Waiting for some good news

Will the landing of Chandrayaan-2 lift the slowdown gloom?

NOT FOR PROFIT

NIVEDITA MOOKERJI

The moon and stars have for long inspired poets, but these are different times. So when number-studded stimulus packages cannot lift the overwhelming gloom, perhaps the moon can. This Saturday, Chandrayaan-2 is set to create history by landing on the moon, and that may be the only piece of good news Indians have heard in a while. Exactly 50 years after the Apollo 11 achievement, Indian lunar mission Chandrayaan-2 is going to moon's south polar region.

It will "boldly go where no country has ever gone before", Indian Space Research Organisation (Isro) proudly splashes on its website. It explains that the aim is to improve the understanding of the moon and to make discoveries that will benefit India and humanity as a whole. Besides all the far-reaching scientific feat that Chandrayaan-2 is capable of, there's something else that it can deliver, but neither Isro nor any scientist manning the project may talk about it.

Chandrayaan-2 landing on September 7 is likely to give confidence to the people of this country like nothing else has been able to do. Not the rollback of tax surcharge on foreign portfolio investors (FPIs), not the bunch of measures announced to ease stress in non-banking financial companies (NBFCs) or micro, small and medium enterprises (MSMEs), not the Cabinet decisions to relax foreign investment conditions, not the steps to soothe the sentiments of a battered automobile industry, and not any bureaucratic reshuffle in a bid to reverse the downturn. The government has promised at least two more rounds of sops, including for the stressed real estate sector, but the markets are in no mood to cheer.

While a successful lunar mission may not exactly translate into a bull market or stop the job losses cutting across companies and sectors, it's likely to give us a reason to celebrate and possibly look for heroes as well as inspiration in a discipline where India has hardly been at the forefront. The last famous brush was in 1984, when Rakesh Sharma as a squadron leader in Air Force had flown aboard Soyuz T-11 to become the first Indian in space. Then Prime Minister Indira Gandhi had asked Rakesh Sharma how India looked from outer space, to which he had replied, "*Saare Jahan Se Achcha*", making that line go viral in a non-Twitter age.

Chandrayaan-2 is an unmanned mission and therefore no astronaut will be able to say how India looks from Moon or repeat Neil Armstrong's historic words — "That's one small step for a man, one giant leap for mankind". The mission, led by two women scientists Muthayya Vanitha and Ritu Karidhal, may not wipe out the slowdown blues or the pains of what some call a quasi recession, but it can turn out to be an inspiration for generations.

The build-up around the occasion has been somewhat subdued so far, perhaps because the government has been busy trying to set the economy right and roll back some of the proposals made in the Union Budget in July. Among few celebratory steps, a space quiz was organised to select school children who would watch the landmark event live with Prime Minister Narendra Modi from Isro's Bengaluru centre on Saturday.

If the withdrawal of special status in Jammu & Kashmir, through abrogation of Article 370, had cheered many Indians, Chandrayaan-2 landing on the Moon should make us truly proud. If the so-called lipstick index is a measure for economic slowdown, the success of the Indian lunar mission may set another kind of benchmark on how to contain all-round pessimism.

In that context, it may be worthwhile to remember what Neil Armstrong, Edwin "Buzz" Aldrin, and Michael Collins had said in various interviews and statements after their flight to Moon 50 years ago. On looking down on earth, Collins had famously said, "I really believe that if the political leaders of the world could see their planet from a distance of, let's say 100,000 miles, their outlook would be fundamentally changed. The all-important border would be invisible, that noisy argument suddenly silenced." Besides Armstrong's "giant leap for mankind" line, his other memorable words included, "there are great ideas undiscovered, breakthroughs available to those who can remove one of truth's protective layers. There are places to go beyond belief". And, Aldrin helped the world achieve the next impossible dream, by saying "No dream is too high".

CHINESE WHISPERS

Department becomes 'cell'

Congress president Sonia Gandhi (*pictured*) has reorganised the party's data analytics department. The department, headed by Praveen Chakravarty, had led the Congress campaign on its minimum income guarantee promise in the run-up to the 2019 Lok Sabha polls, as also its membership drive. Its forecasts of the party on its way to get over 120 seats were proved incorrect. Knives were out within the party against Chakravarty, considered close to Rahul Gandhi. Now, Sonia Gandhi has demoted the standalone department to a "cell" within a department. In a letter dated Tuesday, party general secretary K C Venugopal stated that the department will now function as a "technology and data cell within the organisation department" of the party. Chakravarty would continue to head the cell, but will now need to take approvals from organisation department heads, instead of the party chief.

