A Kafkaesque move

The CBSE's latest proposal to regulate admission to certain classes is impractical

OUT OF THE BLUE

ANJULI BHARGAVA

Imagine this: The Reserve Bank of India (RBI) decides that customers who want to change banks for whatever reason have to seek clearance from them. A customer who wants to move from one bank to the other has to provide all supporting documents and convince an official sitting behind his desk in the RBI that he deserves to change banks. If the official is convinced, he clears the file. As it happens in India quite often, he may charge a small fee under the table to allow the customer to do this.

This, in effect, appears to be what the Central Board of Secondary Education (CBSE) is proposing for admissions in Grade 9 and Grade 11 in its affiliated schools. The board is proposing that parents who want to change schools at these stages need to explain why. When I read about this, I was surprised since I thought CBSE already had plenty on its plate, a lot of which it is unable to do with any finesse or expertise. Why would it want to get into routine matters such as school admissions?

On further enquiry, I learnt that the move is aimed at checking one primary malpractice. Students from non-affiliated schools seek admissions in affiliated ones in these classes to be able to take and clear the CBSE board examinations held in Class 10 and 12. The students have till Class 8 not followed the CBSE prescribed curriculum or pedagogy and this affects the results of affiliated schools. To check this, CBSE intends to regulate admissions.

The CBSE bizarrely wants parents to prove — through the results of both the admitting and leaving schools and the quality of teachers working in them — that the move is justified. So the burden of proof that I "deserve" what I am asking for falls on me. It has further stipulated that the school that is losing the student must cooperate with the parents.

In addition, the controller of examinations for CBSE made a strange statement. He said, "There have been cases when students unnecessarily try to change the schools in class 9 and 11, citing that the other school is better."

This, to my mind, amounts to using a sledgehammer where a pair of pliers could have done the job. In CBSE's books, the solution to every problem appears to be more control, more regulation and more centralisation of power.

Why not do a few random checks on affiliated schools to ensure that the students enrolled for taking the board examinations were on the school roster all along and have not suddenly sprung up from nowhere? Penalise offenders and that will check the malpractice.

Moreover, the controller's statement strikes me as rather senseless. What can be a more valid reason to change a school than the fact that other school is better? What is "unnecessary" about this? If the school admission is being sought in is demonstrably better than the one the student is being withdrawn from, I see that as the best possible reason for withdrawal.

Not only is the proposal absurd, it's impractical. How and why should I prove to some indifferent CBSE official where I educate my child, that this is where I deserve and desire to be. Why should some random officer decide where I can or cannot educate my child? Am I not free to change my mind on this whenever I like? This will simply create one more avenue for the CBSE official to earn some money under the table as happens with recognition and other such requirements that need to be met from time to time.

Further, why would a school that is losing a student cooperate to prove that it's actually performing worse than its rival that will admit the withdrawn student? Have they got nothing better to do?

What's even more worrying is this. Almost all the school principals and board members I spoke to uniformly criticised the move and gave me a host of reasons why it made no sense. Yet none of them want to go on record or be quoted directly as they fear that their schools will attract the ire of the CBSE. They argue that any form of dissent is met with the board's wrath. This is a more fundamental problem and doesn't bode well for the future. A "my way or the highway" approach ensures we lose out on the richness a variety of views can bring in.

A confident regime need not and should not resort to such strong-arm tactics.

Carmakers drive market disruption for growth

Eye subscription, leasing and shared mobility solutions to offset dwindling dealership sales

T E NARASIMHAN

Carmakers, struggling with one of the longest slowdowns in decades, are driving an alternative revenue stream to counter falling sales from dealerships: Subscription, leasing and shared mobility solutions.

In 2018, Maruti Suzuki, the country's largest car manufacturer, reported 71 per cent growth in leasing, and Hyundai's subscription business grew nearly six times since it launched in March 2019. Mahindra, Toyota and Skoda have also announced plans for a subscription-based ownership models. Japanese major Nissan is expected to launch Nissan Intelligent Ownership for its new model Kicks in the next few weeks. Volkswagen India's first lot of Polo cars, of 200 vehicles, were completely subscribed within 48 hours of the announcement July 8, 2019.

TAKE TWO
ANALYSIS BEHIND THE HEADLINES

These new business models have been driven by the changing dynamics of transportation and vehicle ownership. Unlike the car manufacturers, aggregators such as Ola and Uber and self-drive rental companies such as Zoomcar, Revv and others have reported good growth on the back of shared mobility, subscriptions and rentals and similar mobility solutions. Zoomcar, for instance, plans to expand its fleet size to around 1,00,000 vehicles from 7,000 vehicles in three years. Revv operates above 3,300 cars and wants to expand to 10,000-plus over the year. Hyundai and Kia Motors jointly have invested $300 million in Ola, and Hyundai has invested around ₹100 crore in Revv separately.

