Untimely end of COMPAT

Regulatory reform should be more than mere *inter se* transfer of responsibilities

MANAS KUMAR CHAUDHURI & AVIRUP BOSE

On May 26, the government of India initiated the process of implementing its budgetary announcement of merging eight autonomous regulatory tribunals under the pretext that it would reduce cost and improve the efficiency and working of such quasi-judicial agencies. One of the replaced tribunals was the Competition Appellate Tribunal (COMPAT) which has now been merged with the National Company Law Appellate Tribunal (NCLAT). There is nothing available in the public domain, which suggests a consultation with the stakeholders had taken place before reaching this decision. It is noteworthy, when the UK government proposed to replace their antitrust regulator, the Office of Fair Trade, and the intermediate appellate body, the Competition Commission, with the unified Competition and Markets Authority, the UK government's department for business, innovation and skills published for consultation, the details of the government's proposal to ensure that the new body maintains the same clarity of analysis, robustness of decision-making process and transparency and political independence as that of its predecessor.

A regulatory assessment to determine the feasibility of merging apparently non-congruous regulatory tribunals was essential in achieving the objective of improving the efficiency of India's regulatory institutions and to ensure there was no detraction from the quality of the existing judicial decision-making functions of the replaced tribunals. This is particularly important since at present, all pending matters before COMPAT, which have been transferred to NCLAT will be heard afresh. Some of the transferred cases include cases pending before COMPAT since 2012 and those where the COMPAT was about to pronounce its final order.

The untimely end of COMPAT throws up several regulatory governance issues. Most sectoral regulators such as Telecom Regulatory Authority of India, Securities and Exchange Board of India, and Petroleum and Natural Gas Regulatory Board are responsible for ex-ante prescribing the terms of licensing or required disclosures for accessing the sectoral markets. Thus, the adjudication responsibilities of the respective appellate authorities are limited to ensure the market participants are not in breach of such ex-ante prescribed terms of licensing or disclosure requirements. This is not true for the enforcement mandate of the Competition Commission of India (CCI) and COMPAT.

This means that the CCI acts more like a judicial body. CCI prescribes the rules of appropriate market behaviour by deciding cases of alleged violation of the provisions of the Competition Act, 2003 (Act). For example, unlike the telecom regulator, CCI will not ex-ante prescribe the appropriate tariff amounts for telecom services, but will rather decide cases of excessive pricing, if the same is unfair and/or discriminatory, by telecom service providers — applying their judicial mind, using rules of proportionality to penalise for violations, all the while ensuring compliance of procedural due process — and in that process determine the proper methodology of pricing services for the telecom sector. When approving a telecom merger the CCI needs to apply its judicial mind to determine if the proposed merger would cause an appreciable adverse effect on competitive conditions prevalent in the affected market of telecom services in India. Consequently, COMPAT's job is also significantly different than those of the intermediate appellate bodies of the other sectoral regulators. It does not merely police the compliance of rules prescribed by a sectoral regulator but rather adjudicates if the CCI has correctly applied its judicial mind in enforcing the applicable provisions of the Act.

Over the past eight years of its existence, COMPAT, through its heavy casework, had been steadily building upon its institutional capacity such that its adjudicatory process respects due process and precedents. With the untimely loss of COMPAT's institutional memory, the NCLAT — a generalist company law tribunal — may need time to recoup the jurisprudence developed.

Regulatory reform should be a top priority of any governance mechanism but it should be more than a mere *inter se* transfer of regulatory responsibilities of one agency to another incongruous one. Companies making investment decisions in India seek clear, predictable rules on how the country's antitrust regime shall function. The Act has unfortunately been amended several times since it became effective on January 13, 2003. Such inconsistencies in India's antitrust enforcement mechanism can have major negative ramifications for the Indian economy.

