A different phase

Ministerial statements at last week's meetings with business leaders indicate the government's new approach to industry

RAISINA HILL

A K BHATTACHARYA

The Union government's engagement with industry leaders is always a keenly watched development. Two national chambers of industry and commerce held their annual functions in New Delhi last week. Prime Minister Narendra Modi, Finance Minister Nirmala Sitharaman and Commerce & Industry Minister Piyush Goyal were among the senior leaders of the government, who attended these events.

There were no fireworks from industry leaders this time, unlike those witnessed at a meeting last month in Mumbai, where veteran businessman Rahul Bajaj raised some apparently uncomfortable questions on why industry leaders did not have the confidence of openly criticising the government. Perhaps a key difference was that the venue of last week's meetings was New Delhi and, given the adverse impact of a slowing economy on businesses, industry leaders were restrained in their response to the suggestions made by government representatives to improve the economy.

So restrained were industry leaders in New Delhi that the Prime Minister had to exhort them on more than one occasion to applaud with more enthusiasm his announcement on the reforms that his government had initiated by decriminalising penal provisions in the companies law and by slashing the corporation tax rates. And industry leaders assembled there indeed fell in line and clapped more loudly in response to the Prime Minister's suggestion.

At the same meeting, he urged the Indian industry to make bold investments to help the economy reach the goal of attaining the size of $5 trillion. Giving a hint of what industry could expect from the forthcoming Budget, Modi talked about his government's plans to invest more in infrastructure. He also assured industry that he was confident that his government would come out with steps to rescue the economy from the current slowdown.

But he was obviously keen that industry must appreciate that his government was focused on the need to improve the economy and address the business leaders' concerns about growth. Hence, he made no secret of his desire that industry must recognise the government's intention to reform and revive growth. He thus asked industry to clap a little louder on what his government had already done instead of remaining focused only on what the government would do in the coming months. Clearly, this was a different Modi.

The Finance Minister too held out an olive branch to industry when she addressed the same forum of industrialists. She reiterated the government's commitment to help revive businesses. Sitharaman said: "This government does not want businesses to close. We want to help them to be revived by legislative and other administrative changes... we are with you. I want this mood of self-doubt to be completely removed from your minds."

Such a statement may reflect the concerns of a government that, unlike in the past, is eager to be openly friendly with industry, recognising that industry's cooperation in reviving investments and growth is crucial. But it also raises questions on whether a government should make any commitment on not allowing businesses to be shut down. Doesn't that defy the spirit of economic reforms where both the entry to undertake economic activity and exit from it should be subject to market disciplines?

In a similar vein, Goyal sought the cooperation of industry in identifying countries and markets that had created non-tariff barriers for Indian exports. The objective of that exercise was to help the government take retaliatory action against countries that imposed such barriers to trade. Goyal said: "Our government is willing to stand by you and look at retaliatory actions and impose similar trade remedial measures." However, it was not clear if that meant India's trade policies would introduce a fresh dose of protectionism, citing the need for retaliation.

More significantly, Goyal assured business leaders that he and his office would always be available to address industry's concerns, as he believed that a "responsible and listening" government can have a positive impact on businesses.

What stood out at these meetings between industry representatives and government leaders was how the equation between the ministers and industry had undergone a subtle and qualitative change. The government appeared to be unusually keen on making itself more accessible to and understood by industry. It was trying to impress upon the assembled business leaders that the government was keen to understand industry's problems, address its grievances and revive growth through legislative or administrative measures.

This is perhaps a new phase in the Modi government's relationship with the Indian industry. It is possible that this is a temporary phase and an outcome of the current economic slowdown. It could have also been a fall-out of the problems of law and order in the wake of country-wide protests over the recent legislation on citizenship and the associated plan to launch a National Register of Citizens. Industry will, of course, hope that the new equation results in more sustainable industry-friendly policies, increased investments in infrastructure and steps that can revive demand in the economy, which could then boost economic growth.

CHINESE WHISPERS

Stalin or Rajinikanth?

Udayanidhi Stalin, son of Dravida Munnetra Kazhagam (DMK) President M K Stalin, and the party's youth wing secretary, has received much flak from his political opponents and fans of Rajinikanth for taking potshots at the actor via social media. Rajinikanth, on Twitter, had advised people not to resort to violence and stand united, without mentioning the protests that are taking place across the country related to the Citizenship Amendment Act. Junior Stalin, while inviting people through his Twitter account to participate in a DMK protest against the Citizenship Amendment Act on December 23, attacked the 69-year-old actor, stating, "Those affluent old people who call a protest for rights as violence can stay at their homes with proper security." Rajinikanth fans and Udayanidhi's political opponents thronged the comment box, asking whether Udayanidhi was referring to his father, who is 66 years old.

