

## Much Ado About Transient Data

Whatever the Q3 growth rate, get on with reforms

On the face of it, the Central Statistics Office's (CSO) second advance estimate of economic activity would suggest that the financial shock of removing 86% of the currency from circulation in an economy where more than 90% of transactions were in cash has not hurt economic growth. Growth in the quarter ending December, when the impact of demonetisation would have been the worst, is estimated to have been 7% and the estimate for 2016-17 as a whole is 7.1%. The robust growth in agriculture, of 6% in Q3 and 4.4% for the whole year, after two years of drought does not quite explain it: after all, agriculture, forestry and fishing account for just 15% of GDP. But there are rational explanations for this seeming mismatch between expectation and outcome.

To begin with, growth in gross value added is forecast to come down sharply from 7.8% last fiscal to 6.7% this year. Only a rise in the indirect tax burden pushes the GDP growth rate above 7%. But how could manufacturing have grown 8.3% in Q3, faster than 7.7% for the year as a whole? CSO estimates GDP using the financial results of companies and sales tax paid by traders. It is conceivable that quite a few entities declared unusual levels of income and sales, to bring hoarded cash into formal channels and, thus, presented an inflated picture of economic activity. This bump in activity would disappear in the fourth quarter, if this were so. And the CSO figures imply precisely that: growth in Q4 is expected to turn in at 6.9%. And it is conceivable that when data are firmed up, revised estimates would bring out a different picture, of lower growth in Q3 and the year as a whole.

But how does this matter? The point about demonetisation was not that there would be no short-term pain; rather, it was justified on the expectation that once the bitter pill was swallowed, healthy recovery would follow and the economy would gallop ahead in 2017-18 and thereafter. That remains to be validated or disproved. Meanwhile, the imperatives of goods and services tax and banking reform remain unchanged.

## Global Press Meet for a Global Prez

Right-wing parties in democracies often complain about the press' liberal bias', and the press, if it is reporting and analysing fairly, cheerfully accepts the charge. Mature countries must have right and left political groups, and it is not surprising that the press, as a watchdog of liberties, has a 'liberal bias'. Working relationships between right-wing parties and the press continue. But that isn't the case any more in America, which is worrying because the demonstration effect of American bad habits can be considerable. So, Donald Trump's decision to not attend an annual American press gala has far bigger import than the news suggests. Other democracies will suffer if they import current American norms.

The White House press corps party by itself is of no particular systemic importance: journos, pols, Hollywood types, social notables wear formal, drink good liquor, listen to a comedian and network. But that a democratically elected leader and a free press find themselves in a situation where they can't spend one evening schmoozing suggests systemic near-breakdown. Some US media outlets disengaged from the event because Trump is the president. That's at best an immature response, and a telling commentary on how bad things are.

So, here's a suggestion: let Trump appear in a press gala with the global media in attendance, let him say what he wants, and let the MC make fun of him, as is the tradition at the US event. American press is invited of course. This is easily organised by the way: just a matter of hiring a good hotel and a drawing up a guest list. Between Indian and non-American Western media, finding sponsors should be easy. New Delhi can even be the host city if Washingtonian politics remains toxic. May be what US press and pols need most is a good party.

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Riffs on traditional dishes should be taken in the right spirit

## Don't Stir the Chauvinism Pot

Indians have known for years that the eye-watering, spicy-hot concoctions that the British pass off as curry — with degrees of heat denoted by the words Madras, Korma and Vindaloo — has little to do with true subcontinental fare. Ditto for 'chicken tikka masala'. But we don't utter those devastating words 'cultural appropriation' every time we are offered some orangey hodgepodge redolent of garlic and garam masala, accompanied by poppadoms and mango chutney. The same forbearance is not evident in some foreign-origin students of exalted colleges in Britain, who have taken issue with the supposedly wilful misappropriation of their countries' signature dishes such as tagines and stews.

The students should understand that appropriation is the very essence of culinary advancement. There is scarcely a dish left that cannot claim some evolution, even if it's just a dash of chilli flakes. Unless they want to be fed only time-honoured British stodge — now rebranded as classics — such as shepherd's pie, bangers and mash and toad-in-the-hole, they should be more appreciative of their college cooks' attempts to tickle their palates with riffs on their traditional dishes. Even if they are revolted by the thought of tofu in a tagine — as, indeed, Indians might be about cauliflower korma — they should ingest it in (and with) the right spirit.