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Reversal on rupee-denominated debt

Determining the interest at which Indian firms will be able to borrow in the foreign market is an unwarranted intervention, given that the currency risk in such borrowings is borne by the foreigners

BHARGAVI ZAVERI & RADHIKA PANDEY

The Reserve Bank of India (RBI) has, since 2015, been liberalising foreign investment in offshore rupee-denominated debt raised by Indian firms. In September 2015, it allowed Indian companies to issue rupee-denominated bonds that could be traded offshore (popularly called masala bonds). Before this, foreigners could subscribe to onshore rupee-denominated bonds through Sebi-registered foreign portfolio investors (FPIs) only. In November 2015, the RBI issued a more liberal external commercial borrowings (ECB) framework, governing Indian firms raising foreign debt. The RBI has also been gradually increasing the limit on FPI investment in onshore rupee-denominated debt. However, on June 7, the RBI announced three changes in the framework governing masala bonds that reverse this progressive trend. One, it capped the coupon rate that Indian issuers can offer on masala bonds. Two, it raised the minimum maturity period for such bonds, where the issue size exceeds USD 50 million. Three, it declared that proposals for the issuance of masala bonds will be cleared by the foreign exchange department of the RBI. These changes are inimical to Indian firms, many of which are already starved of capital as Indian banks become increasingly averse to corporate lending.

First, the circular does not achieve the stated objective of aligning the masala bond framework with the ECB framework. To achieve a coherent alignment, the same rules that apply to rupee-denominated bonds issued offshore under the masala bond framework, should govern the rupee-denominated loans under the ECB framework. However, the circular caps the coupon rate on masala bonds at 300 basis points over the yield of government securities of corresponding maturity. This is a new element of control and goes against the stated objective of alignment. There is no cap on the rupee-denominated loans under the ECB framework, which simply requires that the interest on such loans must be in line with market conditions.

The rationale for imposing a cap, linked to G-sec yield, on the coupon rate is unclear. One could argue that a cap of 300 bps over G-sec yield gives sufficient leeway to Indian firms to raise offshore debt. However, this is not borne out from the average interest rate offered on foreign currency loans. In the last three years, fixed rate foreign currency loans have offered an average annualised interest rate between 13 and 14 per cent. If the cap of 300 bps over G-sec yield were applied, then offering an interest rate of 13-14 per cent would be possible only if the G-sec yields were above 10 per cent. However, on average, the G-sec yields over the last three years have been in the range of six-eight per cent. This, at best, allows an Indian firm to offer a coupon rate in the range of 10-11 per cent. Moreover, the 13-14 per cent interest rate does not factor in the currency risk that the borrower takes. Rupee-denominated debt would presumably need to offer a higher yield as the lender bears the currency risk.

LENDING TERMS

Minimum maturity period for rupee-denominated instruments issued to non-residents

Type of instrument	Issue size of $50 million	Issue size exceeding $50 million
Onshore rupee-denominated bonds	3 years	3 years
Offshore rupee-denominated loans	3 years	5 years
Offshore rupee-denominated bonds	3 years	5 years

Determining the interest that Indian firms will be able to borrow at in the foreign market is an unwarranted intervention, given that the currency risk in such borrowings is borne by the foreigners. With the exception of South Africa, none of the similarly placed economies such as Brazil, South Korea or Turkey impose restrictions on interest rate on foreign currency borrowing. Attempting to control debt flows through interest rate caps is a rather blunt policy tool because it effectively means that smaller Indian firms would find it difficult to access the masala bond route to raise local currency debt. At a time when bank lending to such firms is likely to stagnate and the Indian bond market struggles to find its feet, a cap on the coupon rate virtually strangulates such firms from going abroad and raising debt that they are in a position to service.

Second, increasing the minimum maturity period from three years to five years for issues exceeding USD 50 million, aligns the masala bond framework to the ECB framework for rupee-denominated loans. However, the overall inconsistency between the rules governing similarly placed rupee-denominated instruments persist, as shown in the table.

The table shows that while the minimum maturity period for onshore bonds that can be issued to non-residents is three years, irrespective of the issue size, the minimum maturity period for offshore rupee-denominated debt varies depending on the issue size. This approach is incoherent for two reasons. First, it treats similarly placed rupee-denominated instruments differently. Two, it penalises large issuances by imposing differential minimum maturity requirements on them. The rationale for imposing differential maturity requirements depending on issue size for one class of rupee-denominated instruments and not another, is unclear.