Old guard back in saddle

With Sonia Gandhi back as the Congress chief, the older guard has started to assert itself in the party. On Wednesday, senior leaders finally settled the leadership issue in the Haryana unit of the Congress. The party president named Kumari Selja as the state unit chief. She replaced youth leader Ashok Tanwar, considered close to Rahul Gandhi. Former Haryana Chief Minister Bhupinder Singh Hooda was appointed Congress legislative party leader, which makes him the leader of the Opposition. He would also be the chairman of the election management committee of the party for the forthcoming Assembly polls. The Hooda camp had threatened to quit if the party failed to remove Tanwar. The decision has come about after several rounds of consultations between the Congress president, senior leader Ghulam Nabi Azad and Hooda. The election schedule is likely to be announced later this month.

Rule applies to all

As she was concluding her keynote address during the inaugural session of a convention organised by the Indian Music Industry (IMI) in the national capital on Tuesday, Sumita Dawra, joint secretary, Department for Promotion of Industry & Internal Trade, noted that no musical performance in such an event was a bit surprising. While this evoked laughter from the audience, someone quipped that the organisers did not schedule any because they did not have a licence for it. In a panel discussion held earlier, the participants emphasised the need for a better deal for music companies because broadcasters were raking in the moolah leveraging a product (read music) manufactured by them. The recording companies' representatives reasoned, even if in jest, that the convention itself fell in the private events category. So no question of a musical performance!

Equality-efficiency trade-off

In the second part of the series, the author says there is evidence that inequality has encouraged excessive risk-taking in the financial sector and might have been partly responsible for the 2007-08 financial crisis

PRANAB BARDHAN

The last few decades of advance in economic theory and empirical findings have raised questions about the general applicability of the very idea of equality-efficiency trade-off. In the rest of this essay, we shall enumerate and examine some of the relevant issues here.

When there is information asymmetry between the two sides in a given economic transaction, the above-mentioned trade-off may not hold. For example, creditors do not have enough information about the viability of a project brought to them by a potential borrower. You may have a project that you know is very much worthwhile from both private and social point of view, but the creditor may not be aware or convinced of it, and you do not have sufficient collateral to persuade the creditor to take the risk of lending to you. A rich man with an inferior project may get that loan, not you, because of the former's larger assets, and hence , collateral value. Thus, inequality here promotes the less efficient outcome. Similarly, your low savings or collateral may not permit you to finance or borrow for investment in higher education for which you may otherwise have the talent and proficiency, whereas the less talented children of your rich neighbour go through college and university, while you drop out. This is a loss to society as well as yourself.

There is, of course, a great deal of socially unproductive risk-taking by the rich (with "collateral damage" for the poor), say, in financial or real-estate speculation. Even if we ignore this, it is important to keep in mind that not all dynamic innovations and productive risk-taking are by private fortune-seekers. In the US, much of the basic or foundational research and great innovations of recent times (like the internet, GPS, digital search engine, supercomputers, human genome project, magnetic resonance imaging, smart phone technology, hydraulic fractu-ring for shale gas, and a whole host of others) have been facilitated by or been the outcome of public investment funded to a large extent by taxpayer money. Scandinavian countries with a high-tax redistributive economy have not been lagging in innovations.

Even in the private sector assuring temporary monopoly and thus, great fortune for the innovator through the patent system has not been the only or the best way of encouraging innovations. Patents on a new technology often make things costly or obstructive for future innovators and thus may hamper further advances in technology. Open-source programmes are often more conducive to new developments of technology.

If inequality is generated by market power of big firms in product and labour markets, then there is a direct loss of efficiency (in output and employment) if that market power enables those firms in their attempt to maximise profits to restrict output (and labour hiring) below the amounts for a competitive firm.

Historically, the case where inequality and inefficiency have stubbornly persisted together relates to land, which is usually very unequally distributed. In traditional (and in some non-traditional) agriculture, the empirical evidence suggests that economies of scale in farm production are not inherently substantial (except in some plantation crops) and that the small farm is often the most efficient unit of production (if credit, insurance and marketing facilities are not inadequate). Yet the violent and tortuous history of land reform in many countries suggests that numerous road blocks on the way to a more efficient reallocation of land rights are put up by the powerful landed interests for many generations. Why don't the large landlords instead voluntarily lease out or sell their land to small farmers and grab in the bargaining process much of the surplus arising from this efficient reallocation?

