Why TRAI doesn't like bundling

A new consultation paper raises hackles in the television industry

MEDIASCOPE

VANITA KOHLI-KHANDEKAR

Just as the ₹74,000 crore Indian broadcasting industry was heaving a sigh of relief, comes a new whammy from the regulator.

On August 16 a 'Consultation Paper on Tariff Related Issues for Broadcasting and Cable Services' was released by the TRAI. "Barely a few months after the commencement of the NTO (or the New Tariff Order, implemented in February), before the industry and more importantly the consumer has fully adapted to the new regulatory regime, TRAI proposes a fresh consultation paper seeking to make fundamental changes in channel pricing and bouquet formation. This goes against all norms of a stable regulatory regime so necessary for the economic advancement of any industry," says an Indian Broadcasting Foundation press release on August 23.

Even if you ignore broadcasters' protests, TRAI's haste and the paper itself defies understanding.

Over the 15 years that the TRAI has been broadcast regulator, most of its papers have been clear cut and well analysed. This one is essentially a rant against bundling. It was a big thing in the original order. In January when I asked R.S. Sharma, chairman, TRAI, about it, he said, "We are not anti-bundling." But this new paper goes on and on raising questions on bundling versus a la carte channels, on how much discounts should be offered, the ceiling on pricing etc.

The timing is totally off. The market is just five months into the tariff order. Its impact is still being processed.

The first positive impact, and for which the TRAI should take credit, is that it has brought transparency and method. As a result broadcasters' subscription revenues and MSO revenues have gone up as more homes are declared and revenue leakages plugged. However, as people pick and choose channels, many channels have lost reach and ad growth across broadcasters has plummeted.

Second, prices have gone up because there is now a network capacity fee of ₹154 per home per month (including taxes) for a basic tier of 100 channels. Of these 25 Doordarshan channels are mandatory, so essentially you pay for 75 channels assuming they are free-to-air. Pay channels are priced separately. Note that over 28 years of private television, the average cable TV prices have remained way below inflation rates when compared to many essential commodities. And cable television is not an essential commodity.

Third, consumer choice has gone down. On an average, Indian homes watched 40-60 channels a month. These are of different genres — sports, music, entertainment, films, all in different languages. After the tariff order this number has gone down to 32-48 channels a home, according to one broadcaster. Remember that 98 per cent of India's 197 million TV homes have one TV which is watched jointly. So dad, mom, kids, grandparents all have their choices.

Anti-bundling diktats have led to people dropping channels, killing serendipity from content discovery and forcing viewers into silos defined by genres or languages only.

This is where TRAI's arguments that bundling is against consumer interests unravel. Globally bundling is a done thing in most industries -- airlines, hotels, media, consumer products and most importantly in telecom which the TRAI regulates. Buffets are usually cheaper and offer more variety than an a la carte meal.

The fourth impact, not surprisingly, has been a migration of about 2 million homes from cable to DTH which now stands at 70 odd million. DTH with its backend, call centres et al is better equipped to deal with the flexibility needed to give you five channels from different broadcasters or to change that overnight. However, a bulk of the TV homes in India, about 100 million, are with cable companies which do not have the flexibility or backend to make one channel-at-a-time changes. This is frustrating for consumers who don't get their choice of channels or are offered a best-fit package. As revenues improve and money comes back into the system most MSOs will invest in technology and this too should get sorted.

What then was the hurry with this paper?

Step back for a bit to see the pointlessness of debating bundles, choice and flexibility in 2019. Hotstar, Zee5 or Voot sell the same channels/programming that their parents Star, Zee or Viacom18 do. But their prices are not regulated: nor should they be. Why then should the price at which the same channels and programming are sold on cable or DTH? There are three different technologies, cable, DTH and online, countless devices and packages that the consumer can watch his TV or entertainment on. What is the need to nano-manage this industry to death?

Most media regulators such as the UK's Ofcom usually calculate the cost of regulating versus not regulating by doing impact analysis for any new recommendation. It is time the industry and consumer organisations demanded that TRAI does the same. That might change its mind about rushing in with consultation papers every few months.

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A call on the telecom future

Why today's three-horse race might become a duopoly

SURAJEET DAS GUPTA

Just a year after Reliance Jio disrupted the country's mobile services business, a CEO of a leading Indian telco predicted that the telecom sweepstakes will be divided amongst three private sector players. "We expect that once the battle is over Airtel, Jio and Vodafone-Idea will each have 30-31 per cent revenue market share, with BSNL/MTNL having the rest," the CEO said.

Last fortnight, however, the cosy prediction of a three-player market, with each controlling roughly similar revenue market shares, was challenged by Reliance Industries chairman Mukesh Ambani. Ambani announced at his AGM that Jio would be aiming to acquire 500 million customers (currently 340 million with a revenue share of 31 per cent, which includes national long distance revenue as of Q1 FY20). Analysts say that, translated into revenue share, this would give them around 43 per cent (Morgan Stanley) to 45 per cent share (sources close to Jio) of the market within two to three years.