An enhanced minimum maturity requirement of five years for large issuances implies that Indian firms wanting to make large issuances of under-five years maturity, will be restricted to the Indian market. With Sebi's simultaneous proposal to tighten foreign investments though P-notes, such a proposal may be detrimental to foreign inflows in local currency debt, an outcome that is neither intended nor desirable.

Finally, the circular states that "any proposal of borrowing by eligible Indian entities by issuance of these bonds will be examined at the Foreign Exchange Department, Central Office, Mumbai". This is the most damaging intervention in the framework for local currency borrowing. While the circular has carefully avoided the words "approval route", the addition of an "examination" requirement means that such issuances are subject to RBI approval. It is unclear if the Foreign Exchange Department has the authority to stall proposals for masala bond issuances if they do not satisfy the notional requirements of the Foreign Exchange Department (notional, because the circular does not list them). The period for clearance and the manner of application are also unclear.

The regulatory framework for masala bonds had just begun to show results with Indian issuers showing increasing interest in issuing such bonds. Trading in these bonds could potentially be a first major step towards rupee internationalisation. We must not clip its wings with interventions that are not rooted in sound economic logic.

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CHINESE WHISPERS

Technology kills the FridayQuiz

#Can'tGoogleThis, the Friday quiz by Infosys co-founder and architect of the Aadhaar programme Nandan Nilekani for his 1.92 million followers on micro-blogging platform Twitter, will stop after three years. Nilekani would post images of monuments and places and the correct answers would get a mention in his tweets. Nilekani conceded that his #Fridayquiz is a victim of automation brought by AI and machine learning and plans his last one on June 23. "The current error rate is 3 per cent, which makes computer image recognition more accurate than human recognition," he tweeted. His followers, however, have pleaded with him to continue.

Missing birthday boy

ILLUSTRATION: AJAY MOHANTY

The usual beating of drums and slogan shouting outside the Congress national headquarters to mark the birthday of Congress Vice-President Rahul Gandhi was missing on a day the leader turned 47. Gandhi had on June 13 flown to Italy to see his grandmother and spend time with the family. It was not known if the leader celebrated his birthday there or at some other place. In the past, though Rahul would urge party colleagues not to make an event out of it, the youth wing workers would beat drums and distribute sweets outside the party headquarters to convey their wishes. Many took to Twitter to wish him and he replied to all of them. The Congress vice-president is expected to be promoted in a few months.

Yoga's crisis

As preparations get underway to celebrate the third International Yoga Day on June 21, a paper by ASSOCHAM says India today faces a shortage of about 300,000 yoga instructors. The demand stands at over 500,000. The scope of yoga as a career option is "wide", says the paper, with "opportunities to work in nature resorts to schools, to fitness centres to your own studios to even becoming personal yoga instructors of celebrities". The paper adds that the demand for yoga teachers is at an all-time high in South East Asia and India has emerged as one of the biggest yoga teacher exporters to South East Asia as well as China. An estimated 3,000 Indian yoga instructors teach in China and most of them belong to Haridwar and Rishikesh, regarded as the yoga capitals of the country.

CONSUMER LIFE

Consumer expectations weaken

MAHESH VYAS

Consumer sentiments improved by an impressive 5.7 per cent during the week ended June 18. It is not surprising that the improvement is entirely in rural regions. Rural sentiments improved by 11.1 per cent while urban sentiments declined by 3.4 per cent. A wave of loan waivers or promises of public procurement of agricultural crops at higher prices and more importantly expectations that farm loans will be waived further, have improved rural sentiments.

Farmer agitations have spread beyond Madhya Pradesh and Maharashtra. Correspondingly, rural expectations have risen. The rural index of consumer expectations rose by nine per cent during the past week. The timely arrival of the monsoon rains has also helped improve rural expectations.

In spite of these improvements in consumer expectations, the BSE-CMIE-UMich consumer sentiments indices tell us that there is a substantial weakening of consumer expectations since May this year. This is a significant break from the past.