Together we can

Fifteen first-time MLAs of the Congress in Madhya Pradesh have formed a "pressure" group. The reason? Neither the ministers nor the bureaucrats listen to them. Their main grudge is that their requests — however genuine — go unheeded. These MLAs plan to organise regular meetings — one was held just last week — to review pending requests, ensure execution, and, if necessary, escalate the matter all the way up to Chief Minister Kamal Nath. Among the dissatisfied MLAs are Sanjay Shukla, Surendra Singh Shera, Ashok Marshkole, and Bhupendra Maravi; and among the ministers they are particularly happy with are Jaivardhan Singh (state minister for urban development and housing), Priyavrat Singh (energy minister) and Umang Singhar (forest minister).

Peacenik Mayawati

Against the backdrop of violent protests against the Citizen Amendment Act (CAA), Bahujan Samaj Party (BSP) President Mayawati has emerged as a peacenik and has proposed her own version of non-violent non-cooperation. While firmly opposing the CAA and the proposed National Register of Citizens (NRC) and expressing solidarity with the sentiments of the protesters, the Dalit czarina stressed that being "a disciplined party that espoused constitutional values" BSP workers would not hit the road against the CAA. Instead, she suggested, they would "peacefully" hand over a memorandum to their district administration to register their opposition to it.

Where have all the women bankers gone?

Flexi hours and crèches for children can help retain them but a bigger problem at the moment is women bankers don't have too many role models to look up to

BANKER'S TRUST

TAMAL BANDYOPADHYAY

In the run up to *Business Standard*'s Annual Banking Forum in Mumbai last month, many took to microblogging site Twitter to express their disappointment at not finding a single woman banker on any of the panels. Gender diversity is always welcome but at the moment there aren't too many women in this space.

Zarin Daruwala, CEO of Standard Chartered Bank; Kaku Nakhate, president and country head of Bank of America India; and Kalpana Morparia, CEO of JP Morgan India; are exceptions in an industry in which women CEOs were bossing over banks with at least 40 per cent share of the total assets till just a few years ago. There were Chanda Kochhar, a Padma awardee, heading ICICI Bank Ltd; Shikha Sharma, CEO and MD at Axis Bank Ltd; Arundhati Bhattacharya in the corner room of the country's largest lender, the State Bank of India; and Usha Ananthasubramanian, chief of Punjab National Bank; among others.

Bhattacharya retired after a one-year extension while Sharma stepped down after the Reserve Bank of India (RBI) did not grant her a fresh three-year term, that was cleared by the bank's board. Ananthasubramanian, named in the charge sheet of the Central Bureau of Investigation for her alleged role in the $2 billion fraud in Punjab National Bank perpetrated by diamantaires Nirav Modi and his uncle Mehul Choksi, was first transferred to Allahabad Bank and later stripped of her executive powers.

Kochhar's is the most interesting story: She moved the Bombay High Court challenging ICICI Bank's decision to terminate her after the bank had approved her request for early retirement. Meanwhile, a Delhi court has recently stayed the screening of an upcoming Bollywood film *Chanda: A Signature that Ruined a Career*, based allegedly on her life. In sum, some of the women bankers are in the news for the wrong reasons and there aren't any takers for the space vacated by them.

Tarjani Vakil was the first woman to reach the top at the Export-Import Bank of India in 1996. Ranjana Kumar became the chairman and managing director of Indian Bank, four years later, playing a critical role in turning around the bank before shifting to National Bank for Agriculture and Rural Development in 2003. The second woman boss in a commercial bank, HA Daurwalla, became the boss of Central Bank of India in 2005. Nupur Mitra took over as chairman and managing director of Dena Bank (merged with Bank of Baroda) in 2011. It took a little over three decades after bank nationalisation for a woman to become a bank's CEO. However, the pace at which women bankers were moving to the corner office till a few years ago has slowed down.

Even globally, women took long to break into the male bastion in finance. Janet L Yellen was chosen to head the US Federal Reserve Board in 2017, the first woman to do so after a century of the Fed's existence. No woman has ever headed the US Treasury Department in its 229-year history. Back home, it was a 68-year wait at the RBI for a woman to reach the deputy governor's post (Kishori J. Udeshi, the first woman deputy governor, took over in June 2003). For the State Bank of India, the wait was 206 years to get its first woman head — Bhattacharya.

Women currently represent 24.37 per cent of SBI's employees and at least 2,600 of around 22,000 branches of the bank are headed by woman officers. Its former managing director Anshula Kant has recently been appointed managing director and chief financial officer at the World Bank. HDFC Bank Ltd's 2018 annual report says women represent around 17 per cent of its 88,253 employees. It's an equal opportunity employer but historically not too many women employees have been seen at the bank's top tier, unlike the case in ICICI Bank.