"We believe that owing to disruption in the industry, new business models are becoming more customer-centric. Products such as subscription are picking up strongly as an alternative of ownership model," says Vikas Jain, Hyundai's national head for sales.

The subscription model offers a degree of ownership flexibility that is not available through the conventional dealership route. It offers consumers one way of driving a brand new car of choice without actually having to go through the hassles of ownership, including down-payments and road tax. After a lock-in period, the consumer has the option of using it for as long as she wants, paying a monthly fee with an anytime opt-out clause. If she wants to own the car, she can buy it at a pre-determined settlement charge (used cars are put into the shared mobility or second-hand markets).

The business is still small: Subscription accounts for one per cent of industry volume today, but is expected to rise to 10 per cent in five years. Hyundai's subscription business is already accounting for 200 vehicles a month and expects to cross 250 in the coming months.

In May 2019, the Korean auto-major also forayed into the leasing business, where Maruti has been a frontrunner. Maruti leased over 6,700 units in 2018-19, though this is still one per cent of the top-line. "As the market matures, we expect leasing to become a substantial contributor in overall vehicle demand. It is convenient for companies who wish to offer vehicles to their employees and has tax benefits," says Shashank Srivastava, Executive Director, Marketing & Sales, Maruti Suzuki India.

HIGH SPEED IN FIRST GEAR

- In 2018, Maruti Suzuki reported a 71% jump in its car-leasing business
- Hyundai's subscription business grew nearly six times since its March 2019 launch
- Nissan to launch Nissan Intelligent Ownership for new model Kicks in the next few weeks.
- Volkswagen India's first lot of 200 Polo cars was completely subscribed within 48 hours of the announcement on July 8
- Hyundai and Kia Motors have jointly invested $300 million in Ola
- Hyundai has invested around ₹100 crore in self-driving car-rental company Revv

Shared mobility is the other high-potential business for car makers. It has grown from $900 million in 2016 to $1.5 billion in 2018 and expects to increase to $2 billion by 2020. There are currently 15,000 cars under the car-sharing ecosystem, and this number is to rise to 50,000 by 2020, and 150,000 by 2022, according to Hyundai Motor.

Hyundai's partnership will offer Ola drivers various financial services, including lease and instalment payments, vehicle maintenance and repair services. The trio of Hyundai, Kia and Ola have also agreed to coordinate efforts to develop cars and specifications that reflect the needs of the ride-hailing market.

What's driving this new business is that that ownership as a method for accessing an asset is losing grounds across asset types (cars, homes, furniture). Urban youth today demand solutions that are high on flexibility and pay-as-you-go. So carmakers know that this new sales channel will become meaningful soon enough. As Anupam Jain and Karan Agarwal, Co-Founders of Revv, point out, "These solutions are inducting cars into the daily lifestyle of a very large population of people who otherwise would have waited for another one or two decades to accumulate sufficient wealth to buy their first car."

How does the ownership work out compared with lifetime ownership? It is hard to compare. For example, if a customer wants to drive a Hyundai Grand i10 for 48 months, the monthly expenses under subscription is ₹15,650 per month against ₹14,835 a month under a car loan. But subscriptions involve no upfront expense, whereas buyers need to pay ₹28,291 upfront in the case of a car loan. Insurance and routine maintenance, which comes to about ₹3,790 a month, is also the company's responsibility.

The biggest advantage is flexibility — the customer can use the car for any period of time and return it whenever she wants. Another benefit is convenience — repairs and so on are also the company's responsibility. If the subscription is for a long period (36-48 months), the cost is roughly similar to buying a car, with the added advantages of flexibility and convenience, say Revv founders.

The consumer benefits in the leasing business are less clear-cut. Vinay Raghunath, partner, Auto Sector Performance Improvement, EY India, says in terms of leasing, most consumers choose to buy through their employers, which gives the company the higher benefit of interest write-off and depreciation, the only benefit to the non-corporate consumer is zero down-payment. But low awareness remains a challenge, which suggests that car companies need to reorient their marketing strategies too.

CHINESE WHISPERS

RJD's gen-next crisis

The prolonged absence of Tej Pratap Yadav and Tejashwi Yadav — sons of jailed Rashtriya Janata Dal (RJD) President Lalu Prasad — from their home turf of Bihar could not have come at a worse time. The party's recruitment drive, launched on August 10 in Patna, was a no-show with the two brothers or their sister Misa Bharti not turning up. Not only was the response to the openings in the RJD tepid, the party was unable to fill half the 200 chairs at the venue. While Tej Pratap was in Jharkhand's Deoghar, observing *Saavan* festivities before his return to Patna on Sunday, Tejashwi was said to be in Delhi in connection with some court cases he and his father were facing. Party leaders were seen murmuring their displeasure at the conduct of the second generation of politicians in the Yadav family.

