France Stops Populist Lurch to the Right

But insurgent newcomers are now a thing

Independent centrist Emmanuel Macron's rise to the top of the field in Sunday's first round of the two-phase French presidential election, with 23.86% of votes, comes as relief for those fearful of an extreme right takeover that would see France exit the euro, embrace hyper-nationalism and raise barriers against foreign goods and people. Macron will go up, in the run-off that will pit the top two contenders against each other, on May 7. He will face the extreme-right National Front candidate Marine Le Pen, who secured 21.43% of votes. This does not quite mean an end to popular rebellion against the elite, which produced Brexit and US President Donald Trump. Barely a fourth of French votes were cast in favour of France's traditional ruling parties of the centre-right and the centre-left. These parties have declared their support for Macron on May 7, to keep Le Pen out of the Élysée Palace.

Macron served as adviser to President François Hollande and economy and finance minister in Manuel Valls' cabinet. He favours a flourishing European Union, a liberal international order, and measured domestic economic reform to make globalised growth work, rather than reject globalisation. His political philosophy, reminiscent of "third way" of Bill Clinton and Tony Blair, has shown that change does not have to be isolationist and hyper-national. The 39-year-old former minister, and his year-old movement, En Marche!, rode the demand for change, promising to "unblock" France. His victory brings a sigh of relief, especially across Europe, but Macron's challenges are far from over. The pledge of support by the centre-left and -right parties could secure his victory on May 7.

Established parties with a long history of holding office can be thrown out of power by insurgent newcomers, showed Macron. This, of course, is not a novel insight for Indians. But such figures can fumble, unless they build the institutional mechanisms to sustain their support. For Macron, that would mean his newly formed movement securing a majority in the National Assembly, when legislative elections take place in June.

Not Quite on Par With To Be or Not To Be

Changing the financial year to coincide with the calendar year is likely to receive a lukewarm welcome. It is not a universal standard, nor of immense benefit in terms of gearing for the year ahead, whether for the government or companies. On the flip side, the cost of such a change would be minor. Whether to change the fiscal year or not stands at a plane considerably different from the existential debate on whether to be or not to be.

The US fiscal year runs from October to September, and the budget is presented as early as in February. America's Internal Revenue Service allows companies to have any fiscal year they please, so long as it consists of 12 months. GE's fiscal year coincides with the calendar year. Apple's runs from October to September. Goldman Sachs and Morgan Stanley changed theirs to the calendar year after the financial crisis. Germany's fiscal year is the calendar year, as is the case for Sudan and Zimbabwe. Singapore manages just fine with April-March. China and Hong Kong extend the one-country-two-systems philosophy to the fiscal year as well: China's is the calendar year, while Hong Kong persists with April 1 to March 31. Britain, meanwhile, puts its fiscal year from April 6 to April 5. GDP estimates, company results and monetary policy decisions go by quarters. The fiscal year matters only to the extent that after its completion, companies have to submit audited returns and pay final tax within a stipulated period of time.

Does agriculture warrant a change in the fiscal year? It accounts for less than 15% of GDP. Budgets have to be forward-looking, so what counts really is the monsoon forecast that is not ready by October, when the Budget for a year beginning January would be made. Which four quarters should comprise the fiscal year is not a particularly vital question.

There must be a protocol on Very Irritable People, crew or passengers

Time for Airlines to Brainstorm on VIPs

A second incident in the US involving an aggressive domestic airline crew tormenting a passenger — this time, a woman travelling with two children being reduced to tears — indicates that it may be time for the private airlines there to consult their Indian counterparts. The main on-board problems in both places appear to be VIPs, but whereas in India's case the culprits are truculent Very Important Persons, the US seems to have an unpleasant preponderance of Very Irritable Pursers. Both types of VIPs also seem to be unaware of the fact that nothing escapes live chronicling by camera-phones these days. A recent air rage incident featuring a VIP-vs-VIP encounter (in this case, an Very Irascible Politician assaulting a Very Innocuous Purser) aboard a domestic Air India flight gained the national carrier some very valuable goodwill — a welcome change from the usual deprecatory remarks it garners. But United Airlines ended up losing a billion dollars in market cap at almost the same time, because of the heavy-handed "re-accommodation" by some Very Impolite Personnel of a Very Intractable Passenger.