Both Daruwala and Morparia are old ICICI Bank hands. Now, of course, except for Vishaka Mulye, an executive director, the bank does not have any other women in a senior position even though nearly 30 per cent of its employees are women. Citibank India, in contrast, has four women, including its consumer banking head Shinjini Kumar, in the 15-member management committee, and 32 per cent of its employees are women. Globally, Citibank NA aims to have 40 per cent women employees.

A 2017 study of 71 banks in 20 countries conducted by SKEMA Business School's Observatory found that despite representing, on an average, a little over 52 per cent of the banking industry's workforce, the representation of women, as they moved up in their careers, declined: 37.58 per cent among middle managers and 16.45 per cent in executive committees. The study also points out a wide disparity in the gender balance across countries. Sweden (45 per cent), France (35 per cent) and Canada (34.5 per cent) are the top three countries for women's representation in the boards of directors of banks while Singapore (15 per cent), China (14 per cent) and Japan (12 per cent) have the lowest female representation.

In India too we see a progressive decline in women's representations in the top tier of the banking industry. There are a few in the private sector — Yes Bank, Kotak Mahindra Bank and Federal Bank — but they are exceptions. Similarly, the representation of women in the top executive cadre — general managers — in state-run banks is just about 10 per cent. There are a few banks that do not have a woman in the top executive cadre. A 2010 human resources study conducted by a committee headed by former chairman of Bank of Baroda, A K Khandelwal, found women making up about 17 per cent of the total workforce in these banks but their representation in the executive cadre was less than 3 per cent, in contrast to 26 per cent in the clerical cadre and 11 per cent among the officers.

The SKEMA Business School study, which does not include India, talks about a double glass ceiling in banking and this is a universal phenomenon. Many banks look for equal representation at the entry level but women become laggards for reasons other than talent while moving up. The challenge is to nurture the pipeline. Offering fully paid, adequate maternity leave, flexi working hours, and running crèches for the children of employees can help the cause but at the moment they don't have too many role models to look up to. That's the problem.

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

INSIGHT

Increasing the efficacy of monetary policy

If interest rates aren't reduced quickly & in good measure, the economy will continue to struggle

RAJIV SHASTRI

Another inflation data point has been released with the inflation rate climbing once again. And as expected, commentators are invoking the "stagflation" ghost. Meanwhile, the Reserve Bank of India (RBI) continues to chase completely dissonant monetary policy goals, intervening to weaken the rupee even as they maintain a high level of real interest rates.

Monetary policy, especially when operating through the interest rate mechanism, cannot address inflation emerging from consumption items in which demand is either price inelastic and/or interest rate inelastic. Consumption of these items is also called non-discretionary consumption because these items typically include only necessities. Any change in prices of these can cause brief deviations from their trend demand patterns, but not a change in the trend itself. As would be obvious, changes in interest rates do not have much of an impact on the consumption of these items. As such, it is unusual for monetary policy to respond to changes in the price of these items because, well, it can't do much about it. Higher interest rates do not have an impact on the demand for food and retail consumption of electricity.

This is precisely the reason why another measure of inflation exists, called core inflation, which refers broadly to discretionary items of consumption only. Demand for these items responds to changes in price as well as interest rates and the effectiveness of monetary policy in an economy depends largely on how large the proportion of this consumption basket is. In richer economies, discretionary consumption is a dominant portion of the consumption basket and expenditure on food and energy is quite small. In poorer economies a bulk of the consumption is of necessities, leaving very little for discretionary consumption. As such, the efficacy of monetary policy in an economy increases with its per capita income. This is usually visible in the way changes in policy rates are transmitted across the economy. As would be expected at our current per capita national income, transmission in India is far from perfect with long lags and frequent dissonance.

Coming back to interest rates, if inflation is caused largely by non-discretionary items of consumption, it is almost perfectly wrong to respond to it with high rates. This is because a high level of inflation in non-discretionary items is usually disinflationary for discretionary items of consumption. Over short periods of time when income levels are unchanged, a larger share of non-discretionary consumption resulting from higher food or energy prices will typically result in discretionary consumption and savings both getting squeezed. The only monetary policy response to this drop in demand for discretionary items of consumption is a lower-than-equilibrium interest rate environment.

Which brings us to ideal equilibrium rates. In any monetary policy regime, the ideal level of interest rates is the minimum possible rate given its inflation environment. It is only at this minimum rate that the growth potential of the economy can be fully realised. There is a lot of commentary on the perspective that in an inflation targeting environment, the central bank isn't responsible for economic growth. This is fallacious because an inflation target doesn't replace the central bank's core responsibility of maximising economic growth, just places a constraint on it. The raison d'etre of any central banks remains the pursuit of economic expansion and the only way to achieve this goal in an inflation targeting regime is by keeping interest rates at the minimum possible subject to inflationary constraints.

