The real picture

The government's numbers on expenditure and receipts in the first half of the current year do not fully reveal the stress in its finances

RAISINA HILL

A K BHATTACHARYA

The Union government's revenue and expenditure numbers for the first half of 2019-20 have now been released. If you look at the broad trend and compare it with what was happening during the same time last year, you may be lulled into believing that things are under control and may have actually got better.

The government's total expenditure has been contained at ₹13.44 trillion, which is 53.4 per cent of the Budgeted estimate of ₹27.86 trillion for the full year. You may argue that clocking this rate of expenditure in the first half of the year shows a tight control on government spending. Last year also, during the same period, the government had spent an amount that was again 53.4 per cent of the Budgeted number for 2018-19.

The government's total receipts during April-September 2019 were estimated at ₹8.37 trillion, about 40 per cent of the Budgeted number of ₹20.82 trillion. Last year, this figure was slightly lower at 39 per cent.

Not surprisingly, therefore, the fiscal deficit at ₹6.51 trillion represented 92.6 per cent of the full year's number. Last year, it was much higher at 95.3 per cent.

But such signs of an apparent improvement in the government's fiscal health are quite misleading. Remember that last year, the government's expenditure was suppressed and reduced by about ₹1.5 trillion by transferring a part of those liabilities to other public sector entities. It would, therefore, appear that this year also the same exercise may have to be undertaken, since the government's total expenditure in 2019-20 is set to grow by over 20 per cent to ₹27.86 trillion, compared to the actual expenditure of ₹23.11 trillion in 2018-19.

What is that expenditure amount, to be transferred to the public sector entities and which will be classified as off-Budget borrowing, is not yet clear. But the expenditure trend so far suggests that there would be a repeat of what happened last year.

The second area of concern is on account of the six-monthly trend in the government's expenditure on major subsidies. The government had budgeted an expenditure of ₹3 trillion for the entire year of 2019-20 on major subsidies on food, fertilisers including urea and petroleum. But during the first half of the current financial year, it has already spent 70 per cent or ₹2.11 trillion. Last year, during the same period, the government had spent a lower amount of ₹1.88 trillion, but its share in the Budget estimate was 71 per cent.

The bulk of the expenditure compression, leading to transfer of the government's liabilities to a clutch of public sector undertakings, took place under the head of major subsidies. Since 70 per cent of the Budgeted subsidies amount has already been spent, it is only a matter of a few more weeks before the government starts loading the excess burden on the public sector undertakings like Food Corporation of India and the petroleum companies. This is likely because so far there is no indication that the government is planning to clean up its accounts and show all the extra-Budget borrowings as part of the government's borrowing on its own account to reflect the correct level of fiscal deficit.

The third area of concern arises from the government's receipts. The healthy rise in the government's receipts is largely on account of a one-time transfer of the Reserve Bank of India's surplus of about ₹58,000 crore. On the disinvestment front, the trend in the first six months has not been encouraging. Just about ₹12,400 crore has been received in April-September 2019, against a Budgeted target of ₹1.05 trillion of receipts from disinvestment of the government's equity in public sector undertakings. Meeting that target will require a lot more effort in successfully selling Air India and BPCL.

On the taxation front, the gross tax revenues growth in the first six months of 2019-20 has declined to just 1.43 per cent to ₹9.19 trillion. In the first five months of the year, the growth rate was still higher at 4.25 per cent. Corporation tax growth in April-September too has slowed to 2 per cent, compared to almost 5 per cent in the April-August period. Similar deceleration has been noticed in the collection of personal income-tax and customs duty.

It, therefore, seems that the government's numbers on expenditure and receipts in the first half of the current year do not fully reveal the stress in its finances. Less than three months later, the government will be presenting the Budget for 2020-21. It has a few more weeks before it can make up its mind on whether to transparently recognise the stress in its finances or continue to present a headline deficit number that does not fully reveal the true picture.

CHINESE WHISPERS

War and peace

On Sunday, West Bengal Governor Jagdeep Dhankhar was full of praise for Chief Minister Mamata Banerjee for her efforts to mitigate the impact of cyclone Bulbul. "Adverse impact has been contained, thanks to Hon'ble CM leading from the front...," he tweeted. A welcome break from the ongoing war of words between the two. Last week, Dhankhar had alleged the people of the state were deprived of the benefits of the Centre's flagship health scheme, Ayushman Bharat, because of the stand taken by the state government. The very next day, the state government released a comparison of the two schemes. "Swasthya Sathi is a comprehensive health protection scheme entirely funded by the state government whereas in Ayushman Bharat Yojana, the centre provides 60 per cent of the fund only," Minister of State for Health Chandrima Bhattacharya said in a statement. The state government pulled out of the central scheme in January this year, accusing the central government of making "tall claims". Dhankhar said not everything should be politicised.