The Very Injurious Publicity that the US airline received points to the need for Very Intense Pondering on the VIP issue. However, this is one industry in which India should not seek to match or exceed international practices.

Beijing's One-Belt-One-Road Summit isn't a high-profile meet. So the Indian PM needn't attend it

Not Just Economics, Stupid!

Sanjaya Baru

Britain used to be called a nation of shopkeepers. China can be called a nation of contractors. Having built its way up to become a $10-trillion economy, China is saddled with over-construction at home and is looking for new construction opportunities worldwide.

The One-Belt-One-Road (Obor) initiative is partly driven by the need to sustain investment, even as domestic consumption and world trade are unable to sustain growth. This much is obvious. But this is not the full story.

China's long-distance construction activity, both across China itself (from the east coast to Xinjiang and Tibet) and across Eurasia, has been driven as much by these economic calculations as it has been by geopolitical ones. There is no other part of Obor that is manifestly geopolitical in its scope than the $46-billion China-Pakistan Economic Corridor (CPEC). Even Pakistani analysts have questioned its economics. Yet, China insists that the CPEC is only about economics.

Responding to Indian concerns about the CPEC passing through territory that is still legally India's — Pakistan-Occupied Kashmir (POK) and Aksai Chin — Chinese foreign minister Wang Yi recently said that the CPEC was an economic project for the "purpose of serving economic cooperation and development. It has no direct link with political and boundary dispute." Wang then dangled a carrot, stating, "Obor is for common development of all participants. So, we welcome India to take active part in building the Obor." Ah! Construction projects?

Geopolitical analysts have long argued that China's rise has so far been unique in that, unlike most other 'Great Powers', it has become one without firing a single shot. This is not entirely true since China has fired at least three times in the past half-century: at the Soviet Union, at India, and at Vietnam. But it is true that China's has so far risen more as a 'geoeconomic' power, using its economic muscle to browbeat difficult neighbours and economic partners. Consider some recent actions on the economic front that China has taken, or threatened to take, in the case of Britain, the Philippines, Mongolia and so on.

Hanging by a geopolitical thread

PTI

Make Trade, Not War

As a geoeconomic power, China has used its economic muscle to achieve geopolitical aims. This is not news. Over the last two decades, China has locked the West and Russia into a relationship of economic dependence by offering to their consumers low-cost consumer goods. Russia President Vladimir Putin knows better than anyone that restive Russian citizens have been kept happy with access to low-cost goods from China. Deprived of that source, the Russian consumer would become sullen.

The US has so far shied away from fighting its dependence on China and President Donald Trump is the first leader to insist that Americans 'buy American' and China better get used to 'fair trade' terms rather than 'free trade'. The proof of that pudding will be in the eating. It was not happenstance that the first Chinese to call on Trump was Alibaba executive chairman Jack Ma.

It is only pure economists, innocent about geopolitics, who insist that trade is a win-win game and economic interdependence contributes to peace. It was one of the pious tenets of the Washington Consensus in economics that no two trading partners have ever gone to war.

Leonid Brezhnev's Soviet Union and Mao Zedong's China disproved that dictum, just as Margaret Thatcher's Britain did when it attacked Argentina, a trade partner.

There are many such examples. So, China's assurance that Obor is 'merely an economic and development project', and that India should not object to it merely because of territorial disputes, carries little weight, if any.

The list of 28 heads of state and government who have confirmed their attendance at the Obor Summit on May 14-15 in Beijing is a mix of Asean (Association of Southeast Asian Nations) and European Union (EU) countries, Russia, and a couple of African nations. This is not a particularly high-profile gathering. So, there is no reason why Prime Minister Narendra Modi should attend it.