This minimum rate is a function of expected core consumer price index (CPI) inflation. Not headline inflation and certainly not food and energy inflation, but core CPI inflation because as explained earlier, it is the only inflation indicator which is directly influenced by monetary policy. If expected core CPI inflation is near the inflation target, then overnight policy rates (which is the pure risk-free rate in an economy) need to be equal to (or very close to) the target inflation rate. If expected core CPI is higher than the target inflation rate, then policy rates need to higher as well and vice versa.

This regime ensures that risk-free assets don't generate a real rate of return, a phenomenon which severely damages consumption and capital formation. For example, if expected core CPI inflation is at 3.5 per cent and the risk-free rate is at 5 per cent, this means that one can either consume an indicative item now at Rs. 10,000 or invest that amount, get Rs 10,500 after a year and buy the indicative item then, the price of which would have increased to Rs 10,350. In choosing the latter, one gets a risk-free benefit of Rs 150. Obviously, such an environment will result in consumption getting deferred for as long as such an environment exists. Also, if a real rate of return is available on risk-free assets, then capital owners have a reduced incentive to take risks. This hinders the creation of both debt and equity capital by lowering risk preferences and starving the economy of long-term risk bearing capital.

As things stand, existing and expected core CPI inflation is close to, even below, the target rate of inflation. And yet, policy rates are significantly higher with the risk-free rate at least 100 bps higher than the inflation target. The results of this environment, though clearly visible, are still being denied vigorously in defense of the current interest rate environment. This will not end well. If interest rates aren't reduced quickly and in good measure, the Indian economy will continue to struggle. The extent and duration of this struggle is directly proportionate to the time take to reduce rates. Will the RBI step up to the task?

The author is an economist and former CEO of Essel Mutual Fund

LETTERS

Do not rush

This refers to the editorial "Mixed signals" (December 20). The editorial rightly makes the point that a thorough analysis needs to be carried out before implementing the zero IUC (interconnect usage charge) regime from January 2021. Though the Telecom Regulatory Authority of India believes that traffic symmetry would be achieved by the end of next year, the whole thing can change with the changing market share of telcos, more so when a new service provider comes up or an incumbent operator winds up. Also, given the current distress in the telecom sector, there should be no hurry in introducing the BAK (bill and keep) regime.

As everything comes at a cost, an operator needs to be suitably compensated for its network usage for the calls originating in another network. The IUC must take into account all cost components including capex and spectrum charges borne by the operator. As telcos are in need of help to tide over the current crisis, the introduction of zero IUC regime should have to wait a bit longer.

Sanjeev Kumar Singh Jabalpur

Change stand

This refers to "Natural partners, unnatural times" (December 20). The author has done an excellent analysis of Indo-US relations, the compulsions of each country and why is it important for India to "not test the US's tolerance". His closing line, by way of advice for our country, to "return to the values that have brought it influence and admiration in the international arena" is absolutely brilliant. Hope the powers that be are listening. I would like to mention that the "natural partners" slogan that evolved two decades ago, when the warming up of US-India relations began, is just that — a slogan. For 50 years, India kept irritating the US by wooing USSR and also not missing out on any opportunity to criticise America and American policies on every conceivable forum.

Let's accept that despite our pretentiousness we are not yet a super power; and do need to cozy up to the US for cutting-edge technologies, strategic defence equipment, nuclear materials, support in the UN and — very importantly — keeping China in check. Perhaps, we should seriously consider giving up the idea of importing the S-400 air defence missiles from Russia. That could be a really strong positive signal to the Americans.

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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Twisting the curve

RBI's effort to address yield curve rise may not work as hoped

Investors have noted the steepening of the yield curve for Indian government debt with concern. In recent weeks, the difference between yields on the 10-year government paper (government securities or G-Secs) and the two-year variant has widened the most in nine years, since the high-spending days of the post-financial crisis fiscal stimulus. This is a result, in all likelihood, of worries that in spite of there being practically no fiscal space, the government will feel itself forced to stimulate the economy through some spending or tax measures as a response to stalling gross domestic product (GDP) growth. A difficulty in meeting the fiscal deficit target of 3.3 per cent of GDP means that there is a disconnection between long- and shorter-term expectations of growth and inflation, resulting in a steepened yield curve. Market participants expect enhanced borrowing from the government, weighing down the long-term expectations of yields as ample liquidity at the shorter end has underpinned the market for the corresponding bonds. The Reserve Bank of India (RBI) held rates steady at the meeting of the monetary policy committee earlier this month, while financial markets were expecting another rate cut.