Focus on small industry woes

The Laghu Udyog Bharati, which represents the interests of small-scale industries and is an affiliate of the Rashtriya Swayamsevak Sangh (RSS), has completed 25 years. Founded in April 1994, the outfit will have its silver jubilee celebrations in Nagpur for three days starting August 16. Its chief, Jitendra Gupta, said on Monday an estimated 2,500 small businesspersons from 450 districts in the country would attend the celebrations, to be addressed by RSS chief Mohan Bhagwat; Union ministers Nitin Gadkari, Nirmala Sitharaman, Piyush Goyal, and Santosh Gangwar; and Maharashtra Chief Minister Devendra Fadnavis. Gupta was restrained in criticising the government as he announced the programme, but said it was of concern that current policies had encouraged trade and ignored the manufacturing sector, particularly small-scale and micro industries, after the implementation of the goods and services tax. The outfit will put forward the concerns of small and micro enterprises at the three-day session.

From hope to reality

Since assuming power last December, the Kamal Nath-led government in Madhya Pradesh has repeatedly accused the Central government of not releasing its share of funds under various central schemes. These "pending" funds include a major amount under the Mahatma Gandhi National Rural Employment Guarantee Scheme, or MGNREGS. At the beginning of the current fiscal year, the state was to receive funds amounting to ₹700 crore under the MGNREGS from the Centre. The state government has maintained that the pendency is hurting the rural population of the state. Minister of Panchayat and Rural Development Kamleshwar Patel is planning his second visit to New Delhi to make another bid for the release of this money. During his last visit, he managed to get some assurance; he hopes the next one will yield something more tangible.

ON THE JOB

Hope survives in urban India

MAHESH VYAS

The weekly unemployment rate rose for the fourth consecutive week during the week ended August 11, 2019. As a result, the unemployment rate shot up from 7.2 per cent during the week ended July 14 to 8.9 per cent in the latest week ended August 11.

This is among the highest unemployment rate in the last three years. In the first week of June this year, the unemployment rate had touched 9 per cent. This was the highest unemployment rate in three years. The most recent week of August comes close to this peak.

After a rapid fall from the early-June peak, the unemployment rate has been rising steadily. In the last four weeks, the unemployment rate increased by a substantial 168 basis points. Given that the unemployment rate has been rising steadily over the past 24 months, such an increase is not entirely unexpected. Yet, the 168 basis point increase in the past four weeks is high given that the average monthly increase in the unemployment rate since July 2017 has been just 14 basis points. During the last four weeks the increase has been an average 42 basis points per week.

The relatively sharper increase in the past four months could be partly a seasonal phenomenon. During a similar period a year ago — between the week ended July 15 and August 12, 2018, the unemployment rate had increased by 154 basis points. A year earlier in 2017, the increase was 108 basis points.

Apparently, even after discounting notionally for seasonality, the recent weekly trend suggests that the unemployment rate continues its march northwards rather aggressively.

This march of unemployment is stronger in urban India.

The unemployment rate in urban India was 10.3 per cent in the week ended August 11. The urban unemployment rate has been rising more or less steadily since the middle of June when it averaged 7.9 per cent. But, the increase during the most recent quarter to a record 10.3 per cent was steep from 9.4 per cent in the preceding week.

The 30-day moving average unemployment rate for urban India was 9.2 per cent. Weekly estimates can be a little noisy. In comparison, a 30-day moving average is more stable. It has all the characteristics of a monthly estimate and it has the advantage of often being a lot more recent than the monthly estimates.

The urban unemployment rate in July 2019 was 8.6 per cent. By August 11, the 30-day moving average unemployment rate had moved up to 9.2 per cent. This is a rather sharp increase. If August 2019 ends with such an unemployment rate it would the highest since September 2016 when it was 9.8 per cent.

The sharp increase in the unemployment rate in urban India is the result of an increase in the labour participation rate without a corresponding increase in employment opportunities.

The labour participation rate in urban India had dropped from 41 per cent in June to 40.2 per cent in July. In August, this seems to be improving. Labour participation rate improved to 40.6 per cent in the first week and then to 40.9 per cent in the second week. The 30-day moving average on August 11 was 40.5 per cent.

But, this increased labour participation was not greeted with greater availability of jobs. As a result, the employment rate fell and the unemployment rate rose.

The urban employment rate in July was 36.77 per cent. During the first week of August this dropped to 36.74 per cent and in the second week it dropped further to 36.68 per cent. The 30-day moving average was 36.74 per cent.

