Where are the jobs?

Employment has to take on a critical status in the government's agenda

HUMAN FACTOR

SHYAMAL MAJUMDAR

The latest evidence of India's anaemic jobs growth comes from the Manpower Group. In its Employment Outlook Survey for July-September, 2017, the human resource consulting firm says the jobs market might continue its downward slide for the sixth consecutive quarter. In fact, the hiring forecast for India is least optimistic since the survey was launched in 2005. Net employment outlook for the third quarter is +14 per cent, compared to +35 per cent in the year-ago period. Another survey, which focused only on the information technology sector, says only 58 per cent of companies plan to hire in the April-September period, a 15 percentage-point drop from the previous quarter.

Three years after Prime Minister Narendra Modi's election promise that his government would create 10 million jobs, that's not a pretty picture. While it's true that surveys are not the best way to judge anything, they do give a sense of the emerging situation.

Here is another indicator of the grim jobs situation, though this one, too, has been dismissed by many in the government and some consultancy organisations. Data compiled from the quarterly report on changes in employment in selected sectors by the Labour Bureau reveals that employment creation even in the most labour-intensive sectors of the economy in 2015 plummeted to a low of 135,000 jobs, compared to 930,000 jobs that were created in 2011. Considering that one million new people join the workforce every month, the 2015 figures mean that just 0.01 per cent of new workers actually found work.

One can justifiably argue that the Labour Bureau operates with an extremely restricted sample that covers just 30-32 million people in eight sectors. So let's go beyond Labour Bureau data. Unfortunately, the picture is still blurred. Rating agency Crisil has pointed out that the jobs-intensity in manufacturing is down a fourth — from 0.78 in 2000-05, and employment elasticity in manufacturing has fallen to 0.57. A Deutsche Bank research note says that with urban employment growth stalling over the past few quarters due to slowing investments in e-commerce/internet start-ups and a slump in Indian IT services demand, job creation is likely to take on a critical status on the government's agenda as it enters the last two years of its term.

If there are still some doubts over the crisis, listen to Chief Economic Advisor Arvind Subramanian. This is what he said in mid-May this year: "India's current employment challenge is particularly difficult as sectors that did well in generating jobs in the country's previous economic boom years — IT, construction and agriculture — are in trouble now."

It is being argued in some quarters that jobs data usually hide the real picture as they do not cover the unorganised sector, which constitutes over 85 per cent of the total labour market. But if organised sector job growth has slowed down so drastically, it is a leap of faith to expect that unorganised sector jobs have shown a robust growth, specially when sectors such as construction and small businesses employing casual labour are in trouble.

McKinsey has prepared a counter-narrative to the entire debate. In a report published on Thursday, it said the country has created opportunities for "gainful employment" for the workforce. For example, the apparent sluggishness in job creation disguises significant structural change: While agricultural employment has fallen sharply from 2011 to 2015, non-farm employment has risen by more than eight million jobs a year. McKinsey also says digital ecosystems are creating new opportunities for better quality work, and more remunerative work, for a segment of the workforce. McKinsey has a point, but the fact is the same report also says, "the movement of workers from farm to non-farm jobs has not been rapid enough to account for growth in the working-age population".

The Labour Bureau's 2016 report also paints a dire picture of under-employment, which are of two types — not finding work for a full year and working at very low wages. Only 61 per cent of people in the workforce were found to have year-round jobs, with 34 per cent working only 6-11 months even though they were willing to work for 12 months. Since there is not much evidence to the contrary, the central point is this: Absence of adequate attention to jobs generation has only led to more and more people being pushed into either lowest-end self-employment, or the most unprotected employment. There is no doubt that job creation needs to be an essential axis along which economic and social policies are formulated. Time is running out.

Lesser-known facts about GRP and RPF

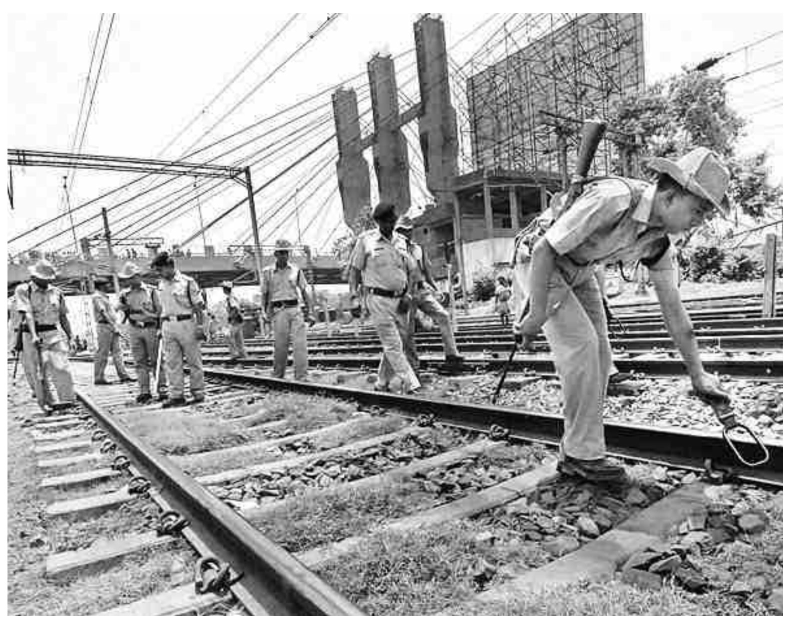
There are significant differences in the scope, jurisdiction, functions and personnel requirements of the two forces