Ever since the launch of these consumer sentiment indices, consumer expectations have been ahead of consumers' current economic conditions. Hopes on the future were always higher in India, than any assessment of current conditions. This is starkly different from the behaviour of American consumers.

According to the indices of consumer sentiments generated by the Surveys of Consumers, University of Michigan, the index of consumer expectations is always lower than the index of current economic conditions. In fact, the difference between the two has been rising. The index of current economic conditions has been scaling a sharper gradient compared to the index of consumer expectations. In May 2017, the Current Index was 111.7 while the Expected Index was 87.7. This is the opposite of what we have seen in India, till recently.

In contrast to the US, the Index of Consumer Expectations in India is about 2.5 per cent higher than the Index of Current Economic Conditions. This phenomenon has weakened in recent weeks

The Current Index (and also BSE-CMIE-UMich's Index of Current Economic Conditions) measures perceptions of households regarding their current economic conditions compared to a year ago, and whether this is a good time to buy consumer durables. The Expected Index (and also the Index of Consumer Expectations) measures households' perception regarding their expected economic conditions in the future and their perception about the performance of the economy on a one-year and five-year horizon.

Usually, the Expected Index in the US is about 20 per cent lower than the Current Index. In contrast, in India, the Index of Consumer Expectations is about 2.5 per cent higher than the Index of Current Economic Conditions. This Indian phenomenon of expectations being better than current conditions has weakened in recent weeks.

In May 2017, the Index of Consumer Expectations was 0.5 per cent lower than the Index of Current Economic Conditions. Expectations recovered during the first 10 days of June. But, during the week ended June 18, the expectations index was 2.3 per cent lower than the index of current economic conditions.

In rural India, both indices have risen smartly thanks to the current wave of loan waivers and other supports. Expectations have also grown, albeit at a much slower pace compared to current conditions. In the current circumstances, this may not be considered to be altogether undesirable. But, this is not just about expectations of personal income; it is also about expectations of the growth of the economy in the next one to five years. Therefore, the relative weakness in expectations has elements we must worry about.

In urban India, both indices declined during the week ended June 18. But, index of expectations fell more sharply than the index of current conditions.

It is not clear whether this relative weakness in expectations will persist. But, the lower level of expectations in May compared to current economic conditions, and its continued relative weakness in June is a somewhat worrying break from its past performance. It is also worrying because the current expectations at least partly reflect the ill-conceived, inflated expectations of farmers.

In a few weeks we will learn whether the current angst in farmers will dissipate with the arrival of a good monsoon or whether it will get worse if the monsoon does not oblige.

Retrieving urban India from its persistently low consumer sentiments is the equally daunting challenge. Neither the monsoon nor a booming stock market is of any use here. Urban India needs more jobs.

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LETTERS

Revamp farm ecosystem

The editorial "Bad timing" (June 19) has rightly reinforced the detrimental impact of the spree of farm loan waivers gripping the nation. Its fiscal strain is sure to bloat the deficit. Everyone is more than convinced that loan waivers as social sops can set a bad precedence. Hence, it is time for a serious introspection into the precise reasons for the plight of farmers in India. Beginning with fragmented land holdings, uncertain and hostile weather conditions, poor education on modernising farming, dependence on monsoon, non-availability of bank loans and many more are rarely discussed. Moreover, from an occupational standpoint, farming is low-profile and rarely adopted by educated youths in the community. Farming is getting relegated as an occupation managed by the poor either on their own behalf or that of affluent farmers.

In an agro-based economy if the farming community cannot be affluent how can the rest of the population enjoy self-sufficiency in food? Farming must be made profitable. The minimum support price (MSP) should not only be raised to commercial levels but the ecosystem supporting farming activity need to be revamped. Farming must be respected as a profession for which education on agriculture must be incorporated at the school level so that professionals from colleges begin to look at it instead of opting to migrate to congested urban areas, leaving elders to meddle in farming.