The Modi government's stance, that China needs to explain to it the Obor initiative and the CPEC project before it can take a view, has widespread political support at home cutting across party lines.

Reliance on Geo

China's economic initiatives on the foreign trade, investment and infrastructure construction fronts have underscored the wisdom of Nobel laureate economist and professor Thomas Schelling's famous words, "Aside from war and occasionally aside from migration, trade is the most important relationship that most countries have with each other. Broadly defined to include investment, shipping, tourism and the management of enterprises, trade is what most of international relations are about. For that reason, trade policy is national security policy."

In short, the Obor initiative, much less CPEC, is not just about economics. Without doubt it is about geoeconomics — the deployment of economic instruments in pursuit of geopolitical objectives.

The writer is Honorary Senior Fellow, Centre for Policy Research

It is only pure economists, innocent about geopolitics, who insist that trade is a win-win game and economic interdependence contributes to peace

WIT & WISDOM

"Take away love and our earth is a tomb."

Robert Browning
Poet

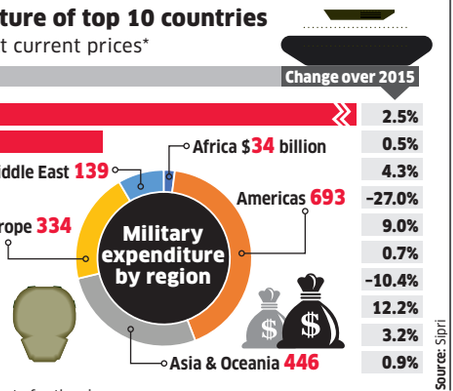
India 5th in Military Spending

India's military expenditure grew 9% in 2016, making it the world's fifth-largest spender at $55.9 billion, according to the Stockholm International Peace Research Institute (Sipri). India was ranked seventh in 2015. The US remains the country with the highest defence spending bill, accounting for more than a third of the global expenditure of $1.6 trillion...

Military expenditure of top 10 countries

Figures in $ billion at current prices*

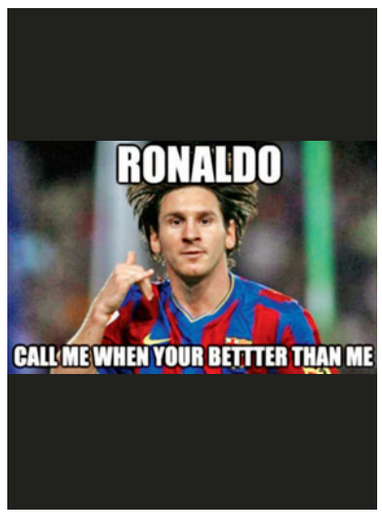
Country	2016	Change over 2015
US	$611.2 billion	2.5%
China	215.2	0.5%
Russia	69.2	4.3%
S Arabia	63.7	-27.0%
India	55.9	9.0%
France	55.7	0.7%
UK	48.3	-10.4%
Japan	46.1	12.2%
Germany	41.1	3.2%
S Korea	36.8	0.9%



*Converted at the exchange rate for the given year

Source: Sipri

MEME'S THE WORD



COMPENSATORY TARIFF JUDGEMENT

Justice From Power Play

V Ranganathan

The Economic Times editorial, 'Another Legal Blow to Commercial Logic' (April 13, goo.gl/2qKS1L), arguing against the sanctity of contract and against the Supreme Court judgement in the compensatory power tariff case is curiously out of line with both justice and sustainable business principles. The case relates to competitive bids made by Tata Power and Adani Power, where they were asked to quote a single levelised tariff for supplying a specific quantity of power to specific discoms.

This was part of the scheme of ultra mega power projects where the power ministry combined economies of scale (bid for 4,000 MW) with competitive bidding to extract the best bids.