Yamraj on duty

To educate train commuters on the perils of crossing railway tracks in an unauthorised manner, the Western Railway has pressed the Hindu god of death, Yamraj, into service. Last week, the Western Railway launched an awareness campaign warning people of the danger to their lives if they do not follow rules. Pictures shared by the Ministry of Railways depict a person dressed as Yamraj carrying passengers on his shoulders — those who attempted to cross the train tracks and perished. "Do not cross the train tracks in an unauthorised manner. It can be fatal...," the Ministry of Railways said in its caption in Hindi.

Master of the game

Speculation on whether Tamil cinema's biggest star Rajinikanth would join the Bharatiya Janata Party (BJP) never died down, not even after he announced plans to launch a political party and contest the 2021 Tamil Nadu Assembly elections. Rumours started swirling again after his recent meeting with BJP leader Pon Radhakrishnan, but the south star rubbished them, alleging "some people, some media" were trying to falsely paint him with saffron. Critics immediately said he was playing safe after a recent episode when the BJP found itself facing brickbats for tweeting an image of the sixth-century poet sage Thiruvalluvar dressed in a saffron robe and wearing *rudraksha* rosaries. Images of Thiruvalluvar mostly show him in a white robe without any religious or caste indicator.

A cobbler's suggestions to mend the economy

One-time restructuring of real estate loans and a large fund to buy toxic assets and equity in banks and NBFCs can bring back the animal spirits in the economy

BANKER'S TRUST

TAMAL BANDYOPADHYAY

This is an apocryphal story narrated by Rabindranath Tagore in one of his poems.

One day King Hobuchandra told his minister Gobuchandra that his feet should not get dirty when he stepped on the ground. Millions of brooms were purchased to ensure a dust-free kingdom but the whole state, the king's palace, and even the sun, got covered by the dust raked up by the brooms. A sick king started coughing.

The water from the lakes and ponds was used liberally to settle the dust. The kingdom was flooded and, much to the king's annoyance, the dust turned into mud. When this experiment failed, it was decided to cover the earth by leather. Millions of sheep and goats were slaughtered but their hide was not enough to do the trick.

Finally, an old cobbler walked into the royal court seeking an audience with the king. Sitting at the king's feet, the cobbler stitched a pair of simple leather sandals. Now the king could roam around on the dusty roads; his feet would not get dirty again.

The government last week announced a plan to set up a ₹25,000 crore alternative investment fund (AIF) to revive stalled housing projects. The State Bank of India and Life Insurance Corporation of India will chip in with ₹15,000 crore and the rest will come from the government. The AIF will help in the completion of the housing projects in the affordable and middle income categories, financing them. Even those projects that have defaulted in debt repayment and even dragged into the insolvency court will get funds if they are not facing liquidation.

Finally, the government has identified the cause of distress and distrust in the banking and finance space and the slowing economy. While there is no end to the debate on whether the economic downturn is structural or cyclical or even both, the villain of the piece is the tattered real estate sector.

According to real estate services company Anarock Property Consultants, ₹6.64 trillion worth of projects are stalled across India. Its latest report says the top seven Indian cities have at least 1.9 million under-construction homes. Of this, about 5.76 lakh units, launched in 2013 or before, are stuck at various stages of non-completion and the rest have been launched between 2014 and now. A senior banker who closely tracks the sector pegs the value of stalled real estate projects at ₹7 trillion and says at least 1.5 million ready homes have no takers.

The ₹25,000-crore alternative investment fund will help in the completion of housing projects in the affordable and middle income categories

When the cracks started surfacing in the edifice of India's fast growing NBFC (non-banking finance companies) sector, the first impression was they were suffering from asset-liability mismatches for financing a substantial part of their long-term assets by rolling over short-term liabilities in the form of commercial papers. I had called it a Northern Rock moment for Indian banking. But I was mistaken. The NBFCs, particularly those that were heavily into wholesale funding, also have problems with the quality of assets (because of the comatose real estate market). They smartly passed the parcel to the banking sector.

What we have been witnessing now is a Lehman moment, in slow motion. There is plenty of liquidity in the system but the banks don't trust most NBFCs and are not willing to fund them for fear of losing money. This, in turn, is hurting the economy badly as in the past few years, it was the NBFCs that were driving growth, financing millions in different segments, fuelling demand, while bad assets-laden banks were either restrained from lending by the Reserve Bank of India (RBI) or didn't have the risk appetite to lend.