Therefore, some long-term seminal changes have to be targeted instead of blaming the representatives of the government or farmers. Fix the root cause instead of treating symptoms all the time and then shifting the blame on people at the helm of affairs. A parliamentary committee should look at the plight of farmers and initiate policy transformation to bring farming to the mainstream of professions which youngsters should be proud to pursue. It must be made a profitable economic activity to continue to attract the best talent.

K Srinivasa Rao Noida

Not democratic

With reference to "Crucial week for Presidential election, last date for filing nominations is June 28" (June 19), during the debate that took place in the Constituent Assembly regarding the election of the President, Prof. K T Shah proposed that every adult should have his or her share in electing the head of the State; and accordingly, instead of indirect election through the representatives of legislatures, the election should be by the votes of the people themselves. He argued that while deciding upon the leading principles "we were under a stress and strain, and were passing through difficult circumstances and were under influences, which, I venture to submit, deflected our judgment, unbalanced our outlook, and, therefore, we voted for and accepted ideas, which, in my opinion, were not then, and are not now consistent with the idea of a true, real, working democracy, in every sphere of life". He did not wish the President to be a mere mouthpiece of the Prime Minister but to be the real representative of people in their collective capacity and in their sovereignty.

However, the framers of the Constitution in their wisdom argued that the government is carried on not directly by the people but by their duly elected representatives and, therefore, in consonance with this principle, made the presidential election an indirect election. Unfortunately, soon after Independence, ruling dispensations started springing "candidates" loyal to them upon the electoral college making their selection a fait accompli.

It is unsettling as to why the Bharatiya Janata Party, with a strong mandate, both at the Centre and in states, is showing reluctance in being transparent over the choice of its presidential candidate. This will only exacerbate the unrest and anxieties that have become everyday realities in an allegedly polarised society. It is time political parties, both in power and otherwise, freed the office of the president from political compulsions and executive burdens. In an increasingly tumultuous global political and geopolitical landscape, it is imperative for the new incumbent to enjoy widespread confidence.

Shreyans Jain New Delhi

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HAMBONE

BY MIKE FLANAGAN

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Puzzling hurry

Tax return filing extension on GST may not be enough

Over the weekend, the body administering the goods and services tax, or GST, iterated its intention to roll out the new indirect tax regime from July 1. However, the GST Council has also taken note of the increasing clamour from the private sector about its unpreparedness for the new system, and it has announced certain concessions. The timetable for filing returns has been somewhat relaxed initially. And industry will be granted exemptions from penalties and fees for late filing in the first two months of the new tax regime. The GST Council's decision is welcome. However, it is far from certain that this is the best way to respond. For one, it does not necessarily reduce confusion; some states have indicated that they do not know what this implies for their own finances in the interim, if all indirect taxes for July and August are paid instead in September. While Finance Minister Arun Jaitley said that he did not have the "luxury of time" to defer the implementation of the GST, the government continues to fail to provide a coherent explanation as to why this is so.

Questions continue to be raised about the preparedness of the system; many companies migrating to the new technological infrastructure have noted that the server does not seem to be reliable. The correct answer to these worries would be to provide more time for testing, and a transparent stress test of the system. Testing the system when the new tax has already been introduced seems too lax an approach to this landmark reform. As this newspaper has previously argued, ensuring a glitch-free roll-out for the technological backbone of this extremely tech-intensive new system is essential if transaction costs are to be minimised and political capital is to be stored out for future simplification of the currently over-complex tax structure. Delaying the roll-out by a couple of months remains a more than reasonable solution, and it is puzzling why the government is so firm in its refusal to consider it.

As regards the other important concern about the "anti-profiteering" clause, the Council has provided a two-year expiry date. This clause mandates that any benefits from a lower tax incidence or from input tax credits under the new system should be passed on to the final consumer. This has always had the appearance of a counter-productive interference in the working of the price system. Further, it clearly creates a handle for the harassment and prosecution of companies that may be making purely commercial decisions. Here, too, the GST Council's response has been unsatisfactory and incomplete. It has provided a three-level structure to look into complaints. It is far from clear whether the capacity of the structure suggested is in any way commensurate with the vast potential for trouble-making contained in the "anti-profiteering" clause. The idea is that the powers given to the government by this clause will serve as a "deterrent"; but how often have governments failed to use powers that have been granted them? The authority itself has not yet been properly constituted — another thing that will have to be done on the fly if the roll-out of the tax is not postponed as it should be.

