision has been unanimous by all six members of the MPC. There has been no dissent. Also, all six have been in favour of the change in the policy stance.

This strengthens the belief that if the fiscal deficit and inflation are under control, there could be more rate cuts later this year to prop up growth. The RBI has pared its estimate of gross domestic product (GDP) growth by 20 bps to 7 per cent for fiscal year 2020 and it has also cut down its inflation projection. The retail inflation inched up marginally to 2.9 per cent in April but the so-called core or non-food, non-oil manufacturing inflation fell sharply. Assuming a normal monsoon, retail inflation is being projected at 3.4-3.7 per cent for the second half of 2020, marginally lower than the earlier estimate of 3.5-3.8 per cent.

India has lost the tag of the world's fastest growing major economy to China in the March quarter. The economic growth in the last quarter of 2019, ending March, dropped to 5.8 per cent, the lowest in the past 20 quarters. This also pulled down the annual growth in India's GDP to 6.8 per cent, the slowest in the Modi 1.0 regime.

The market gave a thumbs up to the RBI policy with the 10-year bond yield rallying. The yield dropped from around 7.01 per cent to 6.88 per cent intra-day. Will it last? Will the downward movement spill over to the shorter end of the bond market and to the corporate bonds? Will the commercial banks start cutting their loan rates?

In the current rate cut cycle between February and now, only 21 per cent of the 50 basis points rate cut has been transmitted by the banks. It may take a little while to see the full transmission but this policy, by emphasising on ensuring liquidity and changing the stance, has made efforts to address the issue of monetary transmission. Once we have a concrete framework in place on RBI's liquidity management strategy, the transmission will be faster. The RBI has set up of an internal working group to review the liquidity management framework. The last time such a review took place was in 2014. The committee, which will submit its report in mid-July, is to suggest measures to simplify the current liquidity management framework; clearly communicate the objectives, quantitative measures and liquidity tools to be used by the central bank.

For the time being, what RBI has announced on Thursday is par for the course. The markets could not have asked for more.

The columnist, a consulting editor of Business Standard, is an author and senior adviser to Jana Small Finance Bank Ltd. His latest book, HDFC Bank 2.0: From Dawn to Digital, will be released on July 10. Twitter: @TamalBandyo

INSIGHT

How *jal* can become *shakti*

JYOTI MUKUL

While the debate on air pollution peaks only during winters, especially in the National Capital Region (NCR), thoughts on water contamination and wildlife protection largely remain under the radar in the country, with no visible concerns being expressed either by government functionaries or the citizenry. Debate on these issues remain in the periphery, and certainly outside the NCR.

That said, the BJP's manifesto promise of providing safe drinking water is being speculated to be the reason that a Jal Shakti ministry was formed. This year, when the Indian Meteorological Department has predicted 47 per cent deficit or below normal rainfall in its second forecast, how Jal Shakti rolls out will be important.

The newly christened ministry is expected to work on harnessing the potential of rivers, settling inter-state water disputes and other functions of the erstwhile water resources ministry. Added to these will be the larger work of managing demand and supply of water as a resource. Prime Minister Narendra Modi appointed Gajendra Singh Shekhawat as the Union minister of Jal Shakti, who after taking charge said, "All the water related works will be merged under one ministry."

Another step taken earlier, before the ruling alliance took the break for elections, was to have a hydropower policy in place which again banks on rivers. This policy was necessitated by a growing mix of renewable power, which remains largely intermittent in nature due to lack of storage. Hydropower generation capacity stood at 45399.22 MW on April 30, 2019, while renewable power was about 3 per cent higher at 77,642 MW. The capacity addition in hydropower had been stagnating largely because of rehabilitation and resettlement, and land issues for a decade now.

Though from the planning point of view, merging the water-related works spread across environment, drinking water and sanitation, urban development and rural development ministries in Jan Shakti seems the best thing to do for better execution, it is the conservation of river and water bodies that seems to have fallen between the creases over past few decades. Why is it that conservation is secondary to meeting the immediate requirements of people, when it is conservation alone that can ensure future requirements are provided for in the present itself?

India has eight major Himalayan and peninsular rivers and an endless number of smaller and seasonal rivers. Putting everything concerning them under the Jal Shakti umbrella might in the immediate course lead to a tussle among ministries because of administrative legacy. But if this ministry has to be relevant, it needs to focus on macro-level river conservation which is beyond just Swachh Bharat. Agreed, treating sewage and preventing dumping of waste into rivers is important, but equally urgent is a big plan for conservation.