There clearly has been some leasing out of land, but problems of monitoring the tenant's work and application of inputs, insecurity of tenure (discouraging long-term land improvements by the tenant), and the landlord's fear that the tenant will acquire occupancy rights on the land have limited efficiency gains and the extent of tenancy. The land sales market is often rather thin (and in many developing countries the sales sometimes go the opposite way—from distressed small farmers to landlords and money-lenders). With low household savings and collaterals, the potentially more efficient small farmer is often incapable of affording the going market price of land.

Landlords on the other hand often resist land reforms particularly because the levelling effects reduce their social and political power and their ability to control and dominate even non-land transactions in the village. Large land holdings may give their owner special social status or political power in a lumpy way — for example, the status or political effect from owning 1,000 acres is larger than the combined status or political effect accruing to 50 new buyers owning 20 acres each. Thus the social or political rent of land ownership for the large landowner may not be compensated by the offer price of numerous small buyers. Under the circumstances, the former will not sell and inefficient (from the productivity point of view) land concentration persists.

Then there is the demand-side impact of inequality. There is a story of a Ford company executive in conversation with a union leader, pointing to the arrival of a bunch of robots in the factory and asking, "can you collect union dues from them?", to which the union leader replied, "can you get them to buy Ford cars?". Particularly, in times of depressed aggregate demand and idle capacity, inequality may hurt macroeconomic performance by making it difficult to stimulate enough mass consumer spending. Recent research suggests that a long-term rise in inequality can push the economy into a deep recession. There is also some evidence that inequality has encouraged excessive risk-taking in the financial sector, and along with household indebtedness, may have been responsible for the financial crisis that originated in the US in 2007-08.

Under inequality not merely the aggregate consumer demand may be deficient, but the pattern of consumer spending may also get distorted. Certain types of consumer spending on status goods (houses, cars, and other easily visible conspicuous consumption items) can, in the context of inequality and community norms of emulation and the resultant "expenditure cascade", lead to a race to the bottom among neighbours and reference groups: clearly an inefficient outcome.

(To be concluded on Friday)

The writer is professor of Graduate School at University of California, Berkeley. His most recent two books are Awakening Giants, Feet of Clay: Assessing the Economic Rise of China and India, *and* Globalisation, Democracy and Corruption: An Indian Perspective; *the article was first published in the international blog 3 Quarks Daily*

INSIGHT

GST and dispute resolution

V S KRISHNAN

India's climb on the "Ease of Doing Business" ranking has been deservedly applauded. But equally important is the ease of paying taxes. Some research shows that improvement in the ease of paying tax can help improve compliance especially for lower tax segments. Not withstanding these disputes do divert taxpayers' attention from more important productive tasks.

Broadly, any tax system must have the following five distinctive features. First, disputes must be clearly defined, and non-serious infringements should be kept out of the domain of disputes. Second, uniformity of practice in assessment must be ensured by facilitating those who draft the law to interpret it. Third, the system must ensure speedy adjudication of cases within definite time lines. Fourth, taxpayers should be encouraged to settle disputes without resorting to litigations. Finally, non-intrusive mechanisms of interaction must be created between the taxpayer and the tax department.

Translated on the ground what can the Central Board of Indirect Taxes and Customs do immediately? The low-hanging fruit here is that there are a number of minor procedural cases which clog the dispute resolution system. These need to be listed and subject to administrative levies which may be capped. A similar amendment has recently been done on the corporate law side which can be replicated here. This suggestion would require the GST law to be amended in which a list of minor penalties may be included and junior officers could be allowed to decide them.

A major pain point in the GST dispute resolution mechanism is the failure to make a conceptual distinction between "offence cases" and "assessment cases". Offence cases are periodic in nature and do not have any recurring implications whereas assessment cases relate to principles of classification, valuation and eligibility of input tax credit and therefore have recurring implications. The suggested course of action is that while field officers could be allowed to decide on offence cases on the basis of facts available, a centralised system of binding instructions should be put in place for field officers to follow in assessment matters. Such a provision was earlier available in pre GST. For this purpose, both the Centre and states can create a "technical secretariat" which could be empowered to issue such binding instruction on assessment matters to ensure uniformity of practice. At the central level, this could be located in the TRU where the tax laws are drafted and fittingly therefore those who draft the law must also interpret the law. The creation of a technical secretariat at the Centre and the states would facilitate discussion between tax officers at annual or biannual conferences. Such conferences/forums would forge the bond of fiscal friendship between the officers. Taxpayers would benefit from certainty in the assessment matters. This will be especially beneficial to the states in the area of service tax, for states would require some handholding (pre GST, service tax was levied and collected by the Centre).