The bids were of two types: one, where the source of coal supply was identified, and two, where it was left to the supplier. The case relates to the second type: in which identifying the source of coal, its price, etc, are the bidder's responsibility. In the case of the purchase of coal, the coal price risk devolved on to the bidder.

The two firms knew this very well. They tried to manage this risk by buying off coal mines in countries like Indonesia, and had a back-to-back long-term contract for coal supply at a fixed contract price. What they failed to do was to analyse the robustness of this price, in view of its nexus to the profit of the Indonesian joint venture, and, thus, tax and foreign exchange implications to the Indonesian government.

Having got the right to supply through competitive bidding — after finding that the Indonesian government's announcement would make their project unviable or less viable — Tata and Adani went to the Central Electricity Regulatory Commission (CERC) and stated that the CERC is the right body to determine tariff as according to the Electricity Act 2003, and that the power purchase agreement (PPA) be torn up.

The CERC accepted this and awarded a higher cost. This was found insufficient and it appealed. The Appellate Tribunal for Electricity (Aptel) asked CERC to redo the sums.

In December 2016, it did this and gave a further enhancement. This was appealed by the discoms and NGO Prayas, and the result is the present Supreme Court judgement.

Did CERC have jurisdiction to set generator prices? Section 79(1)(b) of the Electricity Act 2003 said that the CERC should regulate generator prices that supplied to more than one state. But Section 63 (Determination of Tariff by Bidding Process) states, "The appropriate commission shall adopt the tariff if such tariff has been determined through transparent process of bidding in accordance with the guidelines issued by the central government."

The primary job of the CERC is to ensure competition. Or if competition is not possible if it is a natural monopoly, it has to regulate the price that will be similar to what would have prevailed under competition. So, the CERC had no jurisdiction to set prices, which are set through a competitive process, unless it suspects that it is a competition only in name and not in substance.

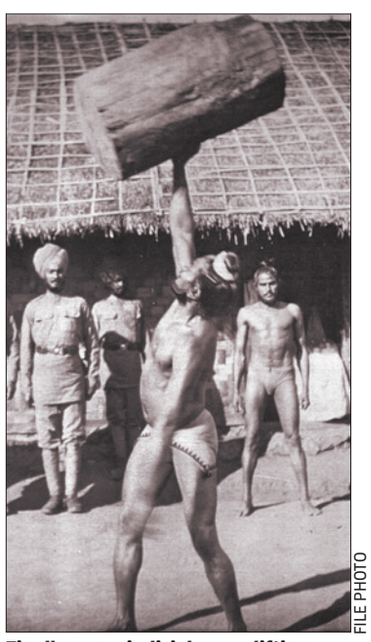
Aptel, comprising a judicial member and two technical members, does not understand the designing of markets (competition) in electricity and can't be expected to give the correct interpretation of the Act, beyond going by the letter of the Act. The apex court arrived at the correct decision, without going through the competition route, by looking at whether the sanctity of contract was violated.

The court rightly asserted that the deemed coal price increase caused by the Indonesian government is not a force majeure. This is a risk consciously borne by the supplier. Otherwise, it would have insisted to write in the PPA a clause allowing the pass-through of fuel price, as is normally done. Change in law has also not been accepted. That would apply only to change in Indian law.

As for the argument that Indonesian law makes the project unviable, 'sanctity of contract' is not just a rhetoric. All business has an element of gamble: you win some, you lose some. And the losses, in this case, are transient. With international coal prices falling, the project can still make up for losses. If the international price had fallen below the contract price, would the independent power producers (IPPs) have given a discount to the power price?

This is a time one has to be firm. And one would say about the Supreme Court regarding this case, a Daniel has come to judgement.

The writer is former professor, economics and energy, Indian Institute of Management, Bangalore



Finally, some judicial powerlifting

FILE PHOTO

Citings

On Financial Speculation

EDWARD CHANCELLOR

The propensity to barter and exchange is an innate human characteristic. An inclination to divine the future is another deeply ingrained trait. Together, they comprise the act of financial speculation. "All life is speculation," declared the celebrated 19th-century American trader James R Keene, "the spirit of speculation is born with men."