Mother of all advice

AYUSH's unscientific advisory betrays a social agenda

In India, five women die every hour during childbirth, according to the World Health Organisation (WHO), and childbirth-related deaths account for 17 per cent of such deaths globally. These deaths are principally on account of the poor health of mothers, anaemia-related post-partum haemorrhages and deficient medical facilities. Such inconvenient socio-economic truths co-exist uneasily with the increasingly muscular nationalism that sees India as an emerging global power. Yet, if an AYUSH ministry advisory issued last week is to be believed, the remedy to the high rate of maternal mortality is embedded in abstaining from non-vegetarian food, sex, lustful thoughts and bad company, focusing on spiritual contemplation (aided by hanging beautiful pictures in the room and so on) and other related gems. This was, Minister of State (Independent Charge) Shripad Naik said in defence against the uproar that followed, the accumulated wisdom of centuries of yogic practices.

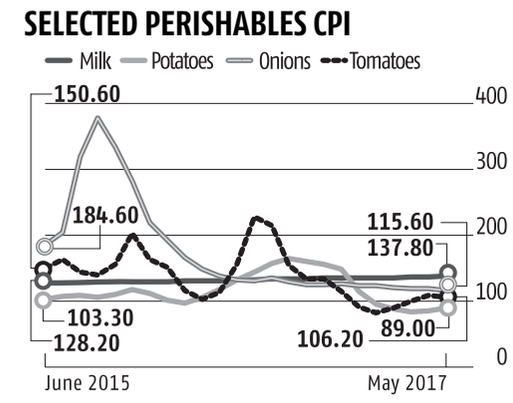
In truth, these strictures have no basis in anything, let alone medical science. Had such indigenous "practices" really worked, Indian women, most of whom rely on the accumulated wisdom of local midwives rather than the services of trained gynaecologists, would have followed them long ago and India would not have a maternal mortality rate (MMR) of 174 per 100,000 live births (for 2016, according to WHO) or 167 per 100,000 (for 2013, according to government statistics) neither of which looks acceptable. India almost matches Pakistan (178) and Bangladesh (176) and trails Sri Lanka (30) and Bhutan (148) on this account. China, the country with whom we like to think we are competing with, has an MMR of 27, which has nothing to do with following AYUSH ministry-prescribed best practices in maternity care. Mr Naik's statement also contradicts India's significant improvement over the past decade, when the reduction from 212 deaths per 100,000 births in 2007-09 was achieved principally through improvements in expectant mothers' access to better nutrition and healthcare. He is also undermining his own government's attempts to deliver better (non-spiritual) healthcare to expectant mothers and infants via the recent all-India expansion of the conditional cash-transfer scheme under the maternity benefits programme. The ₹6,000 per child cash incentive is payable in three instalments linked to regular check-ups and child vaccinations.

At any other time, it would have been possible to dismiss this advisory as freelance zaniness of an overzealous minister. But the fact that the ministry, which usually restricts its advice to such unexceptionable stuff as the benefits of practising yoga daily, should gratuitously offer advice on a matter that is strictly under the purview of the Ministry of Women and Child Development suggests that maternal and infant health is not its principal concern. Taken together with official strictures against eating beef and cow slaughter, a cattle-trading ban, and unofficial initiatives such as vigilante "Romeo squads" and *gau rakshaks*, a suggestion that momos be banned and increasing restrictions on women's freedoms in the public sphere, this advisory appears to be part of an effort to drive a specific social agenda. For a country that aspires to compete on the frontiers of cutting-edge space technology, such antediluvian proclivities urgently need to be curbed.

ILLUSTRATION BY AJAY MOHANTY

The fury of farmers

The risks linked to market uncertainties can be mitigated by policies that empower farmers individually or in groups



The farmers' agitation in Madhya Pradesh and several other states has raised concerns about the health of the agricultural sector. It is worth noting that the farmers' agitation this year has come in the wake of a good monsoon in 2016. That there is distress amongst farmers cannot be denied as is evident from the scale of the protests. But looking for immediate and longer-term responses requires a better understanding of the roots of the stress in the farming economy.