BIBEK DEBROY

Here is a quote from a single-bench order of Chhattisgarh High Court in 2014. "Proviso contained in Section 8(1) of the Act, 1966, came to be considered by the Supreme Court in the case of the state of Uttar Pradesh versus Durga Prasad and it has been held that the inquiry conducted by an officer of the Railway Protection Force (RPF) under Section 8(1) of the Act cannot be deemed to be an investigation for the purpose of Section 162 of the Code... Thereafter, in Balkishan A Devidayal versus state of Maharashtra, it has been held that officer of the RPF conducting an inquiry under Section 8(1) of the Act, 1966, is not empowered with the powers of an officer in charge of a police station making an investigation and he has no power to initiate prosecution by filing a charge sheet before the magistrate concerned... The official status and powers of an officer of the Force in the matter on inquiry under the 1966 Act differ in material aspects from those of a police officer conducting an investigation under the Code." There is the Railways Act of 1989, Railway Protection Force Act of 1957, Railway Property (Unlawful Possession) Act of 1966 and the Criminal Procedure Code (CrPC) of 1973.

The original RPF Act of 1957 was amended in 1985 to make RPF an "armed force of the Union". Let me quote from Section 14: "Any member of the Force making an arrest under this Act, shall, without unnecessary delay, make over the person so arrested to a police officer, or in the absence of a police officer, take such person or cause him to be taken to the nearest police station." As reflected in those court judgments, the answer is obvious. The RPF is not a "police force". In several railway stations, I have come across RPF outposts that say "RPF *thana*". A *thana* is a police station. If the RPF isn't a "police force", how can these be called *thanas*? Section 2(s) of the CrPC states, "Police station means any post or place declared generally or specially by the state government to be a police station, and includes any local area specified by the state government on this behalf". In the absence of a state government declaration, how can any entity be a "police station"? It became messier with a 2003 amendment to the Railways Act. This brought about changes in Sections 179 and 180. Without getting too much into the law, Section 180 D(2) inserted, "For this purpose, the officer authorised (such as RPF) may exercise the same powers and shall be subject to the same provisions as the officer in charge of a police station may exercise."

If the CrPC doesn't permit it, can the Railways Act be amended to confer "police" powers on the RPF? From a railway perspective, "police" means the Government Railway Police (GRP). Therein lies the problem. The RPF's core mandate is protection of railway property. Law and order is a state subject and the GRP is under state governments. True, action against crime sometimes involves inter-state coordination. But no state will agree to the GRP reporting to the railway ministry. Most states have also opposed the idea of converting the RPF into a federal police force. In December 2016, the 12th Report of the Standing Committee on Railways was on safety and security. On those enhanced powers to the RPF, "comments have so far been received from 26 states and reply is awaited from five states. Out of 26 states, 17 have opposed the proposed amendment on various grounds." Nor did it find favour with the home ministry. "Further, the Ministry of Home Affairs has conveyed that the proposed amendments will effectively lead to the creation of a Federal Police Force, exclusion of the jurisdiction of the state police from the passenger area apart from creating jurisdictional confusion and conflicts. Moreover, police (including railway police) is a state subject under Entry 2, List II of Schedule 7 of the Constitution. Therefore, empowering the RPF with police powers may also disturb the constitutional scheme of distribution of powers and would run counter to the concept of cooperative federalism."



ALERT **Government Railway Police personnel inspect train tracks for explosives. From a railway perspective, 'police' implies the GRP**

The RPF's sanctioned strength is 76,000. This includes around 11,000 from the Railway Protection Special Force. Most RPF deployment is in the Eastern Railway and the Northern Railway. But 76,000 is an old figure. If I have understood it right, the sanctioned strength has now been increased by 18,000. Fifty per cent of the cost of the GRP is paid by the Indian Railways (IR), the remaining 50 per cent by state governments. This is the way you will hear it stated, but it's not entirely true. IR pays 50 per cent of GRP salaries. It doesn't pay for pensions, cost of equipment, weapons, vehicles, infrastructure, training. With these considered, IR probably pays around 20 per cent of the GRP costs. I am not absolutely sure, but I think the sanctioned strength of the GRP is 38,000, which is 50 per cent of 76,000. However, there is an interesting twist that many people don't know about. There are states that have increased sanctioned GRP strength, with states bearing 100 per cent of the expenditure and not expecting the 50 per cent from IR. Because of this, the sanctioned GRP strength is more like 48,000. I don't have a complete state-wise tally, but states such as Punjab, Bihar and Jammu and Kashmir are the ones where this has happened the most. That's the reason, per train, you will find most GRP personnel in these states. (Assam also has a high figure.) Per railway station, most GRP personnel are in J&K, followed by Delhi. This state inclination to recruit 100 per cent state-funded GRP indicates that the GRP will remain and not be supplanted by the RPF.