Let me attempt to play the cobbler, an unwanted entry into the king's royal court, and suggest a solution to the problem that has been plaguing Indian banking and, in turn, the economy. An AIF is a good idea but it's too small an amount to make a difference. Going by the reports of various sector analysts, at best it can fund 16 per cent of the stalled projects, assuming they are already half done. Then there are the legal complexities of insolvency proceedings and uncertainties on the return this fund can generate.

The best way to tackle the problem is a one-time restructuring of the banks and the NBFCs' exposure to the real estate sector. It's easier said than done. While the NBFCs have direct exposure to the sector, the banks have both direct and indirect (through the NBFCs) exposures. Besides, there cannot be a blanket forbearance to all such loans but crafted with skill this can offer a big relief to the financial sector.

Taking forward the cobbler analogy, this will cover one foot of the king. For the other foot, we need to create a much larger AIF to rescue troubled banks and NBFCs on the lines of the National Investment and Infrastructure Fund (NIIF), India's first sovereign wealth fund. The government can own 26 per cent in it and the rest can come from global investors. It must be run by a professional manager with vast experience in investment and commercial banking — someone who can attract investors and spot troubled banks and NBFCs that need capital infusion desperately.

The NIIF, along with two other investors, has recently committed ₹7,614 crore investment to the GVK group which has developed the Mumbai Airport and is developing a few others. It is making this investment on stiff terms that are not easy for GVK to stomach but does it have any choice? Similarly, some of the NBFCs and banks have no choice but to raise capital at any cost. A banking licence in India is a precious commodity. The fund can invest on its own terms, rescue the troubled financial intermediaries, and make tonnes of money.

The Troubled Asset Relief Program of the US is a good model to emulate. Buy toxic assets and equity from NBFCs and banks at a throwaway price, strengthen the financial sector, make money and bring back the animal spirit in the economy.

Historically, the government has infused trillions of rupees into public sector banks with very little or no return on capital. Once the capital comes from others, there is no pressure on the government's fiscal health even as the RBI can draw comfort from the fact that the fund's ownership will improve governance in banks. The regulator can also have its representative on the board of the fund.

The columnist, a consulting editor with Business Standard, is an author and senior adviser to Jana Small Finance Bank Ltd. Twitter: @TamalBandyo

INSIGHT

Moody's rating action and the ₹28 trn revenue push

Penalising banks for past actions is not the best way to make the financial markets work better

SOUMYA KANTI GHOSH

IN THE BOOKS

CPSE/state govt entities fixed assets		Present estimated value as per cost inflation index assuming 1990 as the year of acquisition
Fixed assets	(in ₹ cr)	
Gross block	1,826,673	
W/w land	140,749	976,390

Sources: Cline; SBI Research; CPSE/State govt entities, excluding BSFI sector, where financial starting from FY2017 onwards

The present growth slowdown is the combined impact of many factors, some unavoidable. First, the informal shift to inflation targeting happened at a time when the Indian economy was recovering from the high inflation episode. The emphasis on controlling inflation meant a benign neglect of growth. Second, the asset quality review (though necessary) and the prompt corrective action mechanism initiated during the downswing of the business cycle made banks rightfully conservative in lending. Three, the introduction of several structural measures (like GST, that were delayed for long) and implemented within a short period did have an impact on economy in the short term despite their intentions being noble. Fourth, the ultra-conservative fiscal hawkishness and calibrated monetary tightening during 2018, particularly when the economy was beleaguered with capital outflows, choked systemic liquidity and dampened the animal spirits. Fifth, the recent NBFC crisis choked market liquidity from non banks. Finally, the subdued global economy ensured external demand remained weak and failed to stimulate demand. Together, these factors depressed sentiments and stymied demand.

The objective of this piece is not to do a post-mortem of the reasons for the slowdown. Rather, our aim is to first understand some of the common fallacies resulting in policy mistakes that could have been avoided. Next offer some out of the box thoughts on tackling the slowdown. In this context, the measures announced by the government to set up an alternative real estate fund is a step in the right direction.

Now the mistakes. First, given the supposed lack of fiscal space, should rate cuts by the RBI continue? The cumulative reduction of the policy rate by 135 bps since February should be given adequate time to permeate down and stimulate demand. It is almost certain that more rate cuts will happen in the current fiscal and the external benchmarking might ensure upto 50 bps lending rate reduction over the next four to six months. However, we are now worried that too low rates of EMIs on housing and automobiles, while spurring demand momentarily, may fuel debt-financed consumption and lead to greater credit offtake. The latter might turn illusory if weak sentiments continue. More importantly, bank depositors must be compensated at least to the extent of his/her interest income adequate to meet inflation.