For the earliest known historical cases of speculation, we must turn to ancient Rome during the Republic of the 2nd century BC. By this date, the Roman financial system had developed many of the characteristics of modern capitalism: markets flourished because Roman law allowed the free transfer of property, money was lent out at interest, money changers dealt in foreign currencies, and payments across the Roman territories could be made by bankers' draft.

Capital concentrated in Rome, as it later did in Amsterdam, London and New York. The idea of credit had also developed, along with a primitive form of insurance for ships and other forms of property. The people of Rome exhibited a passion for the accumulation of wealth, matched by an extravagance in its display and consumption. Gaming was common.

In Latin, the word speculator describes a sentry whose job it was to "look out" (speculare) for trouble. The financial speculator in ancient Rome, however, was called quaestor, which means a seeker. Collectively, speculators were sometimes referred to as Graeci, or Greeks.

From "Devil Take the Hindmost: A History of Financial Speculation"

the speaking tree

Manage Your Sorrows

SWAMI SWAROOPANANDA

The easiest and simplest way to deal with sorrow is to remember that nothing is permanent. Krishna points out that all experiences are born from the interaction of the sense organs with the world of sense objects. They have a beginning and an end; they are impermanent and, hence, it is best to tolerate them with courage.

Joy and sorrow are nothing but a pair of opposites. Where there is heat there will be cold; where there is light there will be darkness. What has a beginning will also have an end. The way to manage suffering is to cultivate the attitude: this too shall pass.

Secondly, develop a sense of humour. Swami Chinmayananda explained joy and sorrow humorously: you sit in your verandah. Miss Joy and Mr Sorrow will keep coming and going. Enjoy the beauty. When Miss Joy enters, welcome her charming company but don't try to stop her; she is beautiful, but fickle. Let her go; don't lock the door; because Mr Sorrow is coming. Welcome him with open doors lest he breaks the windows. He is not very popular. He stays a little longer. Offer him a mug of beer. He goes; Miss Joy is returning. But give her a glass of diet coke!

Thirdly, do not blame others. The moment we blame anybody, we become victims, the sorrow intensifies, and we refuse to accept responsibility for our actions. Only when we feel accountable will we try to do something about it. Take charge; be the master of your destiny.

Chat Room

State Reras Must Coordinate

Apropos the Edit, 'Remove Overkill in Real Estate Regulator' (Apr 24), realty regulator in every state is good news for the investor, but coordination among the state Reras will be a big challenge. Experience shows that private real estate developers cheat investors by way of mispricing, misinformation, mismanagement and misguidance. Hence apprehensions against them. The purpose of curbing bad practices in real estate would be to guarantee rational pricing to the clients for which coordination is essential, than mere control.

SANJAY TIWARI
Hisar

Steel Up and Set House in Order

This refers to the Edit, 'A Rusty Tool And Tetanus for Mining' (Apr 24). Indian iron-ore miners are already crippled with high royalty, various state-level taxes, high export duty, export restrictions and cap on production. It is evident that further restriction and regulation of iron-ore pricing will adversely impact the mining industry. Moreover, it is the cost of coking coal and other expenses, and inherent efficiencies, that are impacting the steel industry's profitability. Therefore, all these other problems should be tackled, instead of considering only the iron-ore prices as a hurdle to sustainability.

SAKSHI SHUBH
Munger

Of Great Service & Charging for It

Government guidelines defining that service charge in hotels and restaurants is 'totally voluntary' and not mandatory has come as a relief for the harassed patrons. It has been argued that charging the consumer anything without express consent is unfair trade practice. This means that the pre-tax price listed on the menu is final, and any amount paid over and above the bill is voluntary on the part of the consumer. The move could trigger a new era in customer service with waiters vying with one another to provide better service. The customer is, indeed, king.

N J RAVI CHANDER
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