Urban India offers better quality jobs than rural India can. It is therefore imperative that the urban employment rate increases. The recent increase in urban labour participation rate is encouraging but, it is important that as labour throngs to the urban labour markets it is greeted with jobs rather than the disappointment of a rising unemployment rate. This is particularly important because labour throngs the urban labour markets with great expectations in spite of the adverse conditions.

The RBI's Consumer Confidence Survey, which is based on 5,351 respondents from 13 major cities shows that in July 2019, 32.5 per cent of the respondents believed that their employment level had improved compared to a year ago. But, a higher 45.6 per cent believed that their employment level had worsened compared to a year ago. On a net basis, 13 per cent believed that their employment conditions had worsened.

This negative experience on the urban jobs front in July was higher than it has been in the past. Yet, urban India continues to remain hopeful of the jobs condition improving over the coming year. 57 per cent of the respondents believed that the jobs situation would improve in a year and only 26 per cent believed that it would worsen.

Similar hopes in the past have been systematically belied by reality. But, hope continues to survive in a majority of respondents. They should not feel let down.

The author is the MD & CEO of CMIE

LETTERS

Questions for Rahul

This refers to the Chinese Whispers item "Spirited speech by Rahul" (August 12). The delayed arrival of the former Congress president Rahul Gandhi (*pictured*) at a meeting held recently in New Delhi to discuss the party's position on scrapping the provisions of Article 370 obviously sets some bad precedents. Was he not really serious even on this highly emotive issue which had unexpectedly created some fissures within the party with some leaders supporting the decision of the government?

It's a different matter that he later made amends by giving a spirited speech and also tried to paint a united picture for his party by asking "how many more votes the Congress could hope to get if it supported the scrapping of Article 370" which elicited "zero" as the answer. Interestingly, Jyotiraditya Scindia also thought it was wise to apologise to Gandhi (for supporting the 370 move earlier) thereafter. However, the moot question is: How many additional seats can Congress earn by vehemently opposing the latest decision on Jammu and Kashmir tooth and nail both inside and outside the Parliament?

S Kumar New Delhi

Minimise the damage

Words cannot adequately describe the suffering caused by the deluge in many parts of the country. Floods were once occasional occurrences but they have become more regular in recent years. While rain is a necessity and a boon, it becomes a bane when it causes devastation. Visuals of vast, immeasurable tracts of land inundated with floodwater speak of the scale of the damage. The saddest thing is that the floods have led to loss of life. The stories of the victims are too harrowing. Of course, it is not within man's power to prevent the occurrence of natural disasters. But the thing is they are made worse by human factors. By identifying and tackling these factors that aggravate the impact of flood, we can manage them and prevent their intensity.

Remedial action must be taken on unscientific land use, quarrying and mining, deforestation, unsustainable agricultural practices and failure to maintain water bodies and wet lands to hold maximum water. By taking proactive steps, we can minimise flood fury. The correlation between climate change and extreme weather events like floods needs to be studied and understood to take both short-term and long-term corrective measures. It is worth pointing out that in case of a natural disaster like a deluge, the poor are especially vulnerable. Many live precariously in thatched, mud huts in flood-prone areas. Farmers bear the brunt of the floods as their standing crops are damaged. The loss of cattle puts financial strain on the people in flood-affected areas. Once the waters recede, we will see the trail of destruction the deluge left behind it.

G David Milton Maruthancode

Cheer amid gloom?

This refers to your front page reports "SoftBank eyes stake in Airtel" and "Anil Agarwal submits EoI" for Jet Airways (both August 12). These reports indicate a growing interest in making investments in Indian businesses. Notwithstanding clearly different reasons in the two cases, it is heartening to see a sort of revival of interest on the investment front, which is bound to give a big push to growth. Indian economy hasn't seen much investment for quite some time.

Admittedly, both Airtel and Jet Airways are services sector entities and our greater need is for investment in manufacturing, still such large service enterprises inevitably generate demand for manufacturers of equipment required by them and the positive sentiment about investment in India would go a long way in influencing more people to seriously look at India.

Here's hoping for a decent growth revival in the country.

Krishan Kalra Gurugram

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HAMBONE

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Deleveraging RIL

Ambani has done well to reduce indebtedness

Reliance Industries Ltd (RIL) has been in the spotlight in recent times due to its steadily rising indebtedness. Its multi-billion-dollar investment in mobile telephony is yet to deliver adequate incremental revenues and profits to justify the amount of investment in the venture. This has resulted in a sharp increase in the company's leverage ratio while its free cash flows have remained negative for the past few years, given that debt has gone up dramatically to $65 billion in FY19 from $19 billion in FY15 due to higher crude oil payables and financing of JioPhone and the East West Pipeline. In this backdrop, foreign brokerage Credit Suisse downgraded RIL, cutting its target price by a quarter just a week ago.