The plan should mean not just seeing a river in a completely traditional sense but preventing over harnessing, right from the mouth till its tip. This should translate into counting the number of planned megawatts on a river or putting in pump storage capacities within existing hydropower projects to match renewable power generation. It means ensuring that the health of aquatic life is maintained, if inland water transport is to be promoted. And, most importantly drinking water projects for rural areas under Swajal Yojana where the drinking water and sanitation ministry pays 90 per cent of the cost and the panchayat concerned bears the remaining 10 per cent, has a robust user charge structure to prevent wastage and ensure viability.

Now, projects will be scaled up under "Jal se Nal" programme, but these should come up without harm to the local population which will see its resource being transported to other areas. The erstwhile union ministry of water resources had estimated the country's current annual water requirement to be around 1,100 billion cubic which is estimated to go up to around 1,200 billion cubic metre by 2025 and 1,447 billion cubic metre by 2050. For this, banking on public private models or panchayats will not be enough since it would need constant oversight and regulations coupled with viability gap funding.

Jal can become *shakti* only if it is revered, not just on religious grounds but also with conservation in mind.

LETTERS

A stitch in time

This refers to "DHFL assigned default ratings, MFs bleed" (June 6). I would like to reiterate the need for an asset quality review (AQR) of non-banking finance companies (NBFCs) and housing finance companies (HFCs), both from the point of view of financial stability and stakeholder awareness. The former chief economic adviser Arvind Subramanian had also spoken about the need for AQR of NBFCs. Banks, mutual funds, pension funds, NBFCs and HFCs are closely connected. The credit exposure of NBFCs and HFCs to low rated borrowers or group entities often ends in default that impacts the other entities mentioned.

Keeping in mind the large volume of stressed assets of public sector banks, the last thing the public would like to know is growing stressed asset portfolios of NBFCs and HFCs. It is time for transparency about their credit and investment portfolios as well as their lending and investment practices. Both these sets of entities have large asset portfolios and the depositors, investors and the public at large need to know about their health. Avoiding AQRs will only result in bigger problems at a later stage. It is important from the point of view of financial stability that banks, financial institutions and financial markets are well regulated and supervised. As they say a stitch in time saves nine.

Arun Pasricha New Delhi

Long-term motive

Apropos V Jayaraman's letter "Learn Hindi" (June 6), the south's aversion to Hindi has a post-Nehru era origin, when a fear psychosis about compulsory imposition of Hindi enveloped the non-Hindi-speaking states. Till then, the three language formula (mother tongue, English and Hindi) was under implementation across the country with reasonable success.

The Dakshina Bharat Hindi Prachar Sabha based in Chennai was and is still doing commendable job in propagating Hindi in the entire south. Most of the literate south Indians have working knowledge of Hindi. The best option today would be to revisit the three language formula, guiding all citizens to familiarise three languages including English, Hindi and a third Indian/foreign language. Social media users in India have been using English or Devanagari scripts for communicating in a language of their choice. Even if not perfect, Google helps in translating content from one language to another.

M G Warrier Mumbai

Encourage women

Apropos the news item "Swiping right on digital payments" (June 6), the high level committee on deepening digital payments has listed timely and well-crafted measures to accelerate the growth of digital transactions. Inculcating trust and awareness in the village folk will do wonders. Having said that, it is imperative to note that women in villages find it difficult to move out as they are tied up with household chores. The distance of an ATM from their dwellings also may stand in the way. Therefore, to rope in women, it is important they learn withdrawal, deposit and sending remittance on a mobile device. The neighbourhood kirana shop's micro ATM is a good bet, but we will have to ensure the secrecy of their accounts/transactions. It will prompt them to use it and learn how to operate it.