The other important change is to do away with the distinction between "suppression" and "non-suppression" cases in the GST law and prescribe one uniform period of three years to complete adjudications. The suppression aspect could be addressed in the adjudication order on the basis of facts and a higher penalty could be imposed. Therefore, the penalty route may be a better way of dealing with this distinction rather than through a time period difference. This amendment will considerably reduce litigation as many taxpayers are incensed by wrong invocation of the suppression period and, therefore, opt to litigate rather than pay the tax.

While the set of suggestions outlined would help to improve the dispute resolution system within the GST, there is also a need to have another institutional mechanism where trade and industry can air their implementation grievances to senior state and central officials. Many of these issues are non-policy issues and therefore would not warrant going to the GST Council. It is therefore suggested that the time is now ripe to create a new institution in the form of the GST Secretariat in each State. This should be a registered body just like the Empowered Committee of State Finance Ministers consisting of senior Central and State GST officials who will hear the problems of trade and industry. These grievances could feed into policymaking. This will address much of the discomfort presently experienced by the trade as they had the opportunity in the pre-GST era to separately meet central and state officials. This body could be created after a suitable resolution is passed by the GST Council and its terms of reference decided and thereafter the cabinet secretary could write to the chief secretaries of all the States to commence its creation.

Just as the GST Council (later avatar of the Empowered Committee of State Finance Ministers) designed and delivered the GST, the institutions of technical secretariat and GST Secretariat in the states could help to provide the institutional support post GST.

In many ways, the measures suggested above would ensure that the "rule of law" prevails over the "rule of thumb" and also prod the triumph of "principles" over "principals".

The author is a retired member CBIC and national leader, Tax and Economic Policy Group, EY India Views expressed are personal

LETTERS

A long way to go

This refers to "Madhya Pradesh to have happiness index" (September 2). Today, measuring prosperity of nations with indicators like GDP is clearly misleading. It probably further skews the distribution of wealth and accentuates income disparity. We have journeyed long from exploring creation of wealth to distribution of income to now Nobel prize winner Prof Angus Deaton's treatise on poverty. As newer economic theories get misapplied, attempts at political correction follow. Through all this, the common man feebly tries to leverage his only tool — democracy — that can reset the political paradigm temporarily. Strangely, it is seen that deeper the democratic mores, as it is in the US, the sharper has been the turn to the right wing ideology of wealth inequality. It may take ages for the socio-economists, much less the governments, to move away from a trite GDP to even grasp the concept of creation and distribution of happiness.

R Narayanan Navi Mumbai

Farming woes

This refers to "Agriculture's 'liquidity' problem" (September 4) by Ruchika Chitravanshi and Sanjeeb Mukherjee. The woes of the agriculture sector have been an ongoing one. The genesis of this can be traced to the muddled and short-sighted vision of our policy makers and their political masters. Water is the lubrication that keeps the agriculture clock ticking. We have about four months of monsoon rains which we need to utilise judiciously. Most of this water we receive goes waste as we have not yet designed effective water harvesting techniques. There are pockets of villages where water harvesting has been done effectively and these villages have access to water throughout the year to reap multiple crops. Sadly, in most of the neighbouring villages, water has not been harvested in the same manner, leaving those drought afflicted.

Cropping patterns also need to take into consideration soil and water intake. We have numerous examples of crops being sown in terrain not naturally suitable for these crops where they guzzle enormous quantities of water depleting the ground water level. This needs to be curtailed. Presently, this is happening as the pay-out is more profitable when compared to other crops. If incentives are discontinued or disincentives introduced, this practice can be nipped in the bud.

A steady supply of electricity is also said to be a problem hindering irrigation. Solar power usage has been making steady inroads into the hinterland. Instead of depending on the state to provide uninterrupted electricity, if solar power can be generated at the village or taluka level, it could be utilised at the villages.

We need to look at countries like Israel who have mastered the art of judicious usage of resources to reap bumper harvests. Our policy makers should study such success stories. What is feasible from the success of Israel should be made known to our villagers and sought to be introduced after being customised to our reality.

K V Premraj Mumbai

Let's get real

This refers to the editorial "Disinvestment blues" (September 4). Transferring the government's stake in BPCL to Indian Oil may help the government meet "disinvestment targets" but, it is by no means a disinvestment. Merging one public sector undertaking with another, transferring stake from one pocket to a different one is a sort of game played by all successive governments — towards meeting disinvestment targets — year after year but such moves do not either amount to "privatisation" nor do they support the oft-repeated slogan "government has no business to be in business". Such mergers might help cost reductions by way of synergies in operations and may also create mega, global size, business entities, but, for heaven's sake, let's get real, call a spade a spade!