The concerns were justified. RIL reported a net debt-to-equity ratio of around 0.58x in FY19, one of the highest in recent years, while the interest coverage ratio declined to 5.6x in the last financial year, the lowest in at least 15 years. In its report, Credit Suisse said RIL's free cash flows had been negative since FY15 and were likely to remain so till FY21, given the margin pressure in its bread and butter fuel refining and petrochemicals business In the same period, its interest payment has grown from $1.2 billion to around $4 billion and is equivalent to nearly 44 per cent of its FY19 earnings before interest and taxes.

Thus, Monday's decision to rope in Saudi Aramco as a 20 per cent equity partner in the refining and petchem business would come as music to investors, who have been worried about the company's investment in the Jio venture being funded through incremental borrowings. The deal values RIL's refining and petchem business at an enterprise value of around $75 billion. This will bring a one-time cash inflow of around $15 billion for RIL. The company also plans to raise another $1 billion by selling 49 per cent in its fuel-retailing business to BP. Besides access to long-term crude oil supply from the world's largest oil producer, RIL can use the sale proceeds to fund expansion or pare down its debt. It recently divested around $16.5 billion of its tower and fibre assets into two separate infrastructure investment trusts, where it plans to bring in outside investors. Of its subsidiaries, it plans to monetise Jio and Reliance Retail and unlock value in real estate and financial investments towards becoming a zero net debt company by March 2021.

Refining and petchem bring about 79 per cent of its consolidated earnings before interest and taxes (EBIT), while Jio accounts for 13.3 per cent of the company's EBIT in the last financial year. However, both businesses have a similar share in RIL's assets. The next challenge for RIL would be to improve the return on capital employed (RoCE) at Jio, which is at 3 per cent, after accounting for additional capex. This can happen only by raising mobile tariffs or monetising its user base. Speaking at the annual general meeting on Monday, RIL Chairman Mukesh Ambani said he did not have any doubt that the company would have one of the strongest balance sheets in the world. His shareholders would hope he walked the talk.

Congress' split personality

Sonia Gandhi's reappointment will harm the party

The appointment of Sonia Gandhi as interim president of the Congress, well over two months after her son stepped down from the post, points to the stubborn inability of its governing council, the Congress Working Committee (CWC), to face an inconvenient truth. Prime Minister Narendra Modi has helpfully, if derisively, pointed out any number of times these past few years that the party's *raison d'etre* has been reduced to protecting the interests of the Gandhi family above all else. Over the weekend, the CWC reinforced Mr Modi's contention by ignoring the demands of the party's younger members and some shrewd older members for a radical departure in the administrative apparatus. After all, this dynastic policy forced on the only significant national party a president who, like his father, was reluctant to take on the mantle. As two consecutive Lok Sabha results have shown, he was also manifestly unfit to provide the leadership needed to position the party as a cogent national alternative to the Bharatiya Janata Party juggernaut.

The serial victories against the BJP in state elections late last year only masked the party's innate weakness: It could exploit anti-incumbent sentiments at the local level but lacked a coherent counter-ideology to the BJP's majoritarian nationalism. Rahul Gandhi himself has had the nous to understand this, resigning immediately after the disastrous Lok Sabha results. More to the point, he said neither his mother nor his sister (who has never stood for an election) should hold the post, and signalled that the party veterans accept accountability for the election debacle. But the old guard, most of whom appear to be singularly unelectable themselves, appear unable to look beyond the Gandhi family.

Though it is true that Ms Gandhi is expected to preside only until elections are held, the party's internal politics suggests that the umbilical cord with the Gandhi family is far from cut. Factions are already coalescing around Ms Gandhi and her daughter, Priyanka, and the initial shortlisted persons to fill the president's post were Gandhi loyalists Mallikarjun Kharge (77) and Mukul Wasnik (59), scarcely choices to inspire confidence. Many Congress stalwarts such as Amarinder Singh, Shashi Tharoor, Jyotiraditya Scindia, Milind Deora, and Manish Tewari have been pushing for a younger president. Ms Gandhi's president-ship, however seemingly temporary, is widely seen as a means of avoiding a split. This is the same technique the old guard deployed two decades ago when the party was adrift under the leadership of Sitaram Kesri. Then, any murmurs of discontent had been suppressed. Now, a younger set of leaders has emerged, and they are unlikely to tolerate dynastic entitlement without accountability.