N K Bakshi Vadodara

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HAMBONE

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RBI votes for growth

The central bank is clearly not done yet on rate cuts

The Reserve Bank of India's (RBI's) Monetary Policy Committee has done exactly what the doctor ordered: It reduced the benchmark repo rate by 25 basis points for the third successive time in line with majority market expectations. And unlike the last two policy decisions, this one was unanimous, with all six MPC members voting for a cut in rates. The benchmark rate at 5.75 per cent is now the lowest in the last nine years. Thursday's reduction in the repo rate underscores the theme: Growth impulses have weakened significantly and a sharp slowdown in investment activity, along with a continuing moderation in private consumption growth, is a matter of concern. RBI Governor Shaktikanta Das set the tone when he said at the post-policy press conference that the "decision is driven by growth concerns and inflation concerns, in that order". The reason for the concern is obvious as economic growth has lost momentum, slowing for a fourth straight quarter, prompting the MPC to lower its growth projections to 7 per cent in the current fiscal year, down from an earlier forecast of 7.2 per cent.

More than the rate cut, however, the markets were looking for the stance the MPC takes. There was cheer on that front too. By changing the stance from "neutral" to "accommodative" unanimously, the MPC sent a strong message on the shift in preference towards growth, as inflation indicators were likely to remain within the targeted band. Going by Mr Das' strong message that rate hikes are "off the table", it is now clear that the RBI is not done yet on rate cuts.

While Mr Das and his colleagues at the MPC have ticked almost all the right boxes, the only disappointment is that the policy did little to address the concerns over weak transmission of interest rates. This, when the central bank has itself admitted that of the 50 basis points of easing in the first two rate actions this year, only 21 basis points have been passed on to new borrowers so far. A pick-up in the pace of monetary transmission would obviously be one of the key drivers in supporting even the revised growth estimates for the current year. In that context, the markets were clearly hoping for more than just a general assurance that adequate liquidity would be provided to the banking system. The announcement of an internal working group to review the liquidity management framework is welcome, but does little to shore up confidence in the short term at least.

Of course, the government needs to play an important role here. At the core of this mismatch between the RBI's action and the banks' inability to pass on the benefit to borrowers is their inability to cut deposit rates. That's because banks compete for deposits with small savings schemes, which offer around a 7.7 per cent interest rate. There is considerable merit in the suggestions from many quarters that the small savings rates should be linked to the repo rate rather than the 10-year bonds. Another reason for the disappointment in the markets was the absence of specific announcements on the crisis faced by non-banking finance companies. Mr Das did not go beyond saying that the central bank would do whatever it took to ensure financial stability in the system. This is, however, a welcome approach as the central bank should not be seen to bail out a large number of companies which have been slipshod in implementing prudential norms or risk mitigation standards.

Drought scare

Isolated water conservation measures offer limited gains

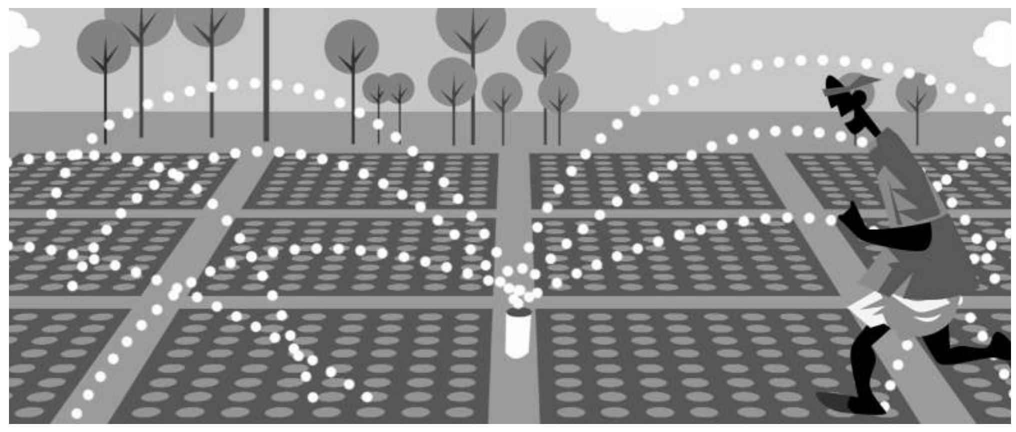
A series of reports published in this newspaper clearly indicates that nearly 40 per cent of the country is facing an acute paucity of pre-monsoon rain, causing severe water distress in scorching heat. Though summer droughts of this kind are not uncommon, the extent and intensity of aridity witnessed this year are rare. The rain deficit has been as high as 48 per cent in the southern peninsula, especially Tamil Nadu and coastal Karnataka; nearly 30 per cent in western India, notably Gujarat and large parts of Maharashtra; 17 per cent in the Central region; and 12 per cent in the north-east. Shortfalls of 70 to 80 per cent have also been reported from some places. The overall countrywide average rainfall between March and May remained 23 per cent below normal.