Second, did the AQR and, specifically, the subsequent PCA norms, choke bank lending? Empirical evidence shows that penalising banks for past actions is not the best way to make the financial markets work better. Markets remain fundamentally procyclical, and punishing them for past mistakes may increase such procyclicality, especially during a weakening growth cycle. Interestingly, in the US during the savings and loan crisis, the larger institutions were deliberately kept out of the PCA norms.

Third, the overemphasis on 3 per cent fiscal deficit defined in the Maastricht Treaty and adopted wholeheartedly in India in times of growth weakness results in costs far outstripping the benefits of macro stability. As an example, the fiscal conservatism prevented growth from returning and now we are stuck in a trap as with low growth, the fiscal deficit will jump and there might be more rating action like that of Moody's (thankfully, markets have discounted that). But in such circumstances, often the use of non-tax revenues to meet fiscal deficit by the government could be fallacious — non-tax revenue growth is inelastic to GDP growth.

Higher non-tax revenue growth can cause sectoral imbalance. A case in point is the telecom sector which witnessed an increase in leverage in 2010 when a major spectrum auction happened. Leverage which stabilised in FY17, increased in the past years. For FY19, the leverage ratio has increased largely due to an erosion in the net worth. The alternative to targeting fiscal deficit is that like most advanced economies and several emerging market economies India should target a structural deficit, which serves as an automatic counter-cyclical stabiliser.

The stimulus must come from fiscal policy which would immediately stimulate consumption demand and investment demand later. Lower income tax rates may be necessary to stimulate consumption demand while a corporate tax rate cut would spur investments with a lag.

There are a couple of things the RBI and the government can do in the current context. First, given the crisis of confidence in the financial markets it is imperative that central banks don't forget their primary function of being the lender of the last resort. Alternatively, it is imperative that the RBI backstops against good quality collateral. They must be identified to ensure the stability of NBFCs so that they can meaningfully withstand any worsening of the situation, both in terms of access to liquidity and in terms of absorbing potential losses. The provision of liquidity is the ultimate responsibility of any central bank and it has been successfully done by the US Fed during the 2008 crisis and later. Why can't we?

Next, aggressive monetisation of government assets. Let us put some numbers to it. According to OECD statistics, in 2010 government financial assets had amounted to 33-43 per cent of GDP in eurozone countries like Greece, Ireland, Portugal, Spain, France, Germany and so on. In 2018, these countries have aggressively used such enormous wealth to their own advantage. There are various ways of doing this. An obvious one is the privatisation of some of the state's assets, and using the proceeds to reduce the stock of government debt. Disposing government assets has no effect on the fiscal position and can also address liquidity problems.

We did a dipstick analysis in the Indian context and found that for 212 CPSE/state government entities, the total stock of such wealth could be at least ₹28 trillion or 15 per cent of GDP. Interestingly, the government can even securitise such assets and use them to offer protection to bondholders or to guarantee the backstop for the financial sector in case it wants to avoid market volatility and does not want to dispose of public assets that are strategic in nature — such as telecom, energy and so on.

Finally, the government is doing the correct thing in addressing sector-specific problems. NBFC, telecom, roads, power and real estate are sectors that require attention and there must not be any negative sector specific policy surprises in the current uncertain environment.

The author is group chief economic advisor, State Bank of India
Views are personal

LETTERS

A game-changing move

Apropos your editorial, "Reviving housing" (November 8), the finance minister's announcement of the ₹25,000 crore package for the revival of the real estate industry is one of the best measures taken so far to arrest the downward slippage of the economy. The package, if implemented judiciously, has the potential to give a big boost to our doddering growth. The construction industry — with its multiple linkages across sectors like steel, cement, tiles, cables and electric goods including fans, pipes and sanitary ware, doors, windows and hardware, sheet glass etc — can have a far reaching effect on the economy. It will also mean a boost to the transport sector and, more than anything else, provide jobs to many. Great proposal indeed.

The manner in which it is being structured it has excellent chances of success. The Sebi has an unblemished record of being a very sharp watchdog and SBICAP should be a good project manager. With stated emphasis on smaller housing units, it should help a very large number of middle class people who — after investing their hard earned savings as well as loans from various sources — are facing acute stress due to stalled projects. Providing succour to them would be a great confidence building measure. Overall, one doesn't see much of a chance of failure of the project or any downside.

Permit me to mention that your apprehensions — "it all looks good on paper but things are unlikely to be that straightforward" — are perhaps not correct. Admittedly it would need very meticulous and constant monitoring but even if it "funds only 16 per cent of the stalled projects" it is a giant step forward. SBICAP Ventures having already identified 12 projects is an excellent start and portends well for the scheme.

Indeed, there is a close connection — as you conclude — between the recovery of the real estate sector and the broader recovery of the economy and that is exactly why this move of the government might prove to be a game changer.