The writer is a member of the National Institution for Transforming India Aayog. The views are personal

CHINESE WHISPERS

Passing the question

In a press conference to announce the company's strengthened partnership with BP, Reliance Industries Chairman Mukesh Ambani was on the front foot when it came to passing on questions to BP Group Chief Executive Bob Dudley. "Bob and I have a rule. I will take all the easy questions, he's going to take the difficult ones." Dudley wasn't far behind. He sidetracked a question on contracts and said that considering they were in the process of awarding contracts, RIL Director P M S Prasad would be unhappy if he gave details.

More than a price pinch

State-owned oil marketing companies have a long history of rivalry that is set to intensify as dynamic pricing of petrol and diesel kicks off from Friday. At a meeting held to sign a joint-venture agreement for the world's largest refinery in Maharashtra, Minister of State for Petroleum and Natural Gas Dharmendra Pradhan (*pictured*) couldn't resist making an oblique reference to the issue. "These people sit together for meetings at the petroleum ministry, *magar bahar jaakar yeh log koi India-Pakistan se kam nahi* (but otherwise their relationship resembles that between India and Pakistan)," he said as representatives of Indian Oil Corporation, Bharat Petroleum Corporation and Hindustan Petroleum Corporation sat among his audience.

Favourable positioning

Ahead of International Yoga Day that falls on June 21, the New Delhi Municipal Corporation has installed a giant digital billboard in perhaps the poshest retail address in the national capital: Khan Market. The billboard is right in the middle of the market's parking lot and rolls advertisements of some of the pet projects initiated by the current government, such as Swachh Bharat and promoting International Yoga Day. That's something for shoppers to look up to, literally.

BUSINESS LIFE

One way to fix Uber: Think twice before using it

The ride-hailing app has failed to live up to its promises; it's time to avoid it

FARHAD MANJOO

Despite months of scandal at Uber, growth for Travis Kalanick's company has been essentially untouched

PHOTO: iSTOCK

You gasp with each new report on Uber's toxicity. On Tuesday, there was the harassment and discrimination documented in an endless list of internal recommendations by Eric H Holder Jr, the former attorney general, who was hired to peer into Uber's ugly depths. Then, while presenting the report to employees, an Uber board member made a sexist remark. (He later resigned.) All of it comes after a parade of escalating scandals that seem more fitting at a company run by Tony Soprano than by nerds in San Francisco.

Yet if you're like many people, in a day or two you'll shrug, pull out your phone and call up an Uber anyway. You have a meeting across town and the car isn't driving itself, at least not yet.

Don't do it — at least not without considering the full weight of your decision, and the many alternatives you might turn to instead. Try Lyft. Use a taxi, a bus or a train. Heck, hire a limo and a chauffeur with a golden top hat. To encourage a better Uber, it's time to play the only card you've got: If it backslides or otherwise fails to live up to the promises it's making now, stop using Uber.

There's a lot at stake. Ride-sharing, as an industry and a civic utility, is too big an idea to be left to a company like the one Uber is now. The company that wins this industry is bound to become one of the world's most powerful corporations. Its executives and culture will indirectly shape how we build cities, how we use energy, how we work and pay people. We will entrust it with the safety and the security of our families, our streets, our private data and even, conceivably, the national infrastructure.

Yet the Uber we have now is simply not up to that task. Even its board now acknowledges that the world desperately needs a better Uber. The company is finally taking major steps to prove it actually is serious about improving, as was evident on Tuesday when Travis Kalanick, Uber's chief, said he would take a leave of absence and the ride-hailing service released a 13-page document of recommendations for changing its culture.

So far, though, we've been failing at holding Uber accountable.

Despite months of scandal, with the hashtag #deleteuber sweeping Twitter, Uber's growth has been essentially untouched. According to the pseudo-earnings reports it regularly releases to the press, its revenue tripled in the past year.

In the United States, its rival Lyft has been growing its market share — and that growth has fuelled a huge haul of fundraising — but it still remains a distant second in the market. And remember, this is a supposedly hobbled Uber, one plagued by internal strife, an exodus of executives, a rapidly deteriorating brand and an existential lawsuit stemming from the shady origins of its purchase of a self-driving car start-up.