States have more autonomy than ever before. They must stick to fiscal rules for their own good

# Beyond the Mai-Baap State



Hema Ramakrishnan

Many Indian states will grapple with public finances as they present their annual budgets this spring. Top on the agenda of elected governments will be to spend money to fulfil poll promises. The list — free electricity for farmers, loan waivers, mobile phones to ration cardholders, distribution of laptops, etc — varies from state to state. While doles like the Mahatma Gandhi National Rural Employment Guarantee Act are needed, others can hurt state finances and the country's macroeconomic health.

Four years ago, the Supreme Court had criticised the practice of prepollops being announced by political parties. Yet, Tamil Nadu's new chief minister Edappadi K Palaniswami now vows to implement the Amma Two-Wheeler Scheme from this year. In neighbouring Andhra Pradesh, N Chandrababu Naidu has to set aside money for unemployment doles. North Indian parties in Uttar Pradesh and Punjab will also go on a spending binge. States should realise that they cannot live beyond their means, especially when the economy is yet to really zip along.

This year's Economic Survey rightly underscored the need for market discipline, saying macroeconomic conditions will not be as favourable to states as they were in the mid-2000s. Its suggestion that the Centre should reward fiscal prudence by states, acting as a model through its own fiscal management, makes sense. State budgets account for more

than half of general government spending. This means their combined deficit would have a bearing on the overall macroeconomic stability.

To be fair, five states — Tamil Nadu, Karnataka, Kerala, Uttar Pradesh and Punjab — adopted the Fiscal Responsibility Legislation (FRL) ahead of the Centre's law. The goal was to limit the overall deficit to 3% of the gross state domestic product (GSDP) and wipe out revenue deficit by 2008-09. The global financial crisis halted progress for two years.

Remarkably, states achieved fiscal targets right away, and progress was 'reasonably' durable. The Survey's comparison of 11 pre-FRL years to 10 years afterwards showed that fiscal deficits fell by almost half: from an average of 4.1% of GSDP to 2.4% of GSDP. Revenue deficits also fell sharply. Higher growth and more transfers from the Centre also helped.

### Start Target Practice

The picture has changed. Weak private investment, uncertain global economic environment and tepid exports pose a challenge for states as well. A special report by Ind-Ra on the budget performance of 23 states projected that budgetary targets are likely to be missed in 2016-17. And at an aggregate level, states are likely to have had a revenue deficit for a third consecutive year in 2015-16 — they have to borrow to fund their expenses that do not create capital assets.

Concerns over continuance of revenue deficits in relatively high-income states such as Tamil Nadu, Maharashtra and Haryana are not misplaced. Structural reform is the answer to reverse the trend.

Take the power sector. Jammu and Kashmir, which has already presented its budget, admits to having the highest transmission and distribution losses in the country. Reckless politically mandated tariffs and open theft of power must end.

Giving away power for free has



And you got to tighten your own belt

wrecked many state utilities. Generating companies are wary of selling electricity to states whose utilities are broke. Without tariff increases, warns the OECD's 2017 Economic Survey on India, the central government's Ujjwal Discom Assurance Yojana may simply add to the debt burden of state governments, while liabilities at distribution companies build up again. People must pay for power and water they consume as states need revenues to spend on education, health and infrastructure.

Reform in land and labour market rules is also overdue. Low uniform stamp duties across states will help boost revenues. The case to bring the real estate sector under the goods and services tax (GST) is compelling to curb evasion.

Finance commissions have repeatedly recommended more discipline: lowering the debt-to-GDP ratio for the Centre and states combined, zero revenue deficit and emergence of revenue surplus. The combined debt-to-GDP ratio stood at 69% in 2015-16. A high debt-to-GDP ratio, despite the Centre's fiscal consolidation, makes it imperative for states to put their fiscal house in order.

The popular perception that sops help governments reap political re-

wards makes fiscal prudence a tough goal. No state should have a perverse incentive to stay backward either: Those that strive the best should be rewarded the most. States' own tax effort, progress in physical and social infrastructure creation and other measures must be used to devolve funds.

States' share of tax devolution increased to 42% from 32% of the divisible pool, based on the recommendations of the 14th Finance Commission. But many centrally sponsored schemes were withdrawn. The net result: states have more autonomy now in deciding how to spend money. They should do so wisely.

### Freedom to Change

Comprehensive tax reform, building up on the GST laws, would lift all boats, says the OECD, rightly. GST substitutes all indirect duties and levies, and will prevent cascading of taxes. States will also gain from being able to tax services.

Will they slack off on revenue collections as the Centre has guaranteed compensation for revenue losses during the transition? States must not do so. They must ensure that they follow fiscal discipline for their own good.