The fissures between these confident and (relatively) Young Turks and the old guard are much more pronounced, and a split along these lines should not be ruled out. In the long run, this may be the best thing that happens to the Congress. With the Left having reduced itself to an irrelevance, the Congress remains the only party with the wherewithal to offer the robust national opposition that is critical to the healthy functioning of a democracy. Relying on a dynastic septuagenarian to force dynamic change in this 134-year-old party with its distinguished record is hardly the way to go about it.

ILLUSTRATION BY AJAY MOHANTY

A bond bubble?

We need to worry about a bubble building in the bond market

AKASH PRAKASH

Something odd is happening in the bond markets globally. Just look at some of these data points. Unprecedented on multiple dimensions. Never seen anything like these.

1. $15 trillion worth of bonds now trade at negative yields globally.
2. 43 per cent of bonds outside the US are negative yielding and in Germany, the entire government bond yield curve is in negative territory (up to 30-year maturity).
3. Multiple junk bond issuers in Europe are effectively getting paid to borrow money.
4. Despite nearly destroying the world economy 10 years ago, sub-prime, zero down payment mortgages are making a comeback.
5. 75 per cent of commercial real estate mortgages are interest only, the highest percentage since 2006.
6. The size of the US corporate bond market rated BBB (just above junk) has never been bigger.
7. We have matched the all-time low yield for 30-year bonds in the US, andcurrently, we have negative bond yields in Japan, Germany, France and Switzerland. The yield curve has inverted across most maturities.
8. In 2008, when the global financial system was on the verge of collapse, the G7-government bond yields were at 3 per cent. Today, these same yields are below 1 per cent.
9. The 100-year Austrian bond price chart has gone parabolic, rising from 110 to 185 in the past 12 months; from 150 to 185 in the past two weeks. The price chart looks very similar to many of the tech stalwarts in their heydays.

There are two possible explanations for this type of exaggerated price movements in the fixed income markets. One, the fixed income markets are signalling a very weak economic outlook on both growth and inflation. The inversion of the yield curve signals that a recession is imminent, and negative real yields imply that the markets expect inflation to continue to weaken. The markets seem to be implying a scenario of very weak economic growth and the rising risks of deflation. The current trade wars and weakening corporate confidence globally could take us to a global recession, not an impossible scenario, but even then price moves seem exaggerated.

Bubbles are common in the equity markets. We have seen many, across geographies and time periods. The biggest arguably being the dot-com bust of March 2000. The bond markets are seen to be far more stable. Investors look towards bonds for stable and secure incomes, not wild swings in prices. We do not typically see much media attention, identifying bond bubbles.

However, recently, we have started to see bubble-like behaviour among bond investors.

In a classic bubble, investors do not care about the intrinsic value of the asset they are purchasing. They are convinced that they can flip the asset purchased in a short period to another buyer (greater fool theory). Today, the greater fool is assumed to be central banks, which will buy assets at any price, once they restart quantitative easing or QE (asset purchase programmes). Alternatively, pension funds and insurance companies may be forced to buy fixed-income assets at almost any price due to regulatory requirements. Surely, someone buying German 15-year bonds at negative yield has no intention to actually hold these bonds till maturity and lock in a guaranteed capital loss. They are buying these bonds to flip them at a higher price to another buyer.

In bubble-like environments, investors also extrapolate current economic conditions far into the future. We have had a 30-year bond bull market. This bull phase was built on the back of gains in fiscal consolidation, productivity and globalisation. Rates and inflation have almost continuously declined over the past 30 years. It is very unlikely these trends can continue from here. Neither rates nor inflation has much scope for further decline. Central banks are telling us, going forward, they want more inflation. Inflation being persistently below target has been cited as one of the reasons for further rate cuts. Similarly, governments are being less fiscally responsible. Spending more is winning votes. There is no Tea Party in the US, and fiscal restraint is losing favour in the UK and the EU, as well.

Globalisation has seemingly stalled. In country after country, trade and immigration barriers are rising. The deflationary shock of India and China liberalising and becoming part of global supply chains is unlikely to be repeated. No other region of the world has the scale to lower goods prices globally.

With these factors reversing, can we really expect inflation to continue declining from here, as bond pricing indicates?

In bubbles, valuations do not really matter. Such is the case today. Bonds are being priced as if growth and inflation will never return. The theory goes that this is due to the mountain of debt already dragging down the global economy. The more debt that is issued, the more these conditions of no growth/inflation get reinforced. The more these conditions are strengthened, the more debt is bought by investors as that seems to be the sensible asset to own in a world of no growth/inflation. It almost seems to be a self-reinforcing loop.