This is a matter of grave concern. The redeeming factor is that the onset of the monsoon is round the corner and the rain during the four-month monsoon season (June to September) is anticipated to be well spread out and quantitatively normal or somewhat below normal. While the India Meteorological Department (IMD) has predicted the likely rainfall to be around 96 per cent of the long-period average, private weather forecaster Skymet has put it at 91 per cent. But the problem is the forecast made by both of them — that the monsoon would be sluggish to begin with, thus, portending a possible delay in relief from water crisis in some areas. The reason cited for this is the existence of El Nino (warming up of the Pacific Ocean), which often impairs the monsoon performance. However, they differ on the progression of El Nino. While the IMD expects it to turn neutral in the second half of the rainy season, Skymet reckons it to last the whole season, even if in a weaker form.

There is, however, a silver lining to this otherwise perturbing situation. Of the three main facets of drought — meteorological, hydrological and agricultural — the present conditions conform chiefly to the meteorological drought (rainfall inadequacy). Only in some pockets, aridity has accentuated to cause hydrological desiccation as reflected in exhaustion of the surface and groundwater resources. The overall hydrological profile of the country is still positive with the total water stock in 91 major reservoirs monitored by the Central Water Commission being around 14 per cent above the last year's corresponding level and 3 per cent higher than the long-period average (May 30 data). Agricultural drought has, by and large, been averted as the rabi crops have mostly been harvested and the kharif ones are yet to be planted.

An enduring solution to the recurring water crunch lies, indeed, in drought-proofing the vulnerable areas. In-situ conservation of rainwater is the main mantra to do so. The need is to construct rainwater-harvesting structures at the field, village and watershed levels by digging ponds or putting up check dams at suitable sites on the natural water drainage routes. This is a time-tested water management practice that has helped people survive even in the chronically arid areas. But it requires broad-based planning, keeping in view the whole watershed which may transgress village, district or even state boundaries. Piecemeal moves like taking up isolated water conservation works under the rural employment programmes can, at best, offer limited gains.

ILLUSTRATION: BINAY SINHA



Water reform must begin at the farm

Building a more resilient, diverse and less water-consuming farm system has multiple collateral win-wins

WATER: REFORM OR PERISH

MIHIR SHAH

India's water crisis has now assumed mind-boggling proportions. When some of our children in Punjab drink water laced with uranium and more and more groundwater in Bengal and Bihar has arsenic, we need to be seriously worried. With growing rates of urbanisation, the miserable state of urban water supply and sewage treatment is a matter of grave concern. The recurrent droughts and floods afflicting millions every year must surely bring into question the way we have been managing our water resources. No wonder, then, conflicts over water are now commonplace, not merely among states, but across town and country, farm and factory and among those living within the same village or urban locality.

During my presentation to the Prime Minister's Office in 2017, summarising the main recommendations of the committee I chaired on Restructuring the Central Water Commission and Central Ground Water Board, I described the present conjuncture as "India's 1991 moment in water". These are reforms that needed to have happened decades ago. Of course, water reforms would not follow the 1991 template, as they must necessarily and carefully factor in the specifics of water. But the urgency of a paradigm shift is indisputable. I first proposed this in 2012 in the chapter on water in the 12th Plan document. But in the seven years since, the country has seen only faltering progress in this direction.

Over the next four months, every fortnight, this column will address multiple dimensions of India's water crisis and suggest the reforms we need to initiate. I will argue that India appears a water-short country primarily because we have not transitioned to a new way of managing the fairly abundant water we have. What is not often recognised is that water is India's most important, yet unreformed, infrastructure sector. Without far-reaching reforms, we cannot possibly hope to sustain the rates of growth the economy aspires for.

The reform package must begin with farming. According to the Food and Agricultural Organization's latest AQUASTAT database, agriculture takes up 90 per cent of India's water use. Without reducing this figure dramatically, we can never release enough water for rural and urban domestic needs, as also industry. Even more importantly, without water reform, we cannot address the snowballing agrarian crisis, with 300,000 farmers committing suicide over the past three decades, something without precedent in Indian history.