Krishan Kalra Gurugram

Letters can be mailed, faxed or e-mailed to:
The Editor, Business Standard
Nehru House, 4 Bahadur Shah Zafar Marg
New Delhi 110 002
Fax: (011) 23720201 • E-mail: letters@bsmail.in
All letters must have a postal address and telephone number

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Awaiting real closure

Balance of probabilities argument isn't convincing

The long-awaited Ayodhya judgment has raised hopes of bringing to an end the land dispute in the eastern Uttar Pradesh city — something that has, over the decades, played a crucial role in the transformation of Indian politics and society. The Supreme Court's judgment is particularly careful to locate the reasoning for its decision purely in the legal sphere, insisting that while the dispute may have political and religious implications, as far as the court is concerned it is merely a title dispute, if one of great complexity. In other words, the court's decision can be seen as a clear attempt to apply secular and constitutional principles to the Ayodhya dispute, rather than using the judiciary to pronounce on history and religion. The Allahabad High Court decision, which ordered a trifurcation of the land between the three sets of applicants — so, in effect, one third came to Muslim and two-thirds to the Hindus — was marked by an excavation of historical records and of theology. The apex court judgment puts much less strain on the secular nature of jurisprudence.

That said, questions can and should still be asked about how the Supreme Court made its final decision. Several problematic points stand out in the series of arguments that led the court to award the entire disputed site to the Hindus, with some compensatory land to be given to the Muslims. First, the conclusion, to deny the Muslim claim completely on the "balance of probabilities", is odd, given that the Hindu applicants never furnished proof of their continued worship in the inner courtyard. The fear is that this application of the "balance of probabilities" might conceivably be seen in some quarters as allowing political considerations about the final status of Ayodhya to enter the calculation. Second, the court takes the opinion that the entire site is "composite", which rules out any division in the first place, even if such a division was indeed the historical practice prior to attachment in the last century. Third, the court considers two sections of the disputed site — the "inner courtyard" and "outer courtyard" of the erstwhile mosque — and notes that while there are records of Hindu worship in the outer courtyard, the Muslim applicants have failed to demonstrate continued worship in the inner courtyard.

However, the broader point is that the court judgment, while imperfect, does have the potential to bring closure to this long-running issue. In this context, all political parties and stakeholders in the dispute, right from the prime minister, deserve commendation in that they have taken much of the political heat out of the question in their statements. The prime minister himself cautioned the nation, in advance of the ruling, to not see the judgment in terms of "winning" or "losing". It is to be hoped that the establishment and management of the trust will be similarly inclusive and lack triumphalism, which could open the wounds the court has sought to close. The court, which has been scathing in its judgment about the 1992 demolition, must also ensure that cases related to that breach of law be concluded expeditiously, and that the guilty is punished. That will provide real closure, and allow India to move forward. The law must be seen to be enforced, and then national politics can emerge from the long shadow of Ayodhya.

Another warning

Structural changes needed in every aspect the economy

Moody's decision to change India's credit ratings outlook to negative from stable is another reminder of the deteriorating economic situation. Most economists believe that economic growth in the July-September quarter is likely to have slipped below the six-year low of 5 per cent recorded in the April-June quarter. Growth in the second half of the fiscal year is expected to improve, but largely because of the base effect. Although the change in the ratings outlook is unlikely to have a significant impact, it will dampen sentiment further, as was evident in the stock market on Friday. Rating agencies generally tend to be behind the curve, but Moody's rationale for the change in its view should not be ignored. It reflects an increasing risk that growth would remain significantly low compared to the past because of inadequate reforms to resolve long-standing economic weaknesses. This could lead to a gradual rise in India's debt burden. Further, in its view, the possibilities of reforms that would support growth and significantly broaden the tax base have diminished. These are sharp observations and would not help India in attracting investment.

Although the government has taken steps in recent months to revive growth, they are unlikely to address India's structural weaknesses. In this context, the government has sharply reduced the rate of corporation tax, but it will not be sufficient to revive investment in the short to medium term. India needs more flexible land and labour markets. For instance, India decided not to be part of the Regional Comprehensive Economic Partnership, at least for now, because of the fear of higher imports. The fact that India could not see this as an opportunity to integrate with the global value chain and become an integral part of the fastest-growing region in the world shows that it has not done enough, over the years, to overcome structural weaknesses and improve competitiveness. This is also reflected in India's exports, which are virtually stagnant for years. It is hard to attain higher sustainable growth without higher exports. However, what is worrying is that there is practically no policy road map that will help India become more competitive.