Yet while it's plausible that a generic car-sharing company could become such a global force for good, the whole idea begins to seem naïve when you start talking about Uber specifically. In addition to the internal recklessness cited in Holder's report, this is a company that has repeatedly deceived, threatened, defied or simply ignored regulators and the press. It has systematically mistreated its drivers. (It has promised to address their concerns in a coming report.)

© 2017 New York Times News Service

LETTERS

Custom vs ease

The Chatterbox item, "A Hindi-to-English app for UP ministers" (June 11), says the Hindi used for official work is so pedantic that several ministers find it difficult to comprehend press statements, etc. This brings to mind an incident that occurred decades ago.

When U N Dhebar was the Congress president, he happened to be at the Allahabad railway station on a visit to the city. He noticed a board that read "*Pratívad pusthak prasnalay mein milegi.*" Dhebar could not understand it; local leaders who were with him also could not help. A ticket collector, who was around, was called. He told them that the board meant, "The complaints book is available in the enquiry office." Dhebar made critical comments about the use of such Hindi and said that simple words should be used. That has remained a dream.

Recently, Home Minister Rajnath Singh emphasised the same point as Dhebar. The problem is that official Hindi is highly Sanskritised. Of course, words used for official documents in any language cannot be simple like colloquial words.

V Krushnamachari Mumbai

Haste can cause mayhem

The finance ministry's resolve to implement the goods and services tax (GST) from July 1, rejecting the demand from some segments of trade, industries and most recently, the aviation sector, to defer it till September is myopic. It ignores ground realities about the level of preparedness for such a switch.

Experts have justifiably raised a red flag over the challenges faced by the service sector, particularly those with offices spread across India, which are now required to obtain separate registration, based on the state where they operate. Barely 15 days are left for the GST roll-out, but the information technology (IT) system and the GST Network are no longer accepting new registrations; the window is open only for migration.

GST Suvidha Providers, too, have expressed their inability to perform the assigned responsibilities due to technical and other reasons. Some of the rules are yet to be finalised.

There is nothing sacrosanct about enforcing the GST from July 1 — the tax is required to come into force only before September 17. The sky will not fall if the inauguration is put off till September 1. Undue haste can lead to mayhem, which could otherwise be avoided.

The GST Council's decision to enhance the composition level from ₹50 lakh to ₹75 lakh with varied rates of taxes should provide some relief to small enterprises. What has not been debated is the effect of withdrawal of the existing exemption limit without input credit on small-scale manufacturers up to ₹1.5 crore and instead limiting it to ₹20 lakh. Also, they need to adopt IT-based business processes compatible with the GSTN. This is bound to increase their compliance cost and reduce their competitiveness.

S K Choudhury Bengaluru

Time is ripe

The editorial, "Time for a reshuffle" (June 13), hits the nail on the head. At present, there is no priority higher than a Cabinet reshuffle for the Prime Minister. If he does not act now, it would be too late and might cost him the general elections in 2019.

That the economy is stagnating and the situation in Jammu and Kashmir is not improving could be because one minister is looking after two important portfolios. Minimising teething troubles in the implementation of the goods and services tax is a full-time job in itself. This apart, decisions on generic medicines and cattle trading seem to have been arbitrary, resulting in the government having to do a lot of damage control.

The farmers' agitation has been handled poorly. Public confidence in the government and, therefore, support is reaching the tipping point. Unless the PM acts briskly, the next year could be a question mark for the Bharatiya Janata Party.

N Subrahmanyam Hyderabad

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

HAMBONE

BY MIKE FLANAGAN

Business Standard
Volume XXI Number 215
MUMBAI | FRIDAY, 16 JUNE 2017

A good start

Build capacity to support the RBI's bold decisions on NPAs

The Reserve Bank of India (RBI) has made an important start towards tackling India's bad debt problem. On Tuesday, the independent advisory committee that the RBI has set up to advise on loan resolution chose 12 large non-performing accounts for resolution under the Insolvency and Bankruptcy Code (IBC). These chosen accounts together make up 25 per cent of India's gross non-performing assets (NPAs) and they will now be subject to the resolution provisions of the new IBC. This is a welcome move, and it comes with refreshing speed a month or so after the RBI was empowered to create the independent advisory committee. It is not clear which accounts have been chosen, for the RBI says it has used certain general principles — that 60 per cent of the account be non-performing, that it has been classified as a bad loan for at least a year, and so on. Accusations of arbitrariness will thus be difficult to levy. What is important now is to swiftly follow up once this decision is made. But several challenges lie ahead that will have to be addressed before this course of action yields results.