Irrigation in India is monopolised by a few water-intensive crops like wheat, rice and sugarcane, even in chronically drought-prone states like Maharashtra and Karnataka. Occupying just 4 per cent of cropped area, sugarcane uses up 65 per cent of irrigation water in Maharashtra. In Karnataka, rice and sugarcane, 20 per cent of cropped area, consume 70 per cent of irrigation water. Even a small reduction in the area under these crops, in a region-specific manner, that does not endanger food security, would go a long way in addressing India's water problem.

Farmers, even in water-scarce regions, continue to grow water-intensive crops mainly because these are the only crops with an assured market, either thanks to government procurement or private purchase. An integral element of the Green Revolution of the late 20th century was public procurement of wheat and rice. This is what enabled us to move towards food self-sufficiency.

But the wheels had already begun to come off the Green Revolution by the turn of the century. Highly water-consuming chemical agriculture, which is high-cost and high-risk, has become increasingly unviable for a majority of India's farmers, whose net incomes have started to turn negative, due to both diminishing returns and rising input costs. Any player in the stock market knows that to counter market volatility, we have to diversify our stock portfolio. Farming faces an additional risk: Unpredictability of the weather. For such a risky enterprise to adopt monoculture is patently suicidal. But that is what policy has implicitly driven farmers to do. We have failed to incentivise crop diversification.

For this to happen, public procurement must include more location-specific, less water-consuming crops, such as traditional millets and pulses. These include what the government now correctly calls "nutri-cereals", such as *bajra*, *ragi*, *jowar*, *navane* and Chhattisgarh's *kodon-kutki*, an effective anti-diabetic remedy. According to the Indian Council of Medical Research, foxtail millet has 81 per cent more protein than rice. Millets have higher fibre and iron content, and a low Glycemic Index. Millets also are climate-resilient crops suited for the drylands of India. If we were to introduce them into the diets of the Integrated Child Development Services and Mid-day Meal Programmes, globally the largest nutrition initiatives for children ever, we would create a large and steady demand for these crops, while also generating multiple win-wins: Greater water security, better soil health, higher, more stable net incomes for farmers and robust consumer health.

For the farm crisis is also a health emergency. Diabetics increased in every Indian state between 1990 and 2016, even among the poor, rising from 26 million in 1990 to 65 million in 2016. This number is projected to double by 2030. A key contributor: Displacement of whole foods in our diets by energy dense and nutrient-poor, ultra-processed food products. At the same time, excessive fertilisers and pesticides are being transported into our body *via* food and water. Recent research shows that they cause cancers such as leukemia and lymphoma, brain tumors, Wilm's tumors, Ewing's sarcoma and germ cell tumors. Cancer is the second most common disease in India, responsible for about 3 million deaths every year.

A move towards a more diversified cropping pattern must, therefore, also be accompanied by a rigorous search for alternatives to chemical agriculture, with a thrust towards water-saving technologies, especially for the water-intensive crops. This is already happening, most notably in Andhra Pradesh, which has resolved to shift its entire cultivable area of 80 lakh hectares to natural farming by 2027. A move that has been strongly commended by the Niti Aayog.

Building a more resilient, diverse and less water-consuming farm system is the first and single most important reform India must undertake in its water sector. It is also the most quickly implementable change, with multiple collateral win-wins.

The writer is Distinguished Professor, Shiv Nadar University and former Member, Planning Commission, Government of India. Every fortnight, he will outline multiple dimensions of long overdue reforms in the water sector

Some medium-term fiscal arithmetic

RATHIN ROY

There is little doubt that the central government is constrained for fiscal space and it is, therefore, important to think about solutions going forward. I offer a medium-term macro-fiscal exercise that makes clear the analytical choices and trade-offs that government faces. I hope that this will demonstrate the value of a medium-term approach to budgeting, and the pressing need to shift to an operational medium-term fiscal framework (MTFF), which is how budgeting is now done in most major economies.

The baseline scenario

The baseline is built on the premise that all fiscal numbers, as well as GDP growth, over the next three years will be exactly the same as the average of the preceding three years. The medium-term baseline scenario is the foundational building block of a MTFF.

If the baseline continues into the future, then net tax and non-tax revenues to the centre will be 9 per cent of GDP. Add to this a further 0.55 per cent from non-debt capital receipts. Thus total revenue receipts average 9.55 per cent.