India needs to address multiple issues. For instance, one of the biggest reasons for the sharp economic slowdown is the stress in the financial sector. While the government and Reserve Bank of India have taken several steps, which would relieve some pressure in the short run, the financial system will continue to be dominated by public sector banks, which are prone to misallocating credit and would remain a drag on the exchequer. Government finance itself is under stress and revenue collection is likely to fall short by a significant margin. Part of the problem is again fundamental. Even after over two years of implementation, the government has not been able to fix the gaps in the goods and services tax. This is affecting its ability to spend in productive areas, which would have helped push growth. Essentially, India needs structural changes in practically every aspect of the economy. For example, its record in contract enforcement is among the poorest in the world. While policymakers may choose to ignore Moody's warning, the world will not.

ILLUSTRATION BY AJAY MOHANTY

The end of neoliberalism

The simultaneous waning of confidence in neoliberalism and in democracy is no coincidence or mere correlation

At the end of the Cold War, political scientist Francis Fukuyama wrote a celebrated essay called "The End of History?" Communism's collapse, he argued, would clear the last obstacle separating the entire world from its destiny of liberal democracy and market economies. Many people agreed.

Today, as we face a retreat from the rules-based, liberal global order, with autocratic rulers and demagogues leading countries that contain well over half the world's population, Fukuyama's idea seems quaint and naive. But it reinforced the neoliberal economic doctrine that has prevailed for the last 40 years.

JOSEPH E STIGLITZ

The credibility of neoliberalism's faith in unfettered markets as the surest road to shared prosperity is on life-support these days. And well it should be. The simultaneous waning of confidence in neoliberalism and in democracy is no coincidence or mere correlation. Neoliberalism has undermined democracy for 40 years.

The form of globalisation prescribed by neoliberalism left individuals and entire societies unable to control an important part of their own destiny, as Dani Rodrik of Harvard University has explained so clearly, and as I argue in my recent books *Globalization and Its Discontents Revisited* and *People, Power, and Profits*. The effects of capital-market liberalisation were particularly odious: If a leading presidential candidate in an emerging market lost favour with Wall Street, the banks would pull their money out of the country. Voters then faced a stark choice: Give in to Wall Street or face a severe financial crisis. It was as if Wall Street had more political power than the country's citizens.

Even in rich countries, ordinary citizens were told, "You can't pursue the policies you want" — whether adequate social protection, decent wages, progressive taxation, or a well-regulated financial system — "because the country will lose competitiveness, jobs will disappear, and you will suffer."

In rich and poor countries alike, elites promised that neoliberal policies would lead to faster economic growth, and that the benefits would trickle down so that everyone, including the poorest, would be better off. To get there, though, workers would have to accept lower wages, and all citizens would have to accept cutbacks in important government programs.

The elites claimed that their promises were based on scientific economic models and "evidence-based research." Well, after 40 years, the numbers are in: Growth has slowed, and the fruits of that growth went overwhelmingly to a very few at the top. As wages stagnated and the stock market soared, income and wealth flowed up, rather than trickling down.

How can wage restraint — to attain or maintain competitiveness — and reduced government programs possibly add up to higher standards of living? Ordinary citizens felt like they had been sold a bill of goods. They were right to feel conned.

We are now experiencing the political consequences of this grand deception: distrust of the elites, of the economic "science" on which neoliberalism was based, and of the money-corrupted political system that made it all possible.

The reality is that, despite its name, the era of neoliberalism was far from liberal. It imposed an intellectual orthodoxy whose guardians were utterly intolerant of dissent. Economists with heterodox views were treated as heretics to be shunned, or at best shunted off to a few isolated institutions. Neoliberalism bore little resemblance to the "open society" that Karl Popper had advocated. As George Soros has emphasised, Popper recognised that our society is a complex, ever-evolving system in which the more we learn, the more our knowledge changes the behavior of the system.

Nowhere was this intolerance greater than in macroeconomics, where the prevailing models ruled out the possibility of a crisis like the one we experienced in 2008. When the impossible happened, it was treated as if it were a 500-year flood — a freak occurrence that no model could have predicted. Even today, advocates of these theories refuse to accept that their belief in self-regulating markets and their dismissal of externalities as either nonexistent or unimportant led to the deregulation that was pivotal in fueling the crisis. The theory continues to survive, with Ptolemaic attempts to make it fit the facts, which attests to the reality that bad ideas, once established, often have a slow death.

If the 2008 financial crisis failed to make us realise that unfettered markets don't work, the climate crisis certainly should: neoliberalism will literally bring an end to our civilisation. But it is also clear that demagogues who would have us turn our back on science and tolerance will only make matters worse.

The only way forward, the only way to save our planet and our civilisation, is a rebirth of history. We must revitalise the Enlightenment and recommit to honoring its values of freedom, respect for knowledge, and democracy.

Joseph E Stiglitz, a Nobel laureate in economics, is University professor at Columbia University and chief economist at the Roosevelt Institute.