For one, the IBC is untested. Many are sceptical that it will be able to handle large-scale resolution, especially given the stringent timetables that are part of the law. Now that the committee has chosen certain accounts and associated assets, the next step is for banks to approach the National Company Law Tribunal (NCLT), which will appoint a resolution professional to manage the assets under question. The problem is that, at this precise moment, the supporting institutional infrastructure for the ambitious new bankruptcy code has not really been built. This will be a severe test for the various tribunals that are supposed to implement the law, as well as for the supply of trained resolution professionals. It is noteworthy that there is no existing track record for the implementation of the IBC successfully on smaller accounts.

Unfortunately, assets currently being administered under the IBC have not passed through to the resolution stage yet; most are tied up in litigation in the higher judiciary over questions about the interpretation of the Code. The ultimate effectiveness of the new system has not yet, therefore, been demonstrated. In addition, as a consequence of litigation and open legal questions over interpretation, many resolution professionals are a little hesitant to step into the fray immediately. They would ideally prefer that these open questions of law be settled first. Nobody wants to find himself before a court for actions taken in good faith in the course of carrying out professional duties. The government and the legal system thus has considerable work to do in order to ensure that there is capacity in place to deal with non-performing assets that will shortly start coming through the system. The price discovery process for the sell-off of assets may also be challenging at a time when business confidence is shaky and it is uncertain whether banks are in a position to accept bigger haircuts should the situation arise. Most important are the insulation, independence, and empowerment of the "oversight committee" — which will make the all-important decision on how much of a haircut will be taken.

Lessons from the US

American institutions show how to speak truth to power

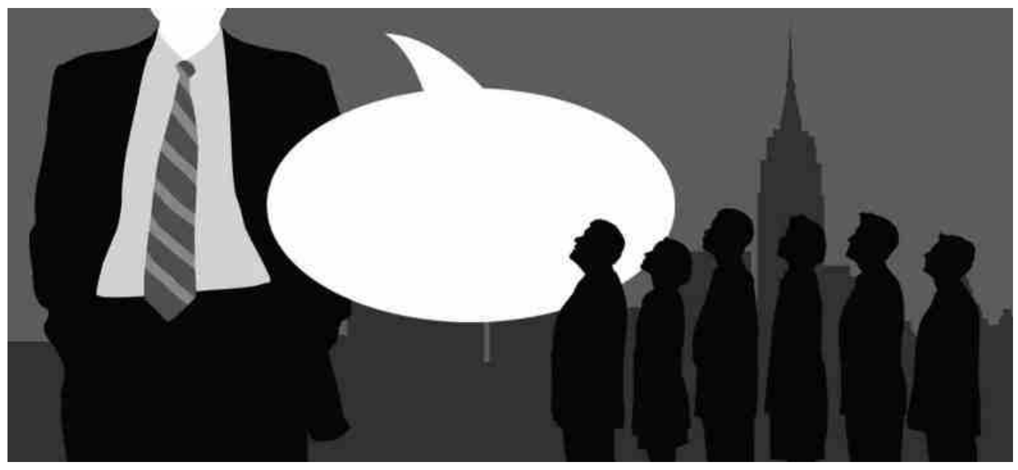
Contrasting recent developments in the United States, the world's most powerful democracy, and India, the world's most populous democracy, highlight the robustness or otherwise of public institutional structures. The ability to speak truth to power is one of the most compelling tests of the health of democratic traditions. In India, the Central Bureau of Investigation (CBI) launches raids on questionable pretexts against the owners of a TV channel that has been restrained in its support for the ruling dispensation. In the US, a thin-skinned President condemns critics from the liberal press as "fake news" and unabashedly favours friendly media. In India, displeasure of criticism expressed by a majoritarian government has encouraged some media houses to metamorphose into cheerleaders. In the US, media houses, sustained by gushing leaks inside the Beltway, have called out the chief executive of the world's sole superpower for serial acts of commission and omission. Apart from incoherent tweets from the West Wing, the world's most powerful man has not been able to unleash raids or court cases on any of these institutions, not from lack of inclination but because of the systemic checks and balances in the American system.

Four years ago, Supreme Court Chief Justice R M Lodha immortalised the CBI, India's premier investigative agency, as a "caged parrot" that spoke in "its master's voice". In the US, the premier domestic investigative agency, the Federal Bureau of Investigation (FBI), is so independent that it can initiate an investigation into the president's campaign for collusion with Russia during the 2016 election. When the president sacked the FBI Director on this account, the latter could suggest that the president of the United States was a liar during a televised hearing called by a bipartisan Senate committee investigating the issue. Now, a special counsel appointed by the president to investigate the Russian interference in the 2016 elections appears to have extended the inquiry to Mr Trump himself.

In the US, legislation to pass a controversial healthcare Bill was withdrawn for lack of support within even the ruling party. In India, a tweaking of Parliamentary rules on the definition of a money Bill enabled the government to pass a contentious law on Aadhaar. In India, a student who intervened in a dust-up at a university against a students' association affiliated to the ruling party was arrested. In the US, students at University of California's Berkeley campus protested against a journalist from the far-right, pro-Trump Breitbart. The president threatened to withdraw funding, only to be advised that federal law would disallow it. In India, police stand by as lynch mobs go on a rampage. In the US, administrations in sanctuary cities have the legal wherewithal to thwart the president's strictures against undocumented immigrants.