Baseline committed expenditures (GST compensation, establishment expenditure, interest payments and finance commission and other statutory grants) account for 6.87 per cent of GDP. Subtracting this from total receipts, we are left with a surplus of about 2.7 per cent of GDP.

If the 3 per cent target fiscal deficit/GDP is to be achieved, this allows 5.7 per cent of GDP for all other expenditures. Expenditure on "core of the core", and on central sector schemes amount to 4.5 per cent of GDP. That leaves just 1.2 per cent of GDP for all other expenditures, including important centrally sponsored schemes such as the national health and education missions, mid-day meals, Integrated Child Development Services , smart cities etc.

In these circumstances, it is understandable that the central government is constrained on account of inadequate fiscal space. As a result, underfunding of schemes is ubiquitous, expenditure liabilities are transferred to public sector entities, and it is difficult to enhance investments in important areas where the central government has sole responsibility like defence, internal security and railways.

The centre's constrained fiscal space in this baseline scenario could relax if (a) the Fifteenth Finance Commission recommends a historically unprecedented increase in the centre's share of the divisible pool, (b) the centre drastically cuts its outlays on schemes. The first is not within the control of the central government. The second involves drastic austerity measures which would have a negative impact on growth and development. The low hanging fruit have already been harvested, and even with drastic cuts in subsidies and winding up loss making public enterprises, it is not going to be the case that the fiscal target is met without expenditure austerity in areas that impact national interest. It is also not prudent to treat disinvestment receipts as a source of medium-term financing.

The baseline scenario therefore reveals that if business as usual continues, then it is impractical to imagine that the fiscal deficit could be reduced to 3 per cent of GDP, without forcing government to undertake unacceptable austerity measures, disinvest only to fill a fiscal gap, or resort to off-budget fiscal procedures which only postpone the problem, not resolve it.

Moving forward from the baseline

In a medium-term fiscal framework, it is possible to budget scenarios that are better (or worse) than the baseline. I consider three scenarios:

1. Nominal GDP growth increases to 13 per cent. The revenue-GDP ratio remains constant at 9.5 per cent. But committed expenditure only increases at the old GDP growth rate— that is, 11.5 per cent. Thus, it falls from 6.87 to 6.1 per cent of GDP. This gives 0.77 extra fiscal space which can be used, without any improvement in revenue performance, to significantly enhance expenditure outlays.

2. The revenue-GDP ratio (assuming no change in the vertical devolution by the Fifteenth Finance Commission) increases, but the GDP growth rate is the same. Presently, transfers to states account for 31 per cent of total revenue receipts. Therefore, if the revenue-GDP ratio increases by 0.5 per cent, the centre's revenues will increase by 0.35. This is not sufficient to achieve the 3 per cent fiscal deficit target. But, in the medium term, it is unrealistic to expect sustainable increases in the ratio beyond 0.5 per cent, without significantly increasing the tax burden.

3. The revenue-GDP ratio and the GDP growth rate both increase. The government will then of course have sufficient fiscal space to achieve its fiscal consolidation and development objectives.

In the baseline scenario, it is difficult to achieve the fiscal consolidation target and maintain spending on policy priorities without resorting to imprudent or impractical measures. The baseline implies either a smaller (as share of GDP) central government or quantum increases in the productivity of public spending. Increasing the nominal growth rate (including through aligning fiscal and monetary policy objectives) secures significant fiscal space. Increases in the revenue-GDP ratio secures limited fiscal space unless the tax burden and/or disinvestment receipts increase significantly. If a separate exercise pinpoints the medium-term requirements for financing the centre's core and sole responsibilities (internal security, defence, and railways), then there is further clarity on the space for other development activities.

This is the kernel of a medium-term fiscal exercise that would necessarily be more complex if operationalised as a MTFF. I would hope that the benefits of doing so to secure better fiscal policy coherence are apparent.

The writer is director, National Institute of Public Finance and Policy. Views are personal

Ranjit Singh's eccentric empire

BOOK REVIEW

SAI MANISH

Sarbpreet Singh's book on Maharaja Ranjit Singh could well have been named "The Dancing Girl of Lahore, From Waterloo to Lahore" or "A Woman of Substance". These are chapters in Mr Singh's book that chronicle unusual and unheard stories from the court of Ranjit Singh. Instead, the book bears the title of its first chapter — *The Camel Merchant of Philadelphia* — which also happens to be one of the most eccentric and outlandish stories in the book. The title of book and the chapter describes the adventures of an American named Josiah Harlan and his tryst with the first Sikh king.