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Three hurdles for the realty fund

IRRATIONAL CHOICE

DEBASHIS BASU

Following up on its announcement in September, the government has come up with an alternative investment fund (AIF) of ₹25,000 crore for stalled realty projects. This has immediately boosted sentiment and will unlock liquidity for projects where 60-70 per cent work has been completed. The scope is wide: It goes beyond the affordable segment to include units with a ticket size up to ₹1-2 crore and will inject money where it is needed the most — bad real estate loans or those under resolution. If it works, this scheme will help homebuyers, real estate developers, and financiers. According to market sources, this funding will help 1,500 projects, making around half the stalled projects marketable over the next three years.

This scheme is a mini-version of the Troubled Asset Relief Program (TARP), which was created by the US government in early October 2008, to prevent a collapse of the financial system brought about by the financial crisis in the same year. Under TARP, the US Treasury stepped in to buy mortgage-backed securities and stocks of commercial and investment banks. TARP ran from 2008 to 2010 and was a financial success, earning a surplus for the Treasury.

In the process, TARP offered a lifeline to the same reckless and buccaneering financiers responsible for causing the crisis in the first place and therefore missed a chance to reform the system from its core. Similarly, in India, while the real estate fund is desirable, the question is: Will this let reckless finance companies and obdurate real estate developers off the hook? In any case, the effectiveness of the fund will depend on several factors.

1. Does the AIF, the saviour, get paid first? An extensive, 37-point FAQ put out by the government does not answer this crucial question. Put yourself in the AIF's shoes. The first thing you would want to know is whether you will get preferential access to cash inflows. After all, the AIF is coming in to save projects the promoters and lenders have made a mess of. Indeed, there are cases where a project is completed 80-90 per cent and is ripe for short-term private deals, like the AIF would do. But in each of those cases, the potential investor asks: "Since I am helping complete the project, which is otherwise stuck, it is only fair that I am allowed to take my money out first." The lenders cannot agree to this.

The AIF will be in the same situation. If there is no clarity on this, no private institution will invest in the AIF and the government will have to arm-twist various government agencies to do so, eventually leading to a drain of public funds.

There are other issues. The AIF will be a debt fund. What kind of interest rate will it charge? What will be the rights of the fund, alongside bankers and finance companies, which are finding it hard to recover their money? Remember the investment is in stalled projects, on which interest is mounting; many are already bad loans or nearly so, and will soon land up in the National Company Law Tribunal. The FAQ is not clear on any of this, especially the AIF's rights vis-a-vis other lenders.

2. What about the promoter? It is being assumed that money alone is a solution to all stuck projects. In a few cases it is. But in most cases, it is promoter quality that is responsible: Poor planning, overambitious projects, diversion of funds, and no desire to slash prices. The FAQ says the AIF "shall ensure that the end use of funds is only for the purpose of completing the project", but what is the role of promoters in this? Project completion is only half the job; the completed units have to find buyers. Surely the fund cannot do that. Will the promoter continue to set prices and handle the selling process? But promoters' reluctance to make price cuts led to the problem in the first place. The FAQ says "as part of the investment review, the Investment Manager will take a call if there is any need to change the developer for the project". This is key, but will they do it?

3. Demand issue: Assume that the stalled projects are completed and moved to the market, what happens next? There is already an oversupply, as against weak demand growth. Here is the depressing math. According to real estate agents, India sells around 250,000 units a year in eight key cities: Mumbai, the National Capital Region, Bengaluru, Chennai, Hyderabad, Ahmedabad, Pune, and Kolkata. Sales are rising marginally (maybe around 5 per cent) in these areas. This demand is already over supplied by on-going projects; in fact, new launches (20 per cent growth) far outstrip actual sales. Even if 1.5 million units of the stalled projects come to this market, who will buy them? It will take years for this supply to get absorbed.

Perhaps the government should have tried other measures along with this fund. One, incentivise buyers with interest subvention on completed projects. Two, encourage mergers and acquisitions by supporting the many strong developers that can act in tandem with bankers to take over stalled projects. This is unavoidable to make the sector healthier. Three, use a carrot and stick policy with promoters to cut prices and boost demand. As with the overall economy, it is the demand side that needs to be worked on more than the supply side.

The writer is the editor of www.moneylife,in Twitter:@Moneylifers

An anonymous appeal

BOOK REVIEW

JENNIFER SZALAI

"Trust me": It's a tired cliché, a throwaway line, but when you first encounter it in *A Warning*, the new book by "Anonymous," who is identified here only as "a senior Trump administration official," it lands with a startling thud. Any revealing details have been explicitly and deliberately withheld to protect this person's identity. Who is this "me" that we're supposed to trust?