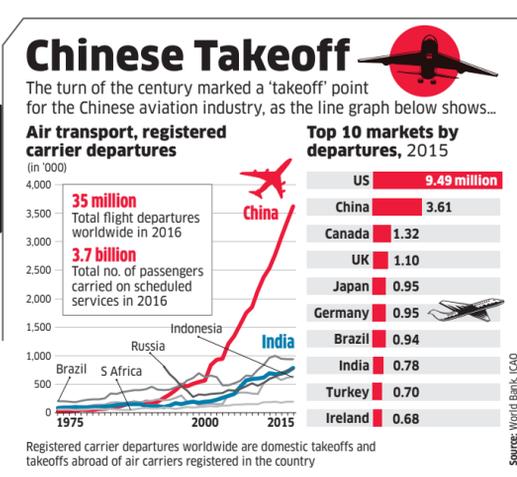
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Finance commissions recommend more discipline: lower debt-to-GDP ratio for the Centre and states, zero revenue deficit and emergence of revenue surplus

**WIT & WISDOM**

"The telling of stories creates the real world."

Alberto Manguel  
Writer



### CAMERADERIE

Alas, poor yorker! I knew the batsman well; a fellow of infinite jest, of most excellent fancy.

### FUNNY BUSINESS

## But He's Our Fraand!



Anuvab Pal

Everywhere one goes, there is only one question in business circles: will US President Donald Trump be good for India? Is he a friend of India? Deep down, Trump loves India! He needs to say this anti-foreigner stuff for his voter base, right? This is like someone punching you in the face and then you asking, "Do you think he wants to be my fraand?" There is nothing more Donald Trump can say or do to explain that this would be the era of 'America First', including him constantly repeating the words, 'America First'.

There are no more ways in which he can say he does not like US businesses sending jobs to foreign businesses or foreign professionals coming to the US, that the million ways he's already said them, every two minutes. Still, clearly, not everyone is convinced that what he is saying is what he is saying. It's like someone shouting, "I don't like you. I DON'T LIKE YOU," and we are saying, "Hmm. I'm not sure what he's trying to say. I think he likes us."

It is hard for us to understand why the US wouldn't constantly love our businessmen and us. George W Bush, reviled by the world, got a hero's welcome in India. Barack Obama wrote Narendra Modi's Time magazine dedication. Modi, breaking protocol, stood under the plane as Obama descended from Air Force One. Twice. A record for India-US relations.

Therefore, India Inc is flummoxed. Bewildered. That a man whose hoard-

ings in the middle of Mumbai in 2013 were used to sell penthouse flats, a man who said, "He loves the Hindu," would pass laws that could destroy Hindu, sorry, Indian business models. However, the fact of the matter is that he has been saying for years that he would do exactly that. Things can't be clearer if he was screaming from a stage into a mike, which is, um, exactly, what he was doing. For two straight years.

A message, however xenophobic and inaccurate, was: American jobs are going out of the US. Foreign-born are taking American jobs. I'm going to stop/am stopping that. Now as president, Trump's passing laws and ordinances and parchments and tablets, anything he can sign and hold up to show the world, he's stopping that.

And here we're still wondering, "Um, what does he mean when he says foreign jobs? What does he mean when he says jobs can't leave the US? Oh, he means everyone but India. Outsourcing is fine. H-1B is fine. He's a friend of India. He means everyone else, not us."

Nope. He means us, too. And every other country that's not the US, or the US' customer. There's no 'please adjust' logic to his economic policy. The famed



Stockholm syndrome in New Delhi

Indian malleability — one rule for us, and one rule for every other nation — isn't working.

Oscar Wilde had said the only thing worse than being talked about is not being talked about. What our business leaders may have to adjust to — and this is a long way away from when our business titans stood in line at our president's house to shake hands with Obama — is that Trump doesn't love or hate India. He doesn't care. His thing is American jobs. Every other thing in the way is roadkill, even if that means decimating Hyderabad and Bengaluru.

Indian businesses are incredibly resilient. If they can survive the Indian bureaucracy, the disappearance of cash, they will survive Trump. They'll hire Democrats, or find customers in other nations. They'll be fine. What has been hard for the Indian psyche to adjust to is this dire need we've had as a nation economically for the US to unconditionally love us.

China doesn't have that need. They've got so many US dollars that they've bought that love. They've asked, 'How much will this friendship cost?' and paid it. We don't have as much trade as the Chinese. So, we have to say stuff like, "Please be our fraand. Come. Let's do a Bollywood dance thing together. C'mon!"