India does not lack institutional structures but the 21-month Emergency certainly demonstrated their limits. Those guaranteed by the Constitution – such as the Election Commission, the Comptroller and Auditor General and even the judiciary (though the record here is patchy) – have largely fulfilled their role. Parliament and bodies under its purview – the Reserve Bank of India and other sector regulators – still struggle to establish their independence. It could be argued that the modern Indian nation is only 70 years old, so respect for public institutions is yet to develop. The US, by contrast, is 230 years old and the almost daily political dramas around Washington DC provide an invaluable lesson to emerging democracies such as India on the value of institutional bulwarks against authoritarianism.

ILLUSTRATION BY BINAY SINHA



'America first' or America alone?

The US might be less indispensable now, yet the risks of it going alone to global security and economy can't be underestimated

CLAUDE SMADJA

Read carefully these lines from Lieutenant General H R McMaster, US national security advisor, and Gary Cohn, chief economic advisor to President Donald Trump, in a joint column published recently in the *Wall Street Journal*: "The world is not a 'global community' but an arena where nations, non-governmental actors and businesses engage and compete for advantage," they wrote. "We bring to this forum unmatched military, political, economic, cultural and moral strength. Rather than deny this elemental nature of international affairs, we embrace it."

This is presumably as close as it gets to the enunciation of a Trump worldview and foreign policy doctrine. And, it is a remarkable as it is nerve-racking in three important and different aspects.

This narrowest and crudest expression of realpolitik comes from two personalities whose appointment in the Trump administration was welcomed by many people inside and outside of the US because they were considered as being able to bring a more reasoned approach to foreign policy, to act as a bulwark against Donald Trump's narrow and short-term vision of international relations. Of course we all know that the notion of "global community", an over-used staple of any well-meaning speech in international diplomatic forum, sounds and looks in too many cases and circumstances more like hypocrisy or wishful thinking than an apt description of the realities of the ground.

However, there are situations or challenges such as the fight against terrorism, international drug trafficking, or the protection of the environment where this notion is worth advancing as a kind of low common denominator incentive for countries to work together. Its dismissal from two the most respected "brains" from the Trump administration highlights the extent to which the deleterious context in which people are engulfed when they get close to – or involved with – the new powers that be in Washington. That leaves Secretary of State Rex Tillerson and Defense Secretary General James Mattis as the only two voices in the foreign and defense policy domains considered as cool-headed enough to temper the bullying animus that characterises this administration. And, Gen Mattis had a very hard time at the Shangri-La Dialogue in Singapore trying to convince the US Asian allies that they could still see Washington as a reliable partner to guarantee their security.

The second very worrisome element that emerges from the Op-Ed signed by Lt Gen McMaster and Mr Cohn is the purely utilitarian way in which the Trump administration looks at the US relationship with its traditionally allies. "We are asking a lot of our allies and partners, they write, but in return America will once again be a true friend to our partners and the worst foe to our enemies". In other words, Europe and Asian allies cannot count on the US if they don't meet expectations and requirements that will be set unilaterally by Washington. And Messrs McMaster and Cohn add: "We have a vital interest in taking the lead internationally to advance American military, political and economic strength." So, it is not a question of working together to advance mutual interests or defend common values. It is just a matter of enrolling other countries for the benefit of US interests as Mr Trump will define them. Which country would wilfully want to be part of a relationship defined in such terms? What kind of cohesion could be expected in these conditions?

No surprise then that if the US president claimed his satisfaction after the recent NATO Summit in Italy, the other members of the Alliance could not hide their dismay. A template of the trans-Atlantic relationship which has existed for more than 70 years is today put into question. Of course there is more than reasonable ground for American impatience about the way the Europeans have been piggybacking on the US for their defence and President Barack Obama was as outspoken as his successor against "free-ridders". There is also due consideration to be made about the need to rethink the mission and the modus operandi of NATO. The problem is that Mr Trump sounds and acts like he does not care throwing the baby out with the bathwater. And, again, nobody knows what is the ability of Gen Mattis – may be the soundest and most credible person in the whole administration – to bring the president back to a more reasoned perspective, or even how long will Gen Mattis be able to last in this environment.

The third increasingly worrisome element of this Trump vision of the world or foreign policy doctrine is the fact that the "America first" mantra with all its chest-thumping is increasingly translating into "America alone". This administration is confusing its traditional allies and making them feel increasingly insecure while comforting its adversaries or competitors by the spectacle of the mess developing in Washington and by some of its self-defeating moves. The announcement that the US would withdraw from the Paris climate change agreement just prompted the President of the European Council Donald Tusk and visiting Chinese Premier Li Keqiang to boast how Europe and China would now be the champions of the global environment. This is just plain vanilla rhetoric, as Europe and China have major differences on what they perceive their role in the fight against climate change and even how this fight will have to be conducted in a way which can be reconciled with sustaining the level of growth China considers necessary for itself.