It's a question that the anonymous author — who wrote an Op-Ed for *The Times* last year about resisting the president's "more misguided impulses" — might have anticipated, given how much of the book is devoted to the necessity of "character" and to quoting dead presidents by name.

Not to mention this individual's own conspicuous failures of judgment thus far. You don't even have to take it from me; you can take it from Anonymous. "Many reasonable people voted for Mr Trump because they love their country, wanted to shake up the establishment, and felt that the alternative was worse," Anonymous writes. "I know you because I've felt the same way." A mildly chastened Anonymous now seems to recognise, somewhat belatedly, that President Trump's peddling of birtherism conspiracy theories and his boasts about grabbing women's genitals might have constituted their own kind of warning — plausible evidence that Mr Trump might not magically transform into the dignified statesman Anonymous so desperately wanted him to be.

Anonymous even admits that the thesis of the Op-Ed in *The Times* — the essay that led directly to the existence of this book, and was published just over a year ago — was "dead wrong" too.

Attempts by the "adults in the room" to impose some discipline on a frenzied (or nonexistent) decision-making process in the White House were "just a wet Band-Aid that wouldn't hold together a gaping wound," Anonymous writes. The members of the "Steady Statehave done everything they can, to no avail. Anonymous is passing the baton to "voters and their elected representatives" — only now the baton is a flaming stick of dynamite.

A Warning, then, is just that: a warning, for those who need it, that electing Mr Trump to a second term would be courting disaster. "The president has failed to rise to the occasion in fulfilling his duties," Anonymous intones. The book's publisher and agents apparently referred to the manuscript as the "December Project," though the publication date was moved up to this month when the House announced an impeachment inquiry.

"I realise that writing this while the president is still in office is an extraordinary step," Anonymous says. In light of three years' worth of resignations, tell-all books, reports about emoluments and sworn testimony about quid pro quos, this is a decidedly minimalist definition of "extraordinary." How can a book that has been denuded of anything too specific do anything more than pale against a formal whistle-blower complaint?

It's hard to look like a heroic truth teller by comparison, but Anonymous tries very hard, presenting anonymity as not just convenient but an ultimately selfless act, designed to force everyone to pay more attention to what this book says by deflecting attention away from the person who's saying it.

A Warning, Anonymous says, is intended for a "broad audience," though to judge by the parade of bland, methodical arguments (Anonymous loves to qualify criticisms with a lawyerly "in fairness"), the ideal reader would seem to be an undecided voter who has lived in a cave for the past three years, and is irresistibly moved by quotations from Teddy Roosevelt and solemn invocations of Cicero.

Everything in the text of *A Warning* suggests a dyed-in-the-wool establishment Republican. There's the typical talk about American exceptionalism and national security. There's the eternal complaint that President Barack Obama was "out of touch with mainstream America." There's a wistful elegy for "our budget-balancing daydreams." Yes, Anonymous is happy about the conservative judicial appointments, the deregulation, the tax cuts; what rankles is the "unbecoming" behavior, the "unseemly antics."

A big tell comes early on, when Anonymous reveals what "the last straw" was. It wasn't Mr Trump's response to the right-wing rally in Charlottesville, Va., in 2017, when a white supremacist killed a woman and the president talked about "the violence on many sides." It wasn't even the administration's separation of migrant families at the border. These examples might have left Anonymous appalled, but the truly unforgivable act was when Senator John McCain died last year and Trump tried to hoist the flag on the White House above half-staff: "President Trump, in unprecedented fashion, was determined to use his office to limit the nation's recognition of John McCain's legacy."

Anonymous declares that this "American spirit" was best exemplified by the bravery shown by the passengers on United Flight 93, who rushed the cockpit on 9/11. We've seen Flight 93 used as a conservative analogy before — by another anonymous author no less, writing under the pen name Publius Decius Mus, who argued before the 2016 presidential election that "a Hillary Clinton presidency is Russian Roulette with a semi-auto" and consequently that voting for Mr Trump offered the only chance for the republic's survival.

That the same violent tragedy has been deployed to argue one point and then, three years later, to argue its utter opposite is, to put it charitably, bizarre. But then Anonymous, a self-described "student of history," doesn't seem to register the discrepancy. Nor does Anonymous square the analogy with an episode mentioned in the opening pages of "A Warning" — of senior officials contemplating a replay of the Nixon administration's so-called Saturday Night Massacre by resigning en masse. The idea of doing anything so bold was floated within the first two years of the Trump administration, and then abandoned.

Toward the end of the book, an earlier quote from Mr Trump kept coming back to me, unbidden: "These are just words. A bunch of words. It doesn't mean anything."

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A WARNING
Anonymous
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