The central bank has now responded to some calls from market participants by announcing that it will conduct an unusual set of open market operations — buying ₹10,000 crore worth of 10-year G-Secs and selling a corresponding amount of bonds due to mature on a shorter timeframe. This is being seen as an Indian variant of the United States Federal Reserve's "Operation Twist" early in this decade, which was meant to spur lending by banks. The RBI's concern, reportedly, is that the transmission of its previous rate cuts — by 135 basis points over the course of 2019, in five different cuts — is faulty. This is in keeping with the bank's consistent claims that it manages liquidity and not yields. Heavy government borrowing has put upward pressure on interest rates, which have rendered the transmission of the rate cuts difficult.

Yet it is far from clear that the RBI's goal will be achieved. Certainly, there might be some flattening of the yield curve. But it is not clear that the amounts being discussed are sufficient. The response of the market for short-term bonds is also being questioned. The sale of the shorter-tenor bonds might well blow up yields in that segment, according to some market participants; on the other hand, liquidity at that end is so ample that there might be an effective cap on yields. The essential problem in the Indian bond market is that the country has, in spite of an apparently manageable debt-to-GDP ratio, entered a state of effective fiscal dominance. Heavy government borrowing has rendered monetary policy increasingly ineffective. Measures to address the yield curve might provide some temporary relief. But the broader issue is the long-term uncertainty on the path of inflation, rates, and deficits caused by ballooning government commitments. While the RBI can and must do its part, the primary responsibility for addressing this uncertainty belongs to the government. As the Union finance ministry continues its pre-Budget consultations, it must recognise that fiscal prudence and transparency are non-negotiable.

The global easing cycle

India will need interventions to protect financial stability

The Federal Open Market Committee of the US Federal Reserve changed its policy path significantly in 2019 to counter rising economic uncertainties, largely due to the US-China trade dispute. The Fed reduced rates thrice in 2019 compared to four hikes in 2018. The latest projections suggest that the US central bank will keep interest rates unchanged in 2020. Meanwhile, the European Central Bank further pushed its deposit rate into negative territory and restarted the asset purchase programme. The Bank of Japan continues to pursue its asset purchase programme to support growth and prices. The policy stance of large central banks suggests that global financial conditions would remain accommodative in the foreseeable future.

While the accommodative monetary policy will help support global growth, it could increase risks in the financial system by pushing up asset prices and leverage. Experience shows that the US monetary policy significantly affects global financial cycles. In this context, India will need to guard its interests, and policymakers must make interventions to protect financial stability. A new study by rating agency CRISIL, which has examined both the easing and tightening cycles in recent years, predictably, shows that foreign portfolio investments (FPIs) have been low during the tightening period compared to the easing period. FPI flows were strong during the easing period after the financial crisis, despite the worsening domestic macro situation. However, foreign direct investment (FDI) followed a different path, and was closely related to the domestic economy. India received more FDI during the tightening period than in the easing period, because of higher growth. The Indian economy grew by 7.3 per cent between fiscal years 2014 and 2019. FDI flows have again moderated with the slowdown in the economy. Since FDI is more stable, India will need to revive growth prospects to attract capital of this variety to bridge its savings gap. Higher dependence on portfolio flows to fund the current account deficit could increase financial stability risks. External commercial borrowing also tends to rise with the Fed's policy easing. Although the Reserve Bank of India (RBI) has reduced policy rates by 135 basis points in the current cycle, it has not translated into lower lending rates and could encourage Indian businesses to borrow from abroad. As reported by this newspaper recently, Indian firms raised $13.74 billion through dollar bonds in the first 10 months of this calendar year, compared with just $1.65 billion in the same period last year.

Higher inflows of external borrowing and FPIs could pose challenges for the RBI. It could put upward pressure on the rupee and affect exports. The real effective exchange rate is showing significant overvaluation and has affected exports in recent years, though problems in the implementation of goods and services tax also contributed. However, if the RBI intervenes in the market as it has been doing in the recent past, it will further increase rupee liquidity in the system, which can potentially affect its inflation-targeting mandate. Therefore, in the given global macro environment, India will need to diligently manage and prioritise foreign fund flows. India should create enabling conditions for FDI and avoid increasing dependence on debt flows. Although the current account deficit is likely to remain at a moderate level, a higher flow of dollar debt at a time of slowing growth and rising fiscal pressures could increase risks to financial stability.

ILLUSTRATION: AJAY MOHANTY

Protecting a people's democracy

The executive branch should not have the power to appoint public officials whose role is to protect the Constitution and prevent executive overreach

The past week has seen the rapid spread of public protests against the National Register of Citizens (NRC) and the Citizenship (Amendment) Act (CAA). Besides the immediate cause, these protests also reflect a growing sense that the ruling party, which won 37 per cent of the popular vote, is ramming through its agenda without consulting with Opposition and state governments or taking into account the possible views of the 63 per cent of the voters who did not support them. There is a fear that we are drifting towards a regime where there may be little protection against executive overreach as crucial constitutional positions and autonomous institutions are no longer structurally isolated from political interference. The sovereignty of people is losing ground to the executive power of the ruling party.