On the other hand, executives at Bharti Airtel say its strategy has been clear: To maintain revenue share at 30 per cent. If both Jio and Airtel stick to their guns, the question many analysts are asking is whether the mobile landscape in the next two years will see the emergence of a dominant duopoly market represented by Jio and Airtel with a much smaller number three in Vodafone-Idea (with 17-20 per cent of the market compared to 28.1 per cent revenue market share in Q1 FY20). The joint venture's viability could come under serious scrutiny, especially after the dismal financial performance in Q1FY20. State-owned BSNL, thanks to government support, is expected to maintain its revenue share at 7-10 per cent.

The future shape of the mobile telecom landscape depends on three parametres: Whether Jio meets its targets; whether Bharti can continue to defend its turf; and whether Vodafone-Idea can, under newly minted CEO Ravinder Takkar, accelarate the integration and 4G rollouts nationwide and ensure that shareholders are willing to put in money to stem falling revenue and market share.

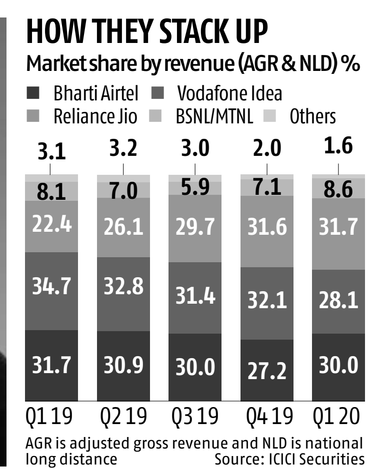
As things stand, Vodafone-Idea's challenges look formidable. Jio, for instance, requires 160 million more customers to reach ita subscriber targets. Many of these additions have been at the expense of Vodafone-Idea. The company has been adding 10 million plus gross additions every month and, according to Morgan Stanley, expects net additions of 8 million every month in the remaining months of FY20 and 6 million in FY 21 when it expects to hit a revenue share of 42 per cent.

The question, however, is whether Jio has sufficient spectrum to sustain such a huge subscriber base, especially one that uses more and more data. Competitors point out that both Vodafone-Idea and Bharti have a much larger share of the spectrum assets and that is a big disadvantage which they can rectify only by buying more in the upcoming auction. That means Reliance will have to continue to make substantial investments.

The other question is whether Airtel will be able to hold on to its revenue share. If its performance is anything to go by, its revenue market share since FY 2017 has remained stable at 30 per cent despite the bruising price war it fought with Jio. And now with tariffs far more stable there is no reason to think it won't. Airtel is also increasing revenues by upgrading more customers from 2G to broadband, which increases revenue per user metrics or ARPUs. So even though it cleaned up low paying customers (it lost 1.5 customers in the FY20 June quarter),upgrading over 8.4 million subscribers to 4G helped them to increase overall revenues by 2.2 per cent.

But can Vodafone-Idea stem the free fall in subscribers and regain the market which it has lost in the process of the merger. Research house Bernstein, which has studied telecom mergers across the world, say that they inevitably lead to a fall in revenue market share of one to 4 per cent in the first two years. The largest adverse impact it says was in the merger between Vodafone and Hutchison in Australia which led to a revenue market share loss of 8 per cent. But it took five years for the losses to stop and even after a decade it has still not been able to recover its post-merger market share.

To stem the fall in revenue share it has to quickly move more 2G customers to 3G/4G . But in quarter ended June Vodafone-Idea added just 0.3 million broadband customers (3G and 4G) compared to 2.3 million in Q4 2019. That is because its LTE coverage lags both in capacity and coverage behind



Jio and Airtel (covers 850 million people compared to 1 billion of Airtel and 1.2 billion of Jio). On top of it, it has also lost 14 million customers, its rise in ARPU has not been able to offset the fact that its revenues declined 4 per cent quarter on quarter.

That's not all: despite the ₹25,000 crore rights issue Vodafone-Idea's debt is 20X of Ebidta and a large part of the money will have to go to reduce debt. And Kotak Institutional Equities points out that the Rs 28 billion capex investment in Q1 of 2020 is disappointing given that it needs to put in more money and can ill afford to leave the gap in its LTE coverage and capacity over its rivals. Kotak estimates that the company will continue to bleed till 2024.

Sources close to Vodafone-Idea, however, say that the two shareholders are committed to putting in more money and this point is being underestimated. That apart, the integration process is on track (it has covered districts which constitute 50 per cent of their revenues) which will garner substantial cost savings once it is completed by June 2020. " The fact that VIL has the highest 4G spectrum share amongst telcos is being ignored while revenue and subscriber market share are being given so much importance. So with spectrum re-farming we can up speeds by 50 to 70 per cent which is already happening. Competitors have to buy additional spectrum to carry 4G services. Plus Vodafone had the best indoor coverage equipment and that will be key to quality," says a former top executive in the company.

Vodafone-Idea also has monetisation opportunities. The value of its stake in Indus Towers should bring in around ₹56 billion and it sees opportunities monetising its fibre business. Analysts say the company would require another infusion of cash by the shareholders in the next six quarters. The question is whether they will stand firm to get the company, whose shares have plunged below ₹10, back on the rails. And then put in the cash to grab lost market share.