Essentially, it is hard for anyone to take politicians at face value, no matter how crazy or sane their stand. When Joseph Stalin said, "I'm going to probably kill a lot of people who oppose me," the initial reaction is always, "Ha ha. Funn-ee!" which then turns to, "He's mad" which then segues to "He's just saying this to win votes," to "Uh-oh." By which time it's too late.

Before the shocking and hateful Kansas 'incident', I heard a senior business leader say, "Trump's fans don't look at India the way he looks at, say, West Asia, China. There aren't any hate crimes against Indian techies." Well...

### Citings

## Transparency as a Trap

JULIAN BIRKINSHAW

Transparency in the business world — think of buyers and sellers rating each other — is considered a good thing. It accelerates information gathering, helps people coordinate their efforts, and makes those in positions of authority accountable to others. What of transparency within organisations?

Again, many emphasise the benefits of sharing information freely... For example, transparency is one of the key principles in the increasingly popular Scrum methodology for project management. "In my companies, every salary, every financial, every expenditure is available to everyone," says Jeff Sutherland, its inventor. But excessive sharing of information creates problems of information overload and can legitimise endless debate and second-guessing of decisions.

High levels of visibility can reduce creativity as people fear the watchful eye of their superiors. And the open sharing of information on individual performance and pay levels can backfire. It's possible in a digital age to track activities in real time and to share information widely at almost zero cost (in theory, at least, improving decision-making).

But, in many cases, the innovations that have brought this about have reduced effectiveness, thanks to an emerging 'accountability gap' where information is in the hands of people who may not use it wisely.

From "The Dark Side of Transparency"



## Really Close to God

SWAMISADYOJAT SHANKARASHRAM

Once upon a time, a musk deer went searching for musk. Round and round the forest she went, month after month, unaware that the heady fragrance so desperately sought by her, lay beneath her own belly button. Many times, we humans, too, behave like the musk deer. We search for Self-realisation outside, blissfully unaware that it lies within us, untapped.

To experience this bliss, however, the seeker has to put in a different sort of effort with regularity and devotion. One way lies through the world of forms through the path of bhakti where the seeker concentrates on any manifest form of the Ultimate. The more arduous way of knowledge involves seeking the truth as the Unmanifest without any attribute: the saguna upasana and the latter nirguna upasana of no-attributes.

"Of the two, which is superior?" the Pandava prince Arjuna asks Sri Krishna his divine charioteer, in Chapter 12 of the Bhagwad Gita. Both have the same goal, but the way of no-forms is not an easy journey for ordinary mortals, Krishna replies. How do you grasp that which lies beyond all epithets and qualities even as you control your senses?

The best way to get immediate and everlasting peace, Krishna finally tells Arjuna, is through renunciation of the fruit of all action. This means doing your duty with the full faith that the fruit, whatever it may be, is the prasad or blessing gifted by the Divine. One who is thus enlightened relates to the world out of his own fullness and not out of any calculated need to seek anything from anyone.

### Chat Room

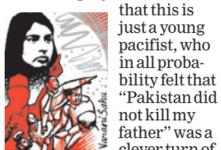
## DeMo Floggers, Any Questions?

GDP at 7% in Q3 is embarrassing for the doomsayers, including the prominent economist Amartya Sen and former PM Manmohan Singh, who had predicted disaster for the economy following demonetisation. On the other hand, election results of Maharashtra local body elections proved that demonetisation was a non-issue for the people. The opposition parties that raised a storm have become a laughing stock.

M C JOSHI  
Lucknow

## Pray, She's Seen War First-Hand

Say 'Pakistan' and the entire ultranationalist brigade breaks into a rash. Sehag and his ilk could do better than troll a 20-year-old Gurmehar Kaur, who has experienced the horrors of war first-hand and would like others to be spared of this tragedy. Remember



that this is just a young pacifist, who in all probability felt that "Pakistan did not kill my father" was a clever turn of phrase likely to impress the social media. Now, a little more understanding and charity needs to be shown to this brave female instead of the ridiculous comments like 'her father must be weeping' we have been hearing.

ANTHONY HENRIQUES  
Byemail

## War by Any Other Name

Gurmehar Kaur's anguished declaration that "war, not Pakistan, killed her beloved father" not only represents the courage of her convictions and her amazing sense of maturity at the tender age of 20 but also her deep faith in humanity. It is not the people of Pakistan and India who want war but the politicians who exploit the divisions and bitterness to promote hate among nations. The army merely does its duty to carry out their orders. How long will the mess in Kashmir continue and the xenophobia it generates is anybody's guess.

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