NITIN DESAI

Nearly 500 hundred years ago a powerful and pioneering text came out outlining for the first time the principles of sovereignty that rested on people's consent. It is titled "*Vindiciae Contra Tyrannos*" or "*A Defense of Liberty Against Tyrants*". There is much in this ancient text that resonates even today, not just in India but also in other democracies.

With regard to the duty to obey rulers, the text says: "Accordingly, rulers need to know how far they are permitted to extend their authority over their subjects, and their subjects need to know in what ways they are to obey, lest should the one encroach on that jurisdiction, which no way belongs to them, and the others obey him which commands further than he ought."

From the present perspective what is very relevant is the distinction that the *Vindiciae* draws between public officials, who are servants of the ruler and those who should consider themselves servants of the people. Hence the *Vindiciae* states: "The responsibility of the one is proper relation to the care of the king's person; that of the other, to save the commonwealth from damage; the first ought to serve and assist the king, just as all domestic servants are obligated to their masters; the other to preserve the rights and privileges of the people, and to hinder the ruler so that he neither omit the things that are advantageous to the state nor commit anything that may cause damage to the public."

This distinction between the two classes of public officials is not implementable unless the procedures for their appointment are also differentiated so that the executive does not play a decisive role in choosing the public officials who have to protect the Constitution and people's rights. This matters most for the integrity of the election process, impartiality and objectivity in the formation of post-election governments and in the independence of the judiciary and the police from political interference.

The first and most important set of public officials from this perspective of protecting people's rights are the governors of states. At present they are appointed by the ruling entity at the Centre with little regard for any factor other than political loyalty. As of now, all but three state governors are party loyalists. The Sarkaria Commission made several recommendations to improve matters, including that the governor should be an eminent person from outside the state, that he must not have participated in active politics, at least for some time before his appointment, and not be too intimately connected with the local politics of the state. Most importantly, it argued that the governor should be appointed in consultation with the chief minister of the state, vice-president of India and the speaker of the Lok Sabha. Except for the recommendation that he should be from outside the state, none of the other recommendations have been implemented by this or any previous government despite exhortations from the Supreme Court. This has to change if federalism is to be protected and some semblance of propriety is to be preserved in post-election government formation.

In a people's democracy, maintaining the credibility of the election process is vital for political stability. The election commissioners are appointed by the ruling executive without any consultation. We have been fortunate that a few outstanding election commissioners have risen to the challenge and helped to build up a credible institution. But lately, there have been growing concerns about their impartiality and the time has come for a more consultative and transparent process of appointment. In June 2012, Lal Krishna Advani suggested that appointment of chief election commissioner should be made by a bipartisan collegium consisting of the prime minister, the chief justice of India, the law minister and the leaders of the Opposition in the Lok Sabha and the Rajya Sabha. But it was not accepted then and will not be revived now by the ruling party. But such a procedure is now even more necessary to maintain faith in an electoral process in the midst of deep ideological conflicts.

The independence of the higher judiciary is crucial for protecting people's rights and ensuring constitutional propriety. Following a 1993 judgment, the procedure for the appointment of Supreme Court and High Court judges shifted the power of choice from the executive to the Supreme Court and High Court collegiums. There have been demands for greater transparency to which the Court has responded. But the real guarantee of independence has to come from a judicial culture that stresses the crucial role of judges in ensuring constitutional propriety and protecting people's rights.

The police are part of the executive machinery of the state. But their independence from executive pressure needs to be ensured to protect the rule of law and people's rights. In 2006, the Supreme Court delivered a major judgment on police reform that required, among other things, the establishment of State Security Commissions made up of a responsible minister, leader of the Opposition, other elected representatives, experts, and credible members of civil society, a National Security Commission, a Police Establishment Board, and a Police Complaints Authority, all designed to ensure merit and transparency in higher-level police appointments. Regrettably, the actual pace of implementation of these reforms has been tardy, to say the least.

All governments so far have resisted changes in the appointment procedures of governors, election commissioners, and higher police personnel. This is not going to be any different now, and maybe even more difficult with strong ideological divides amongst political parties. The only answer lies in effective action by the Supreme Court using its powers of complete justice under Article 142 to set out appointment procedures for these functionaries that will ensure selection based on recognised merit and transparency, neutrality, objectivity, and impartiality in the process of selection.

Till then, one can only exhort those who occupy these key positions to remember that they are not answerable to those who have appointed them but are accountable to the people of the country for protecting constitutional propriety and the rights of the people as a whole.