CHINESE WHISPERS

Identity crisis

A high-level scrutiny committee set up by the Chhattisgarh government has dismissed former chief minister Ajit Jogi's claim of belonging to a Scheduled Tribe. Jogi, in his reaction to the yet-unpublished findings, said they were false, and alleged that the committee was influenced by the Congress government in the state. The high-powered certification scrutiny committee was formed on the order of the Chhattisgarh High Court in 2018. The panel concluded that Jogi had failed to substantiate his claim of belonging to the Kanwar community, a Scheduled Tribe. The committee also authorised the Bilaspur collector to carry out necessary proceedings under the Chhattisgarh Scheduled Castes, Scheduled Tribes and other Backward Classes (Regulation of Social Status Certification) Rules, 2013. It has ordered confiscating all caste certificates issued to Jogi in the past.

Be prepared

Recriminations within the Congress have started after party President Sonia Gandhi appointed Rameshwar Oraon as the chief of the party's Jharkhand unit. The state, along with Maharashtra and Haryana, is poll-bound in the next few months. Oraon replaced Ajoy Kumar, who quit earlier this month taking moral responsibility for the party's defeat in the state in the Lok Sabha elections while also accusing local leaders of sabotage. Kumar, 57, had quit the Indian Police Service to join the Congress and is a former Lok Sabha member. The appointment of 72-year-old Oraon has come as a disappointment as he is not in the best of health. Oraon is also a former Lok Sabha member, and was considered close to Rashtriya Janata Dal leader Lalu Prasad. The Congress is facing internal squabbling in Haryana as well, where party leader Bhupinder Singh Hooda wants state unit chief Ashok Tanwar to be replaced, but the central leadership is yet to take a decision. Party leaders are worried about the lack of preparedness in these three states, and say a rout in the forthcoming Assembly polls could trigger its disintegration.

A time bank for MP

The Congress government in Madhya Pradesh is planning to establish a first-of-its-kind time bank in the state. This initiative will help take care of elderly couples and people who live alone. Under the scheme, people who have the time can volunteer to help needy people. The time they spend in helping others would be deposited in their personal accounts under a sort of social security system. When they in turn get old and need help, they can tap the time bank and a volunteer would be assigned to take care of them. Introducing the idea, the minister for religious trust and endowment, P C Sharma, said, "This would be the biggest experiment of its kind if we can agree on it."

INSIGHT

RBI's surplus transfer math

SAUGATA BHATTACHARYA

The full implications of the revisions in the RBI's Economic Capital Framework (ECF) recommended by the Bimal Jalan- chaired committee will be better understood after the release of the FY19 (July-June) RBI annual report. The following is based on the known RBI FY18 results.

The broad contours of the ECF and transfer are as follows. The RBI will be transferring ₹1.76 trillion to the government, comprising ₹1.23 trillion of surplus (dividend) earned in FY19 and another ₹0.53 trillion deemed to be provisions in excess of the norms based on the changes in the revised ECF (the prior norms were based on the 2013 Malegam Committee recommendations). The ₹1.23 trillion surplus includes the interim dividend paid by RBI in March 2019. Net of this, this is about ₹0.5 trillion more than the widely quoted (but not official) estimate of a budgeted Rs 900 billion dividend payment from the RBI. Adding the excess provision will give the centre an additional ₹580 billion.

Rationalising this excess provision is difficult. The release was on the basis of a change in the various methodologies and metrics. The first is a shift from the existing use of stressed value at risk (VaR) for measuring RBI's market risk to adopting an expected shortfall (ES) method. While an explanation of the implications of this shift is best left to risk analytics experts, the intuition is as follows. Paraphrasing John Hull, VaR asks the question, "how bad can things get", ES (also known as conditional VaR) asks, "if things do get bad, what is the expected loss?". While shifting, the committee has adopted a more stringent confidence level of 99.5 per cent compared to general central banks adoption of a 99 per cent level.

The second major change is in the surplus distribution policy, which is now to be based on the "'realised equity" level within the overall economic capital, rather than the economic capital alone. This realised equity consists of the profits from actual sale of assets plus the interest and dividend the RBI earns from the securities it holds, and which contributes to the cumulative retained earning "referred to as the Contingent Risk Buffer".

To make sense of these concepts, the following is the published RBI balance sheet as of June 30, 2018. RBI's capital plus reserves (including payment of dividend to the government) was ₹10.46 trillion, or about 28 per cent of the total assets. Of this, the contingency fund (CF) was ₹2.32 trillion (6.4 per cent of assets), representing a "rainy day" fund of specific provision made by RBI. The remainder mainly consists of revaluation accounts as RBI's foreign and domestic assets are marked to market (MTM) and fluctuate in value with interest and exchange rates. Within this, the Investment Revaluation Account (IRA) on INR securities is ₹0.13 trillion. The Currency and Gold Revaluation Account (CGRA) is ₹6.92 trillion (19.1 per cent of total assets), accounting for MTM on foreign currency and gold assets. The CGRA is created so the balance sheet matches when foreign exchange (fx) reserves are restated in INR. Essentially, these represent valuation of reserves held from point of purchase. Under the RBI's accounting policy, revaluation gains on currency and bonds is not considered as capital, and is only seen as an accounting entry (consistent with BIS norms). Broadly then, if somewhat incorrectly, realised equity (RE) is RBI's P&L and economic capital is RE plus the MTM component of the balance sheet.