Simple common sense dictates that these yield levels are unrealistic. How can Greece have a lower cost of borrowing than the US treasury? Why will investors chase after the Austrian 100-year bond, when even a 1 per cent rise in yields will deliver a 30 per cent capital loss? The price of money is the most critical signal in the entire economic system. Everything else is priced off the risk-free rate. An artificially low risk-free rate will create pricing distortions across all asset classes. Any normalisation of rates, even real rates going to zero, may cause significant asset price volatility across all asset classes. There will be unintended consequences.

As an aside, without getting into the debate of whether India should issue a foreign currency sovereign bond, surely, if we are ever going to do it, there cannot be a better time. This is an issuers market. You may be able to raise money at silly yields. Take advantage. If a market or asset class is in a bubble-like environment, surely you should use it to your benefit.

The writer is with Amansa Capital. The views are personal

Will Modi magic work, this time in Kashmir?

ET CETERA

SHREEKANT SAMBRANI

Prime Minister Narendra Modi had addressed the nation on November 8, 2016. He did so again on August 8, 2019. The first announced the demonetisation of 86 per cent of currency then in circulation, surely the defining point of Modi 1.0 administration. The latter explained the recently accomplished legislative feat of abrogating Article 370 of the Constitution and splitting of the state of Jammu and Kashmir into two Union Territories of Jammu and Kashmir and Ladakh. This will be equally certainly the defining point of Modi 2.0. These decisions were taken in utmost secrecy, with only a handful being privy to them in advance (in case of the Kashmir, though, they were inklings of something being in the works). The *fait accompli* needed to be explained for wider acceptance, hence these crucial speeches.

So it should not be a surprise that the two orations, separated by 33 months to the day, followed the same template. The narration was basic: Problems presently faced are cited, the root cause is identified, its removal as the primary action justified, numerous benefits arising from this act are described, and at the end, almost in passing, a few inconveniences arising out of the administration of the bitter pill are mentioned, with a request and hope for forbearance since these minor irritants are purely temporary. The delivery is faultless and you are very nearly persuaded to accept what is, in fact, a rather simplistic analysis, disregarding nuances and complications inherent in the ground reality.

Both these decisions were strategically timed. The theory that demonetisation was so scheduled as to deny the oxygen of cash to the opposition in the Uttar Pradesh election at a critical stage has never died down. But that decision undeniably took laymen, experts and politicians alike by surprise, which ensured its effective implementation. Even though abrogation of Article 370 was an integral part of the Bharatiya Janata Party (BJP) agenda right from the inception of its predecessor the BharatiyaJan Sangh, 2019 was the opportune time for its execution, as Ashok Malik persuasively argues ("Why 370 had to go in 2019," *The Economic Times*, August 9, 2019). After 2016, the so-called mainstream politicians in Kashmir and even the Hurriyat had lost all semblance of credibility. And the rest of India experienced "fatigue with ...the familiar cycle of victimhood and violence, blackmail and bluster...Perceptive to this mood, Prime Minister Modi and home minister Amit Shah saw their chance."

Mr Modi's main point that Jammu and Kashmir trailed other states on most development parameters due mainly to Article 370 does not quite bear scrutiny. According to *The Indian Express* (August 8, 2019), the state's performance on metrics such as life expectancy and education for both sexes, households with electricity, clean fuel and safe sources of drinking water, infant mortality and even the poverty ratio was better than the national average. Unemployment and women owning immovable property were the two main indicators where the state had fallen behind the national average. But that little matter of detail could well elude most of Mr Modi's audience, especially outside Jammu and Kashmir.

Popular management lore defines the best salesperson as one who sells a refrigerator to an Eskimo. Mr Modi passed that test with flying colours in case of demonetisation. The people who suffered the most, at least in the short run, by that action — small traders, artisans, farmers, and ordinary householders who conducted virtually all their economic transactions in cash — turned out to be steadfast defenders of the *notebandi*. They showed their overwhelming support in March 2017 when the BJP was voted to power in Uttar Pradesh with an unprecedented majority. They did so again nationwide by returning the BJP to power with increased numbers in the last general election. But Mr Modi could find his task in the Kashmir Valley a bit more daunting. Convincing the local population that the loss of its long-cherished special constitutional status and statehood, along with restrictions on movement and communication howsoever temporary they may be, is all for its good could be likened to trying to persuade people in a live volcano neighbourhood to buy thermal underwear, and not just by his critics alone.

Mr Modi has assiduously sought the enhancement of his and his party's political capital ever since he became part of the establishment in 2001. The 2019 general election increased it vastly. He has staked it all on the Jammu and Kashmir decision. He may well succeed, since fortune favours not only the brave but, at times, the reckless as well.