NITIN DESAI

Over the past five years, the agricultural economy as measured by the gross value added (GVA) reported in the National Account Statistics has grown at an average rate of 2.3 per cent. The index numbers of crop production show little or no growth since 2010-11. Hence growth in GVA must reflect an improvement in the terms-of-trade for agriculture. Though the average increase in minimum support prices (MSP) 2013-14 onwards was modest and about 4.1 per cent for rice and for wheat 4.8 per cent, the price increase for fertilisers, the main non-agricultural input into farming, from 2013-14 onwards averaged only 2 per cent. Thus the terms-of-trade (the ratio of prices received to prices paid) improved from 98.8 in 2011-12 to 106.8 in 2015-16.

But though the terms-of-trade movement favoured agriculture, income may have shifted from farmers to agricultural labourers as a similar terms-of-trade calculation for farmers vis-à-vis non-farmers shows no such improvement and is static at 97 through these years. This possibility is borne out by the data on agricultural wages which doubled between 2010-11 and 2014-15. Hence what we are facing is not just concerns about agricultural growth but also about the distribution of income between landowners and labourers.

Farming in India is moving from a subsistence and traditional mode to a modern capitalist mode with farmers investing in land improvement and irrigation, adopting new seed varieties, new crops and new methods of cultivation. Many farmers with marginal holdings are leasing their land to larger farmers so that there is a de facto dilution of ceiling laws. Enterprising farmers are borrowing and investing in these improvements in a business where weather and market volatility risks have not been significantly reduced.

The key to weather risk lies in water management and there the record of irrigation development is not inspiring. Surface irrigation is declining and the modest growth in irrigated area for quite some time has come from tubewells set up by individual farmers which are leading to groundwater depletion problems in many areas. Protecting farmers with crop insurance has started with some fanfare; but the coverage is still quite low and has crept up from 22 per cent of the sown area in 2013-14 to 26 per cent in 2015-16. Hence the increasing recourse to loan waivers which, along with interest subsidies, complicates greatly the possibility of a commercially viable credit system for agriculture.

Resolving the supply side sources of uncertainty will take time and providing complete protection against weather uncertainties is not possible, particularly with the impending threat of climate change. It will become even more difficult with the reduction of plant biodiversity as commercial growers switch en masse to the latest high-yielding or high-value varieties. But the risks linked to market uncertainties can be mitigated by policies and programmes that empower farmers individually or in groups.

The high levels of rice and wheat procurement and stocks held by the government sometimes creates the impression of an agricultural market dominated by the public sector, an impression reinforced by the tendency of our political masters to announce all manner of price objectives for products whose markets are outside their control. The public procurement system is a substantial presence only in the markets for rice and wheat and that too in a limited number of states. In the latest procurement season more than 93 per cent of wheat procurement took place in three states — Punjab, Haryana and Madhya Pradesh. In the case of rice, the spread was a little wider and 93 per cent of the procurement was spread over 10 states.

More than 60 per cent of the gross cropped area produces products others than rice and wheat, for most of which, even if minimum support prices (MSPs) are announced, hardly any procurement takes place. Farmers are entirely dependent on private traders. A particularly important component of agriculture is the production of perishable fruits and vegetables and milk. For many of these products markets are volatile with large differences in flush and lean season prices. These products are an increasingly important component of consumer food demand and a major source of income for farmers. Fruits and vegetables are the dominant component of horticultural products which account for about 30 per cent of the value of agricultural output.

Volatile potato and onion prices, and now with rising prosperity, tomatoes have always figured prominently in policy deliberations in Delhi. The focus is generally on inflation and the consumer interest dominates. This year the tables have turned. The problem is not inflation but deflation. (Reserve Bank of India and Monetary Policy Committee please note!) Farmers of key perishables are facing a steady fall in prices for six months or more. The attached graph plots the consumer price index (CPI) for potatoes, onions, tomatoes and, for comparision, milk. The persistent decline in prices has been attributed to the impact of demonetisation on produce traders who operate with cash and who withdrew from the market. Hence for the first time in many years the CPI for food fell in the lean season month of May 2017. The graph also brings out the sharp difference in volatility between milk, a perishable with a more organised marketing chain and the other three perishables.