Regarding the potential implications for the centre's fiscal outcomes, if the excess transfer is used for bridging a tax revenue shortfall, the broad contours of spends in the Budget will be maintained. If, on the other hand, budgeted revenue targets are met, the transfer can be used to craft a stimulus response. Projections of various revenue streams using the run rates of April-June FY20, with an expectation of some improvements in H2, tax revenues (net to centre after transfers to states) is expected to be about ₹0.7 trillion short of the ₹16.5 trillion, and disinvestment revenues by about ₹0.25 trillion short. The additional ₹0.58 trillion from the RBI, plus a potential further interim dividend in late FY20, can cover any potential tax revenue gap.

The other effect will be on system liquidity. While the system has been in surplus since late June 2019, it is expected to revert to a deficit in late Q3 FY20, although the deficit is unlikely to be as severe as last year. Transferring the surplus to the government in one go can help in paying the upfront Rs 700 billion recapitalisation of PSBs without having to take recourse to WMAs or cash management bills. Factoring in an interim dividend payout of around Rs 350 billion, the transfers will add around Rs 900 billion to current liquidity levels. Given our shallow liquidity deficit forecast prior to the proposed transfer, this implies that the system will now be in surplus for most of even H2 FY20, with implications for transmission to lending rates.

Will the excess provision for RBI's FY19 be more of a one-time transfer, or can the methodology changes permit continuing payments in the next few years? The RBI's economic capital was 23.3 per cent of its balance sheet as of June 2019, relative to the range suggested by the revised framework of 20-24.5 per cent. Financial resilience conditions in future will determine the extent of transfers feasible. Moreover, we do not expect RBI's balance sheet to grow as much in FY20, given little or no OMOs buys, fx swaps and more moderate build-up of forex reserves.

The author is chief economist of Axis Bank. Tanay Dalal contributed to the article. Views are personal

LETTERS

Hedge rate risk

This refers to *"A first step to revival"* (August 26). The Finance Minister's revival package also contains guidance to banks to link lending rates to repo rate, a proposal being finalised by the Reserve Bank of India (RBI). Good that banks are at last moving towards the floating rate of interest. However linking with repo rate does not serve any purpose. It is a policy rate and not a market-determined rate. And it is relevant only for short-term lending, say, not beyond three months. There is no way we can swap it into a fixed rate. A floating rate must be a market-determined rate, either G-Sec yield or the Mumbai Interbank Forward Offer Rate (MIFOR), where the rate risk can be hedged by a swap either by the lender (to suit his asset-liability management) or by borrower (to suit his income flows) — though as on date the RBI doesn't allow MIFOR swaps for fear of globalising the interest rate environment.

The RBI's efforts should therefore move towards a market-determined benchmark cost for funds, either a G-Sec yield of corresponding maturity, or 10-year G-Sec yield for medium- and long-term advances, and a T-bill rate for short-term loans of up to one year maturity.

C Chandrasekhar Mumbai

Different views

As the reviewer of my book is a friend whatever I have to say to trash his review (*Facts about India's PMs*, August 27) I will tell him in private.

First the expression Nehru-Gandhi dynasty used by the reviewer. I have railed against this hyphenation and the loss of memory about Lal Bahadur Shastri at several places in the book. Nehru and Indira Gandhi were as different as day and night particularly in the way she promoted one son to be PM and then another.

About the anti-Sikh riots, on page 124 the book mentions the names of others who held office in Delhi at that time such as Lieutenant Governor P.G. Gavai, Police Commissioner S.C. Tandon and Principal Secretary to Prime Minister P.C. Alexander. As for Rajiv Gandhi. the book blames him squarely as the head of government both on page 124 and again on page 149 in the following terms: "It defies belief that the Central government, which is responsible for internal security around the country, took four days to bring the violence to an end." Even a cursory reading of page 124 indicates that I do not suggest that Rajiv Gandhi should have taken some time off if he was grief stricken. The point made was that "if" he was completely devastated by his mother's violent death he should not have immediately accepted the many responsibilities that come with taking charge as head of government.

As for the reference to Justice Jagmohan Sinha and V Krishna Iyer my learned friend Srinivasa Raghavan seems to have forgotten that we should not blame or praise individual justices only comment on their judgements and hence the book does not make this mistake.

Lastly, I was careful in my comments about not just the governments led by Atal Bihari Vajpayee and Narendra Modi but about all PMs. Readers deserve objective analysis. I differ with the reviewer that there was just "dead-pan" recounting of events in the chapters on Vajpayee and Modi since, for example, analysis of events related to the UTI scandal and growth and unemployment numbers during the terms of these two PMs respectively provide fresh perspectives.

The problem seems to be that the reviewer has strongly held personal views and the book's research and analysis do not conform to them.