But the relevant question is how is the political capital to be used. While chronicling Mr Modi's last state election campaign in 2012, I had drawn a parallel between him and Huey Long, the Louisiana governor (later senator) in the Great Depression. Mr Long enjoyed absolute power in the state through his direct appeal to the people. He had emerged as a challenger to President Franklin Roosevelt for the Democratic nomination in 1936. He could well have changed American history had he not been assassinated in 1936. His relentless pursuit of political capital as an end in itself suggests that the thin line between democrats and demagogues is blurred

The writer is an economist

Behind the curve

BOOK REVIEW

A K BHATTACHARYA

As its title suggests, the book, written jointly by three economists, focuses on recovery, reforms and resilience seen in the Indian economy during the first five years of the Narendra Modi government from 2014 to 2019. Given the fact that the book has been published now when India's growth recovery is in serious doubt, reforms have all but disappeared and the economy's resilience is shaky, the claims and assessment in this book on India's economic prospects would naturally become debatable.

The authors, however, make a sincere attempt at recounting the Modi government's various economic policy initiatives in these five years. In doing so, they dwell at length on the government's strategy to manage the macroeconomy, launch initiatives to strengthen agriculture, renew industrial and trade policies, revive the health of the financial sector, tackle black money through demonetisation and unveil the goods and services tax (GST). If you are looking for a book that summarises and places in context the key economic policy initiatives of the Modi government, your search should end here.

However, when it comes to assessing the impact of the government's policies on the economy or forecasting the trajectory of economic growth as a result of those policies the book seems to suffer from a flawed analysis. Consider the following: "One can thus infer on the eve of the General Elections, the Indian economy is far more stable in terms of inflation as well as deficit levels than it was exactly five years ago. In terms of growth, there is a marginal improvement, which is likely to get further consolidated and there is definitely a turnaround in investment per se as well as in investors' sentiments, both domestic and foreign." The authors are right in their assessment on the inflation front, but they clearly failed to read the fiscal stress that had already built up in government finances by that time.

On economic growth, the five years of the Modi regime did see an improvement over the previous comparable period. But the authors clearly failed to read the tea leaves when they projected that growth would be boosted in the following months and investments were turning around with an improvement in the sentiments. A cursory look at the state of the economy at present will tell you that neither have investments turned around, nor have the sentiments of investors improved.

The highlight of the book is the last chapter, where the authors with remarkable clarity and precision outline the six major reformist steps that the government must initiate if the Indian economy's growth potential has to be realised

Take for instance the chapter on agriculture. It notes how the Modi government brought about a shift in its approach to agriculture by focusing more on income transfers to farmers instead of focusing only on agricultural output. Indeed, the Modi government in the couple of years before the general election did increase the minimum support prices and announce an income support scheme for farmers.

But what about the more fundamental issues of increasing basic investments in agriculture? Yes, agricultural marketing schemes have been launched, though their adoption by various states has been patchy, but the question of better technology and farming practices to improve productivity has been left largely unaddressed. The need to draw more people away from farming by retraining them and creating job opportunities in sectors such as manufacturing and construction is as critical an input for improving the viability of Indian agriculture as other schemes like income transfer.

There are many sections in the book where the authors have made many sensible suggestions. For instance, while dealing with the question of jobs, they bemoan the lack or non-availability of regular survey-based data on jobs, without which no proper assessment of the economy can be made. They rightly point out that there can be no substitute for survey-based employment measurement since the reliance on payroll data for assessing jobs growth has serious limitations.

Similar candour and forthrightness are noticeable when the authors explain how the rollout of the Insolvency and Bankruptcy Code helped in tackling the banks' non-performing loans problem. The authors recognise that the launch of the GST did not address many of the design issues that afflicted the new indirect taxes regime, but are hopeful that these glitches would be addressed over time.

But the chapter on demonetisation shows the authors' guarded and ambivalent approach to the Modi government's economic policies. They note that demonetisation was a well-intended move, but are of the view that it is a bit early to conclusively pass judgement on its actual impact on growth, reduced dependence on cash, increased digitisation and improved tax compliance.

The highlight of the book is the last chapter, where the authors with remarkable clarity and precision outline the six major reformist steps that the government must initiate if the Indian economy's growth potential has to be realised. Three of these steps pertain to strengthening the institutional framework. Thus, they want a statutory economic council of states to be established to drive consensus on the next generation of economic reforms.

Similarly, the authors want an independent budget analysis wing to be set up to strengthen the fiscal responsibility and budget management framework and an investment monitoring and facilitating agency to accelerate the flow of investments. The other three recommendations are for empowering the national statistics commission, prioritising administrative reforms and framing strategies on how India should deal with the global economy to improve Indian industry's competitiveness.

There can be no quarrel over the merit of these recommendations to revive the Indian economy. But many a bone could be picked with the authors over the manner in which they analysed and assessed several of the Modi government's economic policy initiatives in the last five years.

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