Reforming the agricultural marketing system is essential to respond to the fury of farmers. Co-operatives of growers and linked investments in processing and cold chains, opening the doors for organised retail to deal directly with farmers, removing restrictions on how and to whom farmers can sell, all of them present in the case of milk marketing today, are a set of focused measures that can be implemented, provided the government is willing to take on the traditional traders who dominate the rural and urban markets for most perishables.

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Time up for the BBB?

Do we need the Banks Board Bureau (BBB) headed by Vinod Rai anymore? The question is prompted by the setting up of a committee to appoint chiefs of four state financial institutions, IIFCL, IFCI, SIDBI and the Exim Bank.

The BBB was set up in April 2016. Its principal task was to select heads of public sector banks (PSBs) and financial institutions. Other tasks were advising PSBs on strategy and helping them formulate "innovative" capital-raising plans.

FINGER ON THE PULSE

TT RAM MOHAN

The principal task has now been whittled down. The heads of the four financial institutions will be appointed by a committee headed by Anjuly Chib Duggal, secretary, financial services, at the Ministry of Finance. The other members of the committee are Reserve Bank of India (RBI) Deputy Governor N S Vishwanathan, Allahabad Bank's former chairman Subhalaxmi Panse, consultancy firm IndAsia's promoter Pradip Shah, and IIM-Indore director Rishikesha T Krishnan.

Ms Duggal and Mr Vishwanathan are both members of the BBB. Ms Panse and Mr Shah were added recently. Prof Krishnan is not a member of the BBB. Mr Rai and three other members of the BBB, Anil K Khandelwal, Roopa Kudva and H N Sinor, do not figure in the new committee.

The BBB was one of the recommendations of the P J Nayak committee on governance in banks (May 2014). But the BBB that was created by the National Democratic Alliance government was not the one the Nayak committee had intended. The Nayak committee had wanted the BBB to be completely distanced from the government. It had also wanted the BBB to appoint chairmen, managing directors and independent directors at PSBs.

None of this happened. The BBB included the financial services secretary as well as a deputy governor of the RBI. It was, in fact, the original appointments committee that used to select bank chiefs by another name, except that the RBI governor had been replaced by Mr Rai as chairman. The BBB has selected bank MDs and executive directors but not chairmen and independent directors.

Even in respect of MDs, the BBB has not had full authority. The Indian Bank MD exchanged places with the MD of IDBI Bank without the BBB being consulted. Two individuals, whom the BBB had selected for the Allahabad Bank and the Syndicate Bank, were appointed by the government to the Punjab National Bank and the Bank of India instead. One of the BBB members, Mr Sinor, resigned in protest. He was persuaded to stay on.

There has not even been a pretence of the BBB being involved in matters of bank strategy or capital raising. The non-performing assets (NPAs) issue is in the court of the RBI. Given that the BBB's mandate has now been narrowed down even further, it's worth asking whether we need the BBB any more.

The BBB is a terrible idea. The notion that top appointments at PSBs can been outsourced to some "independent" committee of professionals is sheer nonsense. Since the government is accountable to Parliament for PSBs, it must accept full responsibility for top appointments. Let a government official – say the Cabinet secretary – head an appointments committee to select bank chiefs. Say goodbye now to the BBB. Let Mr Rai focus on The Board of Control for Cricket in India — enough there to keep him fully occupied.

Monetary policy tantrums

The announcement of the latest monetary policy statement earlier this month was not without drama. Prior to the meeting, the Chief Economic Advisor (CEA), Arvind Subramanian, had proposed a meeting with the Monetary Policy Committee (MPC) in order to put forward the government's point of view. The committee declined.

By a majority of 5-1, the MPC decided to maintain the status quo on the policy rate. Mr Subramanian did not