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Gauging economic activity

Lag in official data results in delayed response

The slide in the gross domestic product (GDP) growth in the first quarter of the current fiscal year has surprised most analysts. Aside from influencing sentiment in financial markets, the 5 per cent growth in the April-June quarter has implications for both fiscal and monetary policy. But the lag in the release of official data often results in delayed policy response. In terms of fiscal policy, the level of economic activity determines the level of revenue the government can expect. In case the growth is expected to slow, the government can adjust its revenue projection and take a call whether the economy needs adjustment in spending, which can help smooth the economic cycle. Similarly, it would help if the central bank can adjust the monetary policy more proactively and doesn't always have to depend on official data.

Since monetary policy works with a lag of two to three quarters in India, depending on official data can delay the policy adjustment and exacerbate the problem. For instance, breaking with convention, the Monetary Policy Committee of the Reserve Bank of India (RBI) decided to cut the policy repo rate by 35 basis points in August. It was reasoned that 25 basis points would have been inadequate and 50 basis points excessive. It can now be argued that if the extent of the slowdown was known, a cut of 50 basis points would not have looked excessive. Slower growth will also keep inflation at lower levels. Although the RBI acknowledged the weakness in high-frequency indicators, it reduced the growth projection for the current year by only 10 basis points to 6.9 per cent. Similarly, the Budget presented in July did precious little to fight the slowdown — though it was more of an acceptance than evidence problem.

At a broader level, both investors and policymakers would be better off if they have more timely means to track economic activity. For example, the Goods and Services Tax collection can become a good indicator of economic activity once the prevailing problems are addressed. Since there are genuine reasons for the lag in the official release of GDP data, the central bank can work on an aggregate indicator that would give an early sense of the state of the economy. Central banks, globally, track lead indicators to assess the economy and make the policy forward-looking. The RBI also tracks high-frequency indicators and, as the latest Annual Report shows, it has worked on a "Coincident Economic Indicator". This includes the production of consumer goods, auto sales, non-oil non-gold imports and rail freight.

However, recent record suggests that the RBI needs to work on its models to be able to predict both growth and inflation more accurately. Although some financial institutions do track high-frequency indicators for their clients, it would help the system if the central bank, which has the research capability, processes the available information and regularly puts out an aggregate indicator. It is important to note that this is not to undermine the official collection and release of data, but to improve the understanding of the market. The idea is worth trying since it will also help the central bank in making the policy more forward-looking.

A concession to Hong Kong

Extradition Bill withdrawal may not stop protests

In a concession to protesters who have repeatedly taken over the streets of Hong Kong, the territory's Chief Executive, Carrie Lam, has finally withdrawn the controversial legislation that sparked the protests. The Bill, which permitted extradition from Hong Kong to mainland China, was widely opposed because the city's residents feared that it would be used to trample upon their remaining political rights, and subject them to the capricious and authoritarian legal system of the People's Republic. Ms Lam had earlier "suspended" the Bill, but that was not enough for protesters who wanted it withdrawn completely — a concession that both Ms Lam and her masters in Beijing were unwilling to make. Indeed, the tone of Beijing's official statements was becoming increasingly strident with an official spokesman of the mainland's Hong Kong and Macau Affairs Office publicly warning Ms Lam earlier this week that "there is no middle ground, no hesitancy and no dithering, when it comes to stopping the violence and controlling riots in Hong Kong."

While the Hang Seng stock index showed some gains after the announcement, the fact remains that this is unlikely to defuse a crisis that has grown beyond the immediate provocation for protests. The protesters now have four other demands to which Beijing or Ms Lam have shown no signs of heeding. These include an independent investigation into the suppression of the protests by the police; a rhetorical shift, so officials stop calling the protests "riots"; an amnesty for arrested protesters; and, most crucially, restoration of political reform in the territory. The latter has been stalled for five years, but residents of Hong Kong clearly see their rights as constantly threatened unless they can directly elect their leaders. Currently, the city-state's Chief Executive is selected by an oligarchy of about 1,200 that is dominated by pro-Beijing business leaders. Pro-democracy politicians are usually considered ineligible. Elected pro-democracy members of the legislative council have also been disqualified, creating an acute crisis of representation that has fuelled the anger underlying the protests.