Jaimini Bhagwati via email

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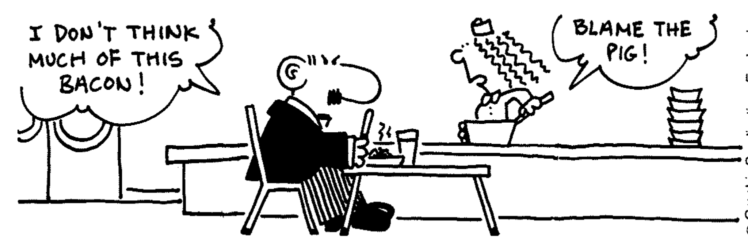
HAMBONE



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No windfall

The govt's focus should be on wise use of RBI's one-time bonus

One of the biggest sources of friction between the Union government and the Reserve Bank of India (RBI) is history now, with the latter accepting the recommendations of the expert committee, constituted under the chairmanship of former RBI governor Bimal Jalan to review the economic capital framework. The RBI board has decided to transfer ₹1.76 trillion to the government. This includes about ₹1.23 trillion of surplus income in 2018-19 and ₹52,637 crore worth of excess provisions recognised in accordance with the framework recommended by the Jalan committee. Since the central bank has paid an interim dividend of ₹28,000 crore and the government has budgeted for ₹90,000 crore in the current fiscal year, the additional transfer would amount to about ₹58,000 crore.

The committee has put in place new ground rules for risk provisioning and surplus distribution. A clear distinction has been made between realised equity and revaluation balances. The committee has noted that any shortfall in the revaluation balances can be met with provisioning from net income but the surplus revaluation reserves cannot be used for the provisioning of other risks. In terms of the distribution of surplus, the committee recommended keeping the realised equity, which is essential to cover operational and credit risks, in the range of 6.5 per cent to 5.5 per cent of the central bank's balance sheet. The realised equity in the RBI's balance sheet stood at 6.8 per cent.

The RBI has gone the full distance, not just in the chosen level of realised equity but also by transferring the entire surplus capital in one year. It can be argued that since the government had budgeted to receive only ₹90,000 crore from the RBI, which is more than covered by the unusually large dividend payout, there was no pressing need to transfer the entire amount of excess capital in one shot. A staggered approach would have been better, even if the central bank decided to bring down the realised equity to 5.5 per cent.

Now that the RBI has done what it can to please the finance ministry, what should the government, which has an unbudgeted cushion of ₹58,000 crore, do? Given the expected revenue shortfall this year, this unbudgeted receipt should be used to make up the deficit. It would hurt market sentiment if the government is not able to attain the fiscal deficit target despite more than budgeted receipts from the central bank. Should there be a cushion after meeting revenue shortfalls, the priority should be to use what is a one-time bonus to introduce more honest accounting, and reduce or eliminate off-balance sheet borrowing to meet government expenditure. Going by the recent Comptroller and Auditor General report, this off-balance sheet borrowing is substantial. There will be a lot of clamour for a fiscal push, using the excess money received. But the government's focus should be on wise use of a one-time bonus.

Overall, in the given circumstance, the additional transfer from the RBI will not have a material impact on government finances. It is important to address the issues in the goods and services tax to enhance revenue, and push regulatory reforms to revive growth in a sustainable way.

Disarray in France

The G-7 summit reveals the deep divisions in the global order

When the meeting of the Group of Seven industrialised countries wrapped up on Monday, it was more clear than ever how stark the divisions within the global order have become. The G-7 agreed on little; there were reports at least that Europe and the US had come to some basic agreement over the former's controversial taxation of the latter's big technology companies, but details are thin on the ground. Even the global crisis of the moment — the fires in the world's greatest carbon sink, the Amazon forest — was met with only a perfunctory promise of $20 million for reforestation, subsequently rejected by Brazilian President Jair Bolsonaro.

The divisions between President Donald Trump's America and its partners in the G-7 over international trade, climate change, and how to handle the Islamic Republic of Iran are bad enough. But those were not the only fault lines on display. It is worth remembering that many of the other members of the G-7 are in the midst of deep disagreements with their peers. Prime Minister Boris Johnson's UK is preparing to leave the European Union without a deal on its future relations with the bloc. Italy is challenging its European partners' rules on budget deficits, and is undergoing a political crisis of its own as its ruling populist alliance falls apart. And Japan is in the middle of a new Cold War with a fellow liberal democracy and US ally, South Korea.

Thus, for the first time in decades, the G-7 broke up without a joint communique. This was planned in advance by the hosts, President Emmanuel Macron's France; Mr Macron had said that "nobody reads communiques anyway" except to try and figure out where disagreements had been papered over. It was perhaps a wise change to avoid incidents such as the one that happened after last year's meeting, when Mr Trump didn't even wait to get home to repudiate the communique, but did so by tweeting from Air Force One on his way out of Canada. Yet it is also a marker of an apparent loss of purpose for the G-7, which can no longer fulfil the need for which it was set up during the oil crises of the 1970s: To ensure the industrialised world speaks with one voice. Of course, the "industrialised world" is itself much larger than it was then, reducing the G-7's relevance further.