The US might be today less of the "indispensable nation" its admirers considered it to be in the past; the rebalancing of the global power set in motion by the rise of China, as well as by the lassitude of the American people about the cost of international extension have also reduced its ability to shape global events. But there is still no way some international issues could be addressed without Washington's active involvement. There is also no under-estimating the increased risks that an "America alone" means for global stability and security, as well as for the international economy.

The silver lining in the present state of a Trump administration beset by "affairs" and investigations, and at a low point in terms of popularity, is that the US Congress – especially the Republican Party – has now the upper hand and an increased leverage on the White House. This might well be the moment when the best hopes for a steadier course in US policy would rest on the shoulders of the moderate, more mainstream, segments of the Republican Party — with the support of some far-sighted democrats.

The writer is president of Smadja & Smadja, a strategic advisory firm
Twitter: @ClaudeSmadja

Riding the inflation wave

PRANJUL BHANDARI

Watching India's inflation trends these days gets us humming The Doors' 1967 popular single, "Break on through to the other side". And why not? Inflation in India has clearly changed sides. From 11 per cent in the FY09 to FY11 period, it has fallen to 4.5 per cent in FY17 and is likely to average 3.6 per cent in FY18. So promising is this that the Reserve Bank of India, in its June 7 policy meeting, slashed its full year inflation forecast by a whopping 140bps, the largest cut in recent memory. What's going on here? And how long will it last?

We ran a series of theoretically rigorous yet simple regressions to figure out what really drives inflation. In particular, we modeled consumer prices, the output gap (a measure of the difference between the economy's actual output and potential output), minimum support prices, or MSPs (government-set floors on agricultural produce prices, which often work as the ceiling), and rural wages. These are all interconnected and important in understanding the intricacies of inflation in India.

Our findings give us some powerful messages. First, we found that it is the same "cast of characters" impacting inflation, regardless of whether we are assessing periods of rising (eg. FY09-11) or falling (eg. FY14-17) inflation. Second, we find that inflation expectations, both backward and forward combined, explain about 75 per cent of the trends in actual inflation. Third, the remaining 25 per cent is explained by "other factors", such as reservoir levels, policy discretion (for instance in the setting of MSPs), global commodity prices and the rupee.

Inflation expectations are a stubborn animal. Once they take hold, they feed off themselves, falling into a multi-year cycle. FY09-11 was a vicious cycle of inflation expectations in which higher inflation in the past triggered higher inflation in the future. On the other hand, FY14-17 was a virtuous cycle in which falling inflation each year triggered even lower inflation in the next.

In both cases, the persistence of the cycle was strengthened by institutional characteristics unique to India. Our analysis showed that the setting of both rural wages and MSPs leans heavily on inflation in the previous year.

We also found that inflation expectations have now fallen into a virtuous cycle and are likely to stay there, comfortably anchoring India's inflation rate at the 4 per cent target, unless some of the so-called "other factors" turn sour enough to yank them out.

But could those things turn sour? Growth, which has slowed sharply this year, could rebound, but updated growth numbers suggest that there has been weakness on the ground since mid-2016 that is likely to keep the output gap negative for longer. In fact, our estimates suggest that the output gap is likely to remain negative for much of 2018. This is likely to keep core inflation, which has already fallen to 4 per cent, in check.

There is always some risk of oil prices rising gradually over time, but a stronger rupee would offset some of the impact. In fact, we estimate that the 5 per cent appreciation in the rupee since the start of the year will shave off 25bps from the inflation rate over 2017. Reservoir levels, a key determinant of food prices (given they capture not only the impact of monsoon rains but also the carry-over moisture from the previous season), could be inadequate. But so far they are trending well above normal and rain forecasts for the next few months are promising. Finally, the housing allowance for public servants could have second-round inflationary effects, but our analysis suggests that as long as the output gap is negative, these are not likely to be major.

In fact, we think some of the "other factors" could even go right. While a lot has been said and feared about the goods and services tax (GST), it seems that the tax rates have been set such that, if over time tax cuts are passed on to final consumers and the input tax credit mechanism works smoothly, the GST could actually cause inflation to fall by 10-50bp.

A part of the dramatic fall in food prices could be structural. States such as Maharashtra have liberalised trade in fresh foods in July 2016. Karnataka has emerged as a leader in digital food markets. Food prices in these states have fallen sharply recently and may not reverse in a hurry. At the same time, the government has become much more nimble in food distribution — importing, exporting, buying and selling food grains more efficiently. All said "other factors" do not seem to be a source of worry at this point.