Many in relatively apolitical Hong Kong who were angry mainly at the lack of response from Ms Lam's administration might be appeased by this withdrawal of the extradition Bill. But the great mass of younger protesters — some of the protests have seen as many as two million participants, a quarter of the city's population — are unlikely to be satisfied, and will continue to press for the remaining four demands. It is not certain whether, however, their numbers and tactics can remain the same if there is a falling-off in support, thanks to this concession. Ms Lam's handlers are no doubt aware that, among the younger generation of the city's residents, the Chinese Communist Party and its government are far less popular than among those who lived in the city when it was still a British colony prior to 1997. Hong Kong's young people are fighting for identity, liberty, autonomy and their future and are unlikely to stop at anything less than universal suffrage. Xi Jinping has shown himself to be a hardliner in such matters, but Beijing should choose its battles. Even if the mainland has grown richer in recent decades, there is no replacement for the liberal, cosmopolitan and finance-friendly environment that Hong Kong provides. Making "one country, two systems" a political reality is a small price to pay.

ILLUSTRATION: BINAY SINHA

Traffic rules, mindset and on-time payments

There's no alternative to following the rules and working together with discipline for our common interests

Payments have gained currency, pun unintended, with the sharp focus on consumer spending and the economy. The following anecdote from newspaper reports begins with a payment problem for a traffic infraction, which leads on to existential questions on behaviour and governance.

A motorcycle rider in Uttar Pradesh was booked for not wearing a helmet. Events spiralled quickly to arrive at the heart of the matter: The state of governance and our utter disregard for due process and the law. But let's not get ahead of the story.

The rider was an electrician on contract with the UP State Electricity Board. He pleaded with the police to be let off on the ₹500 fine, saying he earned only ₹6,000 a month, and hadn't been paid for four months. The police said it was the law, and issued a ticket. The electrician's superior interceded at his request, but couldn't convince the police to waive the fine. (It turned out that tickets had been issued to 70 policemen for traffic violations.)

SHYAM PONAPPA

The electrician checked on the electricity dues owed by the police station. Finding that they amounted to ₹662,463 over several years, he disconnected their power supply. When questioned, he said that this was as required by the law.

The power supply to the police station was soon restored, with the customary, vague assurance that the bill "would be paid soon". A positive outcome, however, was that the state electricity board then paid ₹17 crore of arrears for the month of May to 9,627 contract workers, including the electrician. The remaining amount, they said, "would be paid soon".

Why were wages delayed? Apparently because consumers delayed payments, and the electricity board didn't have the money to pay. Employees were still owed back pay for three months. Meanwhile, a formal enquiry reportedly began on the episode.

Such incidents are not unusual. In August, there was an instance in Agra of unpaid sanitation workers responsible for the toilets at the Taj Mahal going on strike. In Noida near New Delhi, two major shopping malls, a hospital, and a school had their water and sewer lines shut off because of unpaid dues. There were apparently 107 defaulters who owed over ₹10 lakh each, with the highest being ₹46.35 crore.

It isn't as though citizens and the private sector are the sole culprits, with only stray government entities defaulting. A former Confederation of Indian Industry chairperson said in an interview on television recently that while hard data on government dues to the private sector are unavailable, informal estimates of the dues from central and state governments, state-owned companies such as electricity boards, and arbitration awards, ranged from ₹2 trillion to ₹5 trillion. Her observation was that if these dues were paid, it would provide the biggest boost for the economy, because it would result in much-needed capital formation and economic rejuvenation. As to where the funding could be found, given the government's finances, she replied that the same sources (for example, bonds) could be used that would fund whatever waivers or incentives the central and state governments were promising. Those funds could be channelled for productive use in capital formation by their rightful claimants.

Stepping back for perspective, the problems appear to stem from slack implementation of protocols (defined, sequential steps), whether it is the discipline of timely payments, or rules and regulations. The same malady afflicting payments shows in the disregard for traffic rules, and the confusion in disallowing tyre shredders to discourage driving the wrong way, which is even more dangerous to the public.

In some cases, the design itself is flawed. For instance, resources for infrastructure such as coal and spectrum need to be priced low to facilitate productivity. If auctioned at a premium, instead of abundant supply of good quality at reasonable prices, the supply is constrained in quantity or quality, or priced high. Other instances are of processes not thought through in terms of design (e.g, stranded power generation. A requirement of Letters of Credit (LC) for purchasing power has been around, but has not been enforced. Will a new directive enforce this, when banks acting prudently can issue LCs only to distribution companies with strong finances?) The design shortcomings could result from fragmented and episodic attention, disaggregated responsibilities, lack of professional capacity, or simply winging it.

These failings have existed over decades, regardless of the governments in office. Some initial successes, as in mobile telephony from 2003 to around 2011, or in road construction or electricity supply, have not been consistent, nor have they been convergent to yield all-round, sustainable growth of the sort that could result from well-organised orchestration across the board. They have not even been able to sustain their performance, and now comprise the troubled sectors for banking and non-performing assets.