The G-7 itself is not yet useless. For one, it represents a way of ensuring collective pressure can be put on Mr Trump by other countries. The American president relishes such conflict, but is also vulnerable to personal diplomacy: More has been achieved on Iran in the past two days than in the year prior.

The problem perhaps is that the G-7 lacks the institutional strength to create and provide sustainable solutions that mean summits are about more than the disagreements of the moment. The G-20, in contrast, has a secretariat and working groups that allow for joint policy to evolve over successive summits and even if leaders change. As the other G-7 leaders prepare to be hosted by Mr Trump in the 2020 summit, it would perhaps be appropriate for them to ask if that is something worth emulating.

ILLUSTRATION: BINAY SINHA

The rise of modern monetary theory

Much of what is new in MMT is unconvincing and a dangerous template for public policy

DEEPAK LAL

Many of the Democratic party contenders for the US Presidency have endorsed a set of economic policies promoted by purveyors of what is called "Modern Monetary Theory" (MMT). The charismatic Congresswoman Alexandria Ocasio-Cortez, who though too young to run for President herself, has already set part of the Democrat's agenda with the Green New Deal, has now endorsed MMT as the basis for the Democrat's economic policy. In this she joins Stephanie Kelton, a professor at Stony Brook University, who was an advisor to Bernie Sanders in 2016 after serving as the chief economist in the US Senate Budget Committee in 2015. The archbishop of MMT is Herman Minsky's student, L Randall Wray, whose *Modern Money Theory* ,(2nd edtn, Palgrave Macmillan, 2015) provides the best consolidated account of the "theory" and policy prescriptions of MMT.

These progressive "democratic socialists" — as they call themselves — have proposed a whole set of new public programmes. The question my students were taught to ask was: Who will pay for them? MMT claims that whilst this question makes sense for a household or business, it makes no sense for a government which issues its own currency and can "always afford a new programme in financial terms because it can issue currency without taxing or borrowing". ("Modern Monetary theory explained. An interview with Stephanie Kelton" (*https://theglobepost.com/2019/03/28/stephanie-kelton-mmt/*). The problem is "about whether spending to fund your programme will cause an inflation problem", this can be triggered if "our real resources are constrained not our financial resources". She adds that "it means that the government can safely add dollars to the economy through deficit spending".

On supply side measures like cutting taxes and deregulating industries to promote growth she says "all of the supply side approaches are trying to create the right environment, unleash or awaken business incentives to hire or invest. I think that gets it completely backward. Businesses hire and invest when they are swamped with customers. That means demand is the key driver. You're talking about a completely different approach from supply side to demand driven."

This all sounds very much like the old Keynesianism, and as Thomas Palley argues ("Money, fiscal policy, and interest rates: A critique of Modern Monetary theory", (*http://www.thomaspalley.com/docs/articles/macro_theory/mmt.pdf*)) much of this is old hat Keynesianism, which recognised that in a fiat currency economy, the financial constraint on governments is not the same as households or businesses, and it cannot become insolvent on debt issued in its own currency. Also, its money creation is limited by inflation which accelerates when economy's real resources are utilised at full employment. But unlike the neo-Keynesians, MMT does not recognise the Phillips curve relating inflation and unemployment and the resulting trade-offs for public policy before full employment is achieved. Finally, the government can contain demand pull inflation by taxation and bond issuance to remove excess money from circulation.

MMT also denies the "crowding out" effects of government deficit spending. But as Robert P Murphy of the Mises Institute shows ("The Upside-Down World of MMT, (https://mises.org/print/6962) is based on their peculiar definition of "savings" as "net private savings". From national income accounting identities, they argue that "if the government were to reduce its budget deficit then the private sector's saving would necessarily go down". Murphy shows that as the government deficit grows, the left hand side of the accounting identity rises. "So the right hand side must grow bigger. It may happen partially because people cut down on consumption and save more, but it may also happen because private investment goes down". That is, the equation tells us "we might see lower private consumption, rising interest rates, and real resources being siphoned out of private investment into pork-barrel spending projects". Even in the MMT world there would be "crowding out" from fiscal deficits.

It is two other aspects of the MMT policy package which are new. The first is their policy for full employment. They do not believe that conventional monetary or fiscal policy will do this. So, they want a programme similar to the Indian National Rural Employment Guarantee Act, as a universal national job guarantee (JG) cum employer of last resort (ELR) programme. This would provide a wage below the market wage to anyone unemployed and willing to work on any private or public project. It would be financed by a money financed budget deficit. As Wray (2015) argues this programme should appeal to libertarians, as "it is not Big Brother. It is not even Big Government...It is a purely voluntary programme, only for those who want to work. Those who will not work cannot participate.....The jobs do not have to be provided by government at all. No one has to take a job. It is consistent with the most cherished norms of freedom-loving libertarians and Austrians", (p.245). The progressive Palley criticises the programme for political economy reasons, as it could lead to the undermining of public sector workers and public sector pay as governments substitute ELR workers for public sector workers. This and other fears adduced by Palley as undermining minimum wages and government in general are likely to make this programme appealing to classical liberals!