Let me conclude with one final admonition from the *Vindiciae*: "It is therefore permitted the officers of a kingdom, either all, or some good number of them, to suppress a tyrant; and it is not only lawful for them to do it, but their duty expressly requires it; and, if they do it not, they can by no excuse colour their baseness."

nitin-desai@hotmail.com

Governance by diktat, in an echo chamber

The first rule of governance in India is that the people's representatives will stop listening to the people the moment they acquire power. The second rule is that the longer a group is in power, the more arrogant and further removed from reality it will become. And the third rule is ruling politicians will echo one another, no matter how ridiculous and far removed from reality it sounds to us. The best examples of these rules are now all around us.

Remember the last days of the Congress-led government in 2011-13? Rampant corruption, a brutal rape, economic stagnancy, and policy failures had gripped the country, to protest against which the docile, the busy and the insensitive — all came out on the streets. Is the current mood turning in that direction? All the ingredients of those gloomy days of UPA2 are here, minus the obvious centralised corruption. Misgovernance and aimless drift are palpable, there are protests against brutal rapes again, the economy is spiralling downwards, and now suddenly, the people have to deal with a new citizenship process and a national registration that will cost more than ₹70,000 crore, at a time when government coffers are empty. Spontaneous protests against this badly-timed moved have erupted all over the country. And exactly like the previous regime, the current one, six years in power, is not listening.

IRRATIONAL CHOICE

DEBASHIS BASU

The previous prime minister was personally honest but seemed remote from everyday issues of citizens and businessmen — the job creators. The current prime minister does not seem to be any different, while ministers down the line are as divorced from reality. Former finance minister P Chidambaram's diktats were like King Canute, ordering economic actors to act and forcing events to unfold, according to his desires. On Friday the current finance minister lived up to that epithet by announcing Canute-like "I have asked public banks to give loans instead of using reverse repo" while asserting "there is no government interference on banks' decision-making". She also "advised" Indian businessmen to bid enthusiastically for government companies, which are being privatised, asking them to come out of "self-doubt" and unleash their animal spirits.

Clearly, she is not listening. Some 16 years ago, Arun Shourie, as disinvestment minister, had said the government companies "are not crown jewels, these are bleeding ulcers". Under successive governments, they have grown worse. To ask anyone "to bid enthusiastically" is laughable. On the same day, the prime minister instructed members of Assocham, a top industry association, filled with successful Indian businesses and multinationals, to take decisions freely and "invest without fear". As I said, politicians live in an echo chamber.

Anybody who has some understanding of doing business in India knows how extraordinarily difficult it is to be successful and scale up operations, creating hundreds and thousands of jobs. Companies that have survived and grown in the toxic political economy of India handled everyday bribery, braved enormous delays in decision-making, cut through scores of maddening rules and licences, battled court cases, negotiated capricious demands from revenue departments, tiptoed around draconian laws are super-achievers. They don't need to be lectured to. How come politicians, some of whom have not even won election, much less contributed anything useful in their lives, never created any jobs or wealth, are never embarrassed to sermonise to these successful businessmen that they should be courageous or overcome self-doubt? Where do they get the confidence to speak with such condescension?

The reason is simple: Once they acquire power, they are removed from reality, labelling all uncomfortable facts as negativity, confident that what they are doing is right. This was exactly the attitude of Pranab Mukherjee, the man responsible for enormous bad loans and the steroid-fuelled fake growth of the post-2008 period. On Friday, the prime minister said the economy was in the doldrums because the current government had to clean up the mess of the previous regime. Assuming this is true, who is going to ask him why his government awarded the Bharat Ratna to a man singularly responsible for the mess he is cleaning up? We are not supposed to ask these and a million other uncomfortable questions. But even assuming that you can, leaders in power are only interested in telling you what you should be doing. And of course, they are all the time echoing one another. The patronising advice to "have no fear" came on the same day from the finance minister and the prime minister.

All this leads me to wonder why successful businessmen who are creating jobs in a job-starved country, while politicians are destroying them, sit as supplicants before politicians, much less subject themselves to demeaning reprimands or gratuitous advice? In the Assocham meeting on Friday, the prime minister was miffed about the lukewarm applause he was getting and rebuked them for it, he even snubbed them for not being able to understand what he was trying to say. The reaction of these successful businessmen to such humiliation was laughter and increased clapping. As the prime minister stepped up his insults and accused them of calling different ministers and asking for favours, they listened in silence.

I understand there is little we can do. We can change governments once in five years and that leads to no better outcome. At least we should ignore their endless preaching, and certainly reject their tricks of subjecting us to an endless cycle of inquisition, guilt trip, and tension about patriotism, nationalism, entrepreneurship, cleanliness, black money, new identity and so on, while *netas*, *babus* and party hacks keep themselves safely above all such trials.