The root causes may be in underlying contradictions in our attitudes. These include feudal and post-colonial (exploitative) notions, with the trappings of a Westminster system, without the requisite culture and preparation of policies, practices and training. The result is either government and citizens facing off in an "Us vs Them", with citizens often being viewed in the way colonials regarded "the natives", or episodic "schemes" that fizzle out. Our political leadership and we have to realise that we are in the same boat, and that there is no substitute for working together with discipline for our common interests.

There are no colonial masters here, only their mindsets that we adhere to, without refashioning them for our purposes. This is what we must change over time from a total-solutions perspective, from on-time payments, to law and order including traffic, to waste management,[1] all infrastructure, finance, industry, farming, the arts and daily living.

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1. Bhargava, Anjuli: 'Cleansing young minds', Business Standard, August 26, 2019. https://www.business-standard.com /article/opinion/cleansing-young-minds-119082601265_1.html

Strong government, weak reform

Prime Minister Narendra Modi is wildly popular with his supporters for his ability to take bold decisions. In the early days of his second term, for instance, he continued where he left off from his first with a surgical strike against Article 370 that altered the status of Jammu & Kashmir and divided it into two Union Territories. Odd, then, that his government is yet to demonstrate the same sense of chutzpah — or even urgency —when it comes to addressing the problems of the economy and unemployment.

That the economy is in the doldrums is self-evident, never mind if economists argue over whether the causes are cyclical or structural (even his economic advisory council cannot agree on this point). Or whether Mr Modi's "bold" first-term decisions of demonetisation and an advanced Goods and Services Tax deadline helped create what former Prime Minister Manmohan Singh called a "man-made slowdown".

SWOT

KANIKA DATTA

Whatever the cause, there's been general consensus across the ideological spectrum that Something Needs to be Done Now. Over several days in the last week of August, as it became clear that the Q1FY20 GDP numbers would be anaemic, the government manfully obliged. Those announcements ranged from correcting policy mis-steps, tinkering with the foreign direct investment rules, some efforts to revive the automobile sector, reorienting the public sector banking system and disinvestment.

Will this August story provide the elixir for India's languishing economy?

Let's take the August 24 tranche of announcements. The rollback of surcharge on foreign portfolio investors has done little to cheer the stock markets, which have been bleeding out ever since. To reverse the slide in automobiles, the state is stepping in as purchaser of first resort by lifting the ban on vehicle purchases by government departments, increased depreciation rates till March 2020. It has also deferred the rule for one-time registration fees to June 2020. All of these initiatives may bump up sales for a bit, but they do not address the dynamics of the automobile markets. The government stopped being the dominant buyer of automobiles more than two decades ago. The ordinary buyer's propensity to give dealer showrooms a miss these past three years is the most potent expression of a failure of consumer confidence, which is manifest across white goods and fast moving consumer goods.

Okay, so let's look at August 28, which eased foreign direct investment for single brand retail, coal mining, contract manufacturing and digital media. These announcements created considerable media excitement because they meant that Apple would be bringing their famed and much-awaited Apple Stores to India. But one Apple, assuming it enters India at lightning speed, cannot turn around an economy even if improved contract manufacturing laws means more iPhones may be Made in India. Also, the FDI policy is only the start. As Apple contract manufacturer Foxconn discovered, a commitment from a state leader (Maharashtra Chief Minister Devendra Fadnavis) need not translate into a shovel in the ground.

On August 31, hours before the dismal Q1 GDP numbers came the announcement that 10 state-owned banks would be merged into four. How, precisely, can this be classified as a reform? Perhaps because the government plans to create large banks with strong balance sheets. The problem is that several banks shortlisted for merger are what Percy Mistry called "zombie banks," overstaffed entities with almost no business. How their merger with healthier banks will help spur credit growth is a question that awaits answers. Finance Minister Nirmala Sitharaman later clarified that not one single job will be lost as a result of these mergers, nor any branches closed. This defies business logic of mergers, which is to derive synergies. If no staff is to be cut or branches closed, then what's the point of merging?

Taken together with the circular disinvestment route — making one public sector entity buy the government's share in another — these so-called economic reforms reflect a failure of the imagination and/or an unwillingness to opt for deeper structural reform of land and labour rules and the reorienting of agricultural markets. It has been argued that these issues are in the hands of the states, so the Centre has little leeway to change much. This is a specious argument. In fact, the political situation has rarely been more propitious to align policies, with more than half the states ruled by the ruling party at the Centre in majority or in alliance. To put it another way, a strong government is in unique a position to go boldly where no government has gone before.