It has comical details of how a heart broken Quaker (Harlan) sets sails to Calcutta (now Kolkata) to start a new life after his lady love deserts him for another man. Lured by the handsome salaries paid to European officers in Punjab, Harlan on his quest for the good life, lands in Lahore and gains the trust of Ranjit Singh by attending to his hypochondria. Sent on a mission by the king, the self-taught doctor and lobbyist successfully stages a coup among the Afghans that allows Ranjit Singh to continue his occupation of Peshawar. Rewarded with a governorship for his efforts, only to be expelled from the empire next year by Ranjit Singh in a fit of rage, Harlan embarks on a mission to seek revenge.

Harlan finds his way back to Kabul where he convinces the Emir to wage jihad against the Sikhs. On Harlan's advice, Emir Dost Mohammad galvanises his army to breach the Khyber Pass and take Peshawar from the Sikhs — a battle the Afghans would lose and retreat back to Kabul. During his Afghan expeditions, Harlan stumbles on a tribe whose chief makes him a prince. Harlan's dream of being a sovereign is smashed with the start of the Anglo-Afghan War the very next year. The British supported by Ranjit Singh's army overthrow Dost Mohammad and install their proxy. Harlan is forced to return to America where he lobbies to supply camels to the US Army by leveraging his Indian connections. He fails at that too.

A few years later in 1861, he answers Abraham Lincoln's call to raise an army against the Confederate rebellion. But Harlan's military experience in the Sikh Empire would come to naught. As Mr Singh notes in his book, "Used to commanding soldiers in Punjab and Afghanistan where being a white 'sahib' conferred upon one a fair amount of authority, Harlan must have come across abrasive, authoritarian and condescending to his regiment. His men mutinied and levelled several charges against him."

Harlan died in San Francisco in 1871. Mr Singh writes his obituary as follows; "Thus ended the career of General Josiah Harlan, Adventurer, Surgeon, Governor of Gujrat, Prince of Ghor, Mukarrib-ul-Khakan, Uness ud-Dowlah Bahadur of Shah Shuja and Sir-I-Lushker and Musahib of Amir Dost Mohammad, putative camel merchant and Colonel of Pensylvania 11th. Josiah Harlan had rubbed shoulders with giants who are remembered to this day, but he himself has been mostly forgotten."

Harlan's story is the highlight of the book, but Mr Singh's book is replete with unusual tales from the empire of Ranjit Singh. Mr Singh's account is largely told through his military exploits with numerous references to Sikh military strategy. The book, though not always gripping, manages to give the reader a vivid picture of how the different clans of horse riding Sikhs consolidated themselves as a kingdom under Ranjit Singh. Mr Singh depicts Ranjit Singh's Punjab as a land of plenty where debauchery coexisted with religiosity; diplomacy complemented territorial aggression and cosmopolitans thrived alongside barbarians. The Sikh empire and Ranjit Singh's own life are presented as pinnacles of secularism and multi-culturalism which none of the other Indian kingdoms were known for. From a plethora of European officers in Ranjit Singh's service, the king's own fascination for a Muslim courtesan (the dancing girl of Lahore named Moran) over his other wives, the role of the Gorkhas of Nepal in the Sikh army — the book is an academic account of all these and lot more.

Shoddy copy editing and mixed-up chronology, however, mar the book. For instance, the book mentions WL McGregor, the doctor sent by the British to treat Ranjit Singh, visiting Lahore in 1936, a hundred years after the event. But such minor irritants don't detract from Singh's research and penchant for weaving a narrative of Sikh militarism while chronicling the times of Ranjit Singh. The book might not impress those well versed with Khushwant Singh's *A History of Sikhs* or for that matter William Dalrymple's works. But Mr Singh has written a readable book for those who wish to understand in 200 pages how the Sikh empire germinated, blossomed and disappeared within 50 years.

THE CAMEL MERCHANT OF PHILADELPHIA
Sarbpreet Singh
Tranquebar, Rs 699, 242 pages