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

The story behind the Steele dossier

BOOK REVIEW

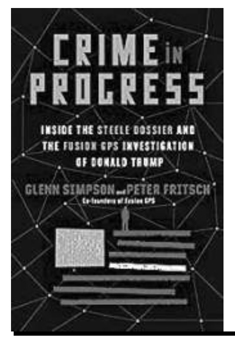
JENNIFER SZALAI

In the annals of political warfare, sober recitations of facts often pale next to lurid speculation. Before they founded the private intelligence firm Fusion GPS, Glenn Simpson and Peter Fritsch had long careers reporting and editing for *The Wall Street Journal*. As old journalism hands, they shouldn't have been surprised when their diligent research into Donald Trump's finances slipped into the media stream with barely a ripple, while the raw intelligence memos sent to Fusion by the former MI6 agent Christopher Steele landed like a breaching whale.

In *Crime in Progress,* Messrs Simpson and Fritsch said they "played down" the most "salacious" anecdote in the memos — that the Kremlin may have a videotape of Donald Trump asking prostitutes to urinate on a bed in the Moscow Ritz-Carlton — in order to emphasise their forensic work in following the money. They found evidence suggesting that Mr Trump became dependent on infusions of Russian cash after a string of bankruptcies and "has done business with at least 25 individuals and companies with documented mob ties." But such complex accounting has proved to be less enticing. A pee tape is worth a thousand words.

Republicans have woven an intricate conspiracy theory around the Steele dossier, casting it as a partisan hit job that in July 2016 sparked an FBI investigation into the Trump campaign's ties to Russia. Last week, the Justice Department's inspector general issued a report that laid waste to those accusations. The FBI had already initiated an investigation based on another stream of information before it got wind of Mr Steele's findings.

Mr Steele was running his own private intelligence firm, called Orbis, when Fusion contracted him in May 2016 to talk to his Russian sources about Mr Trump. Fusion, in turn, had been hired by a law firm doing work for the Hillary Clinton campaign and the Democratic National Committee. That, though, was only after Fusion's original client, a conservative online publication, backed off from researching Mr Trump when he became the Republican field's front-runner.



CRIME IN PROGRESS
Inside the Steele Dossier and the Fusion GPS Investigation of Donald Trump
Author: Glenn Simpson & Peter Fritsch
Publisher: Random House
Price: $30

Did you get all of that? Messrs Simpson and Fritsch try to tell the story as clearly as they can, but more money means more convolutions. To head off charges of anti-Trump bias, they stress that their client list includes a number of companies that are big donors to Republican lawmakers.

Crime in Progress describes efforts that started out ordinarily enough — the kind of open-source reporting and due diligence searches that Fusion was used to doing for its corporate clients. One line of inquiry into Trump's business deals unearthed a flow of Russian money into his projects, what Mr Fritsch once called a "tour de sleaze." Needing a clearer sense of what was happening inside Russia itself, where public records were hard to come by, Fusion reached out to Mr Steele.

The authors chronicle how Steele became so alarmed by what his sources were telling him that he asked Fusion's permission to share his raw intelligence notes with the FBI and, later, an adviser to Senator John McCain.

Mr Steele and the authors started talking on deep background to journalists, too, though the authors say they took care not to share the dossier with the media before the election, and were furious when BuzzFeed posted the document in January 2017, ten days before President Trump's inauguration. This timeline, they repeatedly argue, is key: Republicans have tried to portray the dossier as a hoax or a dirty trick designed to prejudice the electorate, but how could it have swayed voters if it was kept hidden before the vote?

Messrs Simpson and Fritsch are able guides to a byzantine world; their presentation is methodical, almost lawyerly, which isn't as bad as it sounds. When reading a story full of weird financial transactions, narratives and counternarratives, it's helpful to have everything laid out as plainly as possible — even if the layers of chicanery are sometimes so densely packed that their syntax gets squeezed into ugly shapes.

Messr Simpson and Fritsch try to address conservative conspiracy theorists head on, devoting an entire chapter to their work with a Russian real-estate company named Prevezon and its lawyer Natalia Veselnitskaya — who, unbeknownst to Fusion at the time,arranged a notorious meeting with the Trump campaign.

Fusion's conservative critics doubtless won't be placated by this book, even though the authors say that those critics were ultimately what made the book possible. Only when Republican members of Congress forced Fusion to provide documents and testimony in an attempt to ferret out a vast left-wing conspiracy were the authors freed to write about interactions they "would have otherwise been contractually obligated to keep confidential."

It's a nice bit of irony in a book that reads like a morality tale about unintended consequences. As Mr Simpson told congressional investigators back in 2017: "We threw a line in the water and Moby Dick came back."