Of Nair, Dyer, O'Dwyer and Empire

BOOK REVIEW

SAI MANISH

From William Cosby to Anil Ambani; Arun Jaitley to Melania Trump; Nusli Wadia to M J Akbar: The world of libel, slander and defamation has captivated and depleted people, depending on whether they are the audience witnessing the divulgence of lurid details or are plaintiffs and defendants trying to prove the other as infestations of moral turpitude, pedlars of malice and embodiments of villainy. Pre-independent India was witness to one such case, which is the subject of Raghu and Pushpa Palat's book *The Case That Shook the Empire*.

The book focuses on the famous 1924 *O'Dwyer vs Nair* libel case in which the lieutenant governor of Punjab, Michael O'Dwyer, sued former president of the Indian National Congress Chettur Sankaran Nair for holding him responsible for atrocities in Punjab including the Jallianwala Bagh massacre. The author is Nair's great grandson. The book is Mr Palat's first attempt at chronicling history. For an author who has written books on tax planning and investor strategies, this must have been a challenging task. But both Raghu and co-author Pushpa Palat manage to produce a book studded with anecdotes about the Jallianwala Bagh massacre and other historical events of the time. It is a delectable compilation of titbits about Nair's personal life and the events that unfolded inside and outside the London courtroom where the trial lasted for over two years.

Mr Palat depicts his great grandfather as a typical "Nair" from Kerala —trained in martial arts, a man of pride and occasional arrogance, a lawyer with an aversion to Gandhian notions of non-violence and an instinctive repugnance for the British sense of superiority over dark-skinned Indians. Mr Palat relates one noteworthy example of Nair's disposition, which occurred at the residence of O'Dwyer's — the very man who would drag him to court a few years later. O'Dwyer invited Nair for tea while the latter was visiting Lahore in 1916. O'Dwyer's dog affectionately approached Nair but Nair made his displeasure apparent at the "intrusion". This offended O'Dwyer's wife who commented on the hypocrisy of Indian culture — propagating the concept of kindness to all living creatures but loving dogs half as much the British do. His great grandfather's reaction to Lady O'Dwyer is described by Palat as follows: "Nair rudely and rather cruelly replied that this was because, while the English were nearer to dogs in their evolution, Indians had in their 5,000 year old history moved further away. British politeness, presumably, prevented the O'Dwyers from responding to such uncalled for, discourteous and ill-mannered behaviour on part of their guest."

While much of the book describes Nair and British policies preceding the Jallianwalla Bagh massacre and its consequences, it is left to two chapters at the end of the book to do justice to its title of describing "the case that shook the Empire". These chapters that cover O'Dwyer's defamation suit against Nair and the actual trial are more riveting than other parts where Mr Palat reproduces portions of Indian history that could well be confined to middle school textbooks. Mr Palat writes that his great grandfather envisaged his book, *Gandhi and Anarchy*, as a dissenting dialogue between himself and Mahatama Gandhi where he would repudiate Gandhi's idea of non-violence because "being a Nair, he could not accept a fight through non-violence." In the book Nair implies that O'Dwyer was responsible for forceful military recruitments through torture, imposition of martial law, the Gujranwala bombings and the Jallianwala Bagh massacre.

The book is a delectable compilation of titbits about Nair's personal life and the events that unfolded inside and outside the London courtroom where the trial lasted for over two years

O'Dwyer decided to sue Nair for defamation in London, asking for the book to be withdrawn from circulation and in addition to damages of £1,000. A trial that is to decide whether Nair defamed O'Dwyer transforms into a vindication of General Reginald Dyer's actions at Amritsar on the fateful Baisakhi day of 1919. The chapters describe the inherent bias of the presiding judge, Henry McCardie, whose pre-conceived notions of Dyer's righteousness of acting to save the British Empire often lead him to argue in favour of O'Dwyer. In the end, Nair loses the case.

Mr Palat describes the prejudices of the British judiciary and the trial impeccably, but he stumbles in his conclusions by falling prey to the distinctively Malayali mindset of divine retribution (which was evident after the 2018 floods when many highly educated Malayalis attributed the natural disaster to the Sabarimala court case that they believed invoked the wrath of god). There was no connection between the case and the afterlives of those involved and invoked in it; yet Mr Palat goes on to attribute the deaths of Dyer, O'Dwyer and McCardie to the trial. The last parts attributing the deaths of people as divine revenge for the injustice meted to his great-grandfather suggest superstitious balderdash that would have riled Nair's intelligence had he read this part of his great-grandson's book.

THE CASE THAT SHOOK THE EMPIRE
Raghu Palat & Pushpa Palat
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