The second new aspect of MMT is its interest rate policy. It asserts that Wicksell's natural rate of interest which equates the rate of return on capital (productivity) with the private rate of time preference (thrift) is zero. So, the central bank should "set the overnight rate at zero and keep it there". (Wray, "A Post Keynesian view of central bank independence, policy targets and the rules versus discretion debate", *Journal of Post Keynesian Economics*, 2007,.138). This, of course, implies (as MMT recognises,) the well-known condition for preventing deficit financing to lead to an explosively rising public debt ratio, namely that the interest rate on the debt (r) should be less than the growth rate of the economy (g) will always be met, and also entail the progressive Keynesian outcome of the "euthanasia of the rentier". (Wray 2015, p.64).

Putting the interest rate at zero puts fiscal policy as the sole stabilisation tool, which as Milton Friedman showed, given the lags involved, discretionary fiscal policy is an inferior instrument compared to counter cyclical interest rate policy to stabilise the economy. More seriously, with inflation at high or full employment "setting the short term nominal policy rate at zero becomes a recipe for encouraging financial speculation and asset price inflation driven by debt , which ends in financial crisis" (Palley: "MMT: the emperor has no clothes", Feb,2014).

My conclusions can be brief. MMT is mostly the old Keynesianism and apart from the JG/ELR programme much of what is new is unconvincing, and a dangerous template for public policy.

Dangers of complacency

NEW DELHI DIARY

A K BHATTACHARYA

Finance Minister Nirmala Sitharaman's first big economic policy announcement last Friday evening, almost a month and a half after she had presented her first Budget on July 5, has been warmly greeted by the Bombay Stock Exchange. The Sensex, its benchmark index, went up by about 800 points on Monday. Of course, hopes of a resumption in US-China trade talks also buoyed the overall stock market sentiment, but you cannot really overlook the positive impact of Ms Sitharaman's announcement on the Sensex that rallied by over 2 per cent.

A bigger announcement was made on Monday evening. The Reserve Bank of India issued a statement after its board meeting that it had accepted the recommendations of the Bimal Jalan Committee, which had examined the required provisions the central bank should make to meet its economic capital needs including the contingency fund, currency and gold revaluation reserves and other reserves.

That meant the RBI could transfer about ₹1.76 trillion to the government — of which ₹52,637 crore would be by way of excess contingency fund provisions and ₹1.23 trillion by way of dividend. Of the dividend amount, ₹28,000 crore was already paid out by the RBI some months ago as an interim amount, which was shown as part of the Union government's revenue for 2018-19.

Thus, the actual revenue for the government in 2019-20 as a result of the RBI accepting the Jalan Committee recommendations is about ₹1.48 trillion. The Union Budget for 2019-20 provided for a total revenue of ₹90,000 crore from the RBI. Thus, the extra money that the Centre has now received is ₹58,000 crore. This is just about 0.3 per cent of India's gross domestic product or GDP.

Nevertheless, the stock markets greeted the announcement once again on Tuesday with the Sensex scaling another 147 points. With the government's fiscal situation getting slightly better and expectations of reduced pressure on its borrowing, the 10-year government paper's yields also began softening.

The danger, however, is that this excitement in the markets may lull the government into wrongly believing that all the economy's woes are over and the problems have been fixed. That would be dangerous. Neither of the moves is a sure and sustainable way of addressing the economy's deeper problems. The measures initiated so far have their own limitations and the government would do well not to go overboard with its achievements in changing the mood in the markets and industry.

Take the package announced for the automobile industry on Friday. The doubling of the depreciation provisions to 30 per cent will certainly encourage higher sales of commercial vehicles and passenger vehicles, as enterprises and self-employed tax payers would try to take advantage of the tax benefit on their purchase of vehicles before March 2020. Similarly, the huge inventory of vehicles gathering dust at the dealers' end is likely to be cleared after the decision that BS-IV vehicles will be allowed to operate for the entire duration of 10-15 years of their registration period, provided they are purchased by the end of March 2020. Relaxation in the registration norms and the introduction of a scrappage policy for old vehicles will also improve the prospects of automobile sales in the country.

But the impact of these measures will be of a relatively short duration. What happens next year to the demand for vehicles is something that will continue to bother the automobile industry and, therefore, the government. The automobile industry has a share of about 7 per cent in the country's GDP. It accounts for almost half of the entire manufacturing sector and provides jobs to 8 million people directly and indirectly.

There are serious doubts over the long-term demand for non-electrical vehicles in all major economies of the world. India cannot remain an exception. The impact of technology, the rise of the share economy and the behavioural shift away from buying of passenger vehicles among the younger people are all factors that would continue to keep the demand for automobiles depressed. Solving the demand problem for the automobile sector for just this year is clearly not enough.

An equally important issue that the government has to keep in mind is the importance of quick and smooth implementation of the many measures that Ms Sitharaman announced last Friday. Announcing a package of measures is only the beginning of an exercise to repair the damage the ongoing slowdown has caused to the economy. How effective that package becomes will depend on how quickly those decisions are implemented on the ground. For instance, the well-intentioned scrappage policy for old vehicles should be finalised at the earliest. If the idea becomes a victim of conflicting views of different ministries, there will be avoidable delays and the promised recovery would become more elusive.

The decision to quickly release ₹70,000 crore to recapitalise public sector banks will also require careful thought and planning before it is implemented. Should the upfront recapitalisation plan use a merit-based method by which banks that are relatively healthier and have performed well in recovering their past sticky loans get a larger share in the pie? And should this package be combined with a fresh round of public sector bank consolidation? Similar caution should be exercised while implementing the scheme for one-time settlement of loans due from micro, small and medium enterprises. Settlement of dues should not be allowed to adversely affect credit discipline among borrowers.

Finally, the government would do well to resist pressure on it to loosen the purse strings now that it will receive ₹58,000 crore of extra funds, available as a result of the Jalan Committee's recommendations. The dangers of a tax revenue shortfall are real. And it would be advisable to use the extra RBI money to meet the revenue shortfall, instead of using it for a stimulus.

In the line of fire

BOOK REVIEW

CHINTAN GIRISH MODI

The one-horned rhinoceros is endemic to Assam. The rhinoceros is also known for its thick skin. Over the years, I too have become thick-skinned, I think," writes Teresa Rehman. Her new book *Bulletproof* is a first-person account of her experiences as a journalist in Guwahati, reporting on conflict in the north-eastern states of India. This work spans over two decades, and has won several awards. Her book is worth reading for its nuanced exploration of a region that is under-reported and widely misrepresented.

Instead of merely compiling the most exciting stories of her career, Ms Rehman places them in a wider context to help the reader understand why the north-east is a challenging region for journalists. They operate in an environment where several militant outfits are active, editors have been killed, bombs have been delivered to newspaper offices, reporters have faced the wrath of security agencies as well as non-state actors, and media houses have been compelled to publish press releases.

Ms Rehman reflects on her vulnerabilities, enriching the book with a perspective that is deeply personal. Recalling a crossfire at a remote location in Nagaland, she says, "As I lay low in the bushes, I thought: Would I survive? Would it really matter? Would I be reduced to a number on the long list of statistics of journalists killed in the region?" The reader is led to wonder what makes journalists put their lives on the line, and go after such perilous stories with single-minded determination. Is it idealism or masochism or just another day at work?

Ms Rehman also writes at length about how her work took a toll on her mental health. This is perhaps the most courageous part of *Bulletproof*. After covering a "fake encounter" in Manipur, her story was picked up by international publications, and reinvigorated the debate around the draconian Armed Forces (Special Powers) Act that has been abused to cover up extra-judicial killings. She was repeatedly summoned by the authorities, and made to feel like a criminal.

This harassment made Ms Rehman increasingly irritable. She became an insomniac. She started having nightmares, screaming at her daughter, and talking to herself. One day, she hit her daughter over a petty issue, and her husband suggested seeing a psychiatrist. Ms Rehman was diagnosed with post-traumatic stress disorder (PTSD). She had to take antidepressants, apart from dealing with the social stigma around visiting psychiatrists. This book makes a strong case for the need for support systems to "deal with physical dangers, legal rigmaroles and the psychological trauma that a journalist goes through."

Ms Rehman reveals that her training as a media student at the Indian Institute of Mass Communication in Delhi did not prepare her for the ground realities of conflict reporting. She had to learn a lot on the job about keeping herself safe from surveillance, intimidation and sexual assault. She did not want to be limited by her gender, so she had to go the extra mile to do well in a sub-field of journalism that "seems very masculine — full of stories of artillery, statistics, guns, weapons, soldiers, militants, peace talks and often dry press releases."

Ms Rehman makes multiple references to how her gender identity influences her negotiation of space on the field. This includes decisions about what to wear, where to meet informants, and whether to use a particular toilet or not. However, the protagonists in all the chapters are men. Women make only fleeting appearances. They might have agency but the reader does not get access to their ideas, lives and dreams. It is unclear whether Ms Rehman chose not to highlight their stories or if she did not find them interesting enough for the purpose of this book.

Amidst the harshness surrounding her, Ms Rehman humanises the narratives of militants, poachers and sharpshooters. She describes a meeting with ex-militants from the United Liberation Front of Assam (ULFA) who are trying hard to rebuild their lives but have been unsuccessful. Ms Rehman approaches them with an empathy that is rare and endearing. She notes how difficult it is to re-enter mainstream society "after having spent years in solitude in the jungles, engaging in violent combat with the state".

Ms Rehman presents tender portraits of people who are the castaways of society but at the risk of romanticising them. Her conversations with her interviewees reveal an ability to catch them unawares, and make them warm up to her. "Any good reporter's kitty has a whole range of sources — a pan shop owner, the president of the taxi association, a top cop, a criminal lawyer, an anganwadi worker, a ward boy, a chef, a gardener, a domestic help, a mechanic — almost everyone has secrets to share, if you know how to cultivate them," she says.

BULLETPROOF
Teresa Rehman
Penguin/Viking
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