Of course there are always several risks in the horizon. If a wave of farm loan waivers spreads across the country, worsening India's debt and deficit ratios, and is coupled with soaring MSP increases, the benign inflation trends could get disturbed.

But until we actually see these risks taking hold, we believe the RBI has space to undertake some modest easing over the next few months and yet meet its 4 per cent target comfortably over the foreseeable future. The opportunity to continue cutting, and yet meet ambitious inflation targets in a country infamous for runaway inflation, is rare. But when a strong wave of benign inflation expectations hits you, there is only one thing you can do. Ride it.

The writer is Chief India Economist, HSBC Securities and Capital Markets (India)

Helping hands behind India's urban glitz

BOOK REVIEW

VIKRAM JOHRI

In his 2008 Booker-winning first novel, *The White Tiger*, Aravind Adiga charts the story of Balram Halwai, who rises from the darkness of his village in the hinterland to grand, if bloody, success as a self-made entrepreneur in the metropolis. The story resonated not just because it was emblematic of the glitz of the new India but also because it denoted how that new India was sometimes built upon the dreams of its lesser mortals.

In *Maid In India*, Tripti Lahiri offers evocative and detailed accounts of one subset of these lesser beings: The thousands of workers who migrate from Bihar, Uttar Pradesh, Jharkhand and West Bengal to make lives as domestic help in India's metros. It's an important book, covering personal stories of a group of people whose presence is the unobtrusive support system that keeps the new India running and burnished.

The domestic worker is a special class of manual labour that populates India's urban agglomerations. She comes from some of the most deprived parts of the country – where even basic necessities like electricity and water are still unavailable or severely rationed – and is plonked into some of India's most exclusive neighbourhoods where, as Ms Lahiri reminds us, it is not uncommon for residents to spend as much on an Italian dinner as is the maid's monthly salary.

Although Ms Lahiri uniformly points out such class disparities, her book is chiefly about the courage these women – and domestic help are primarily women – display in building lives in new and, at first, frightening places. From Golbanu bibi, who would not let her son work so long she is alive, to Lovely, who brought her sisters to Delhi to enable them to have a better life, the domestic help Ms Lahiri profiles are exemplars of entrepreneurship and initiative.

The class distinction inherent in the relationship between the employer and the maid is not a new phenomenon — in India's bureaucratic circles, for example, it was not uncommon to have the help do multiple things for little to no salary in return for accommodation and the promise to take care of urgent financial needs.

What is new is the anonymity of the person coming to work in the household. With the rise in incomes and loss of age-old networks, people in the cities no longer have the support system on which their parents could rely. Yet, the most enduring relationships even today are based on more than a monetary transaction. A Delhi lawyer, who hires nearly 10 men and women to help around the house, offers them a slew of benefits ranging from health insurance to children's education.

The relationship between the employer and the domestic help is an uneasily intimate one, but this intimacy is not always two-way. Ms Lahiri recounts how the driver of a friend knew great details about her life since he had often accompanied her on her journeys, while she struggled even to remember his name. Similarly, the domestic help know more about the relationship and financial statuses of their employers than even their closest confidants may, causing trust issues between the two parties.

On the other hand, more experienced maids can sometimes have an upper hand when dealing with clients. Ms Lahiri reprises the story of a new mother whose nanny would often comment on her lack of experience with the child. This stung her and made her postpartum depression all the more insufferable. She was able to relax only after the nanny left them.

Ms Lahiri aims for such balance in other areas too, such as when she shares the story of how a lower middle class family decided to hire a maid. Om Prakash Verma and his wife take care of their own domestic cleaning and other duties and rue that their daughter-in-law not only does not help them with domestic work but has hired a maid for her own house which is one floor above the Vermas'. Later, Ms Lahiri presents the daughter-in-law's story, a nurse whose older son has autism and she herself is recuperating from cancer.

Beyond the personal anecdotes, the book also discusses the work by non-government organisations to improve the lot of the domestic help. Ms Lahiri profiles Gauri Singh, who runs The Maids' Company in the National Capital Region, an organisation that both trains girls arriving from other states to work as domestic help and assures that their rights are preserved. The company's clauses are hearteningly specific about such seemingly small matters as lunch breaks and access to the toilet.

India's persistent income inequality and high population will ensure that domestic help will be around for a long time to come. Ms Lahiri's book is a reminder that for People Like Us, who are so quick to believe that they are ushering in a new, more evolved India, the blind spots begin at home. The plus side, when domestic workers become like extended family, is not nearly as frequent as the other kind, where they have to fight for their most basic rights. Formalising rules for domestic work, Ms Lahiri reiterates, will go a long way in bringing a semblance of parity to what is essentially an unequal relationship.

MAID IN INDIA
Stories of Opportunity and Inequality Inside Our Homes
Tripti Lahiri
Aleph
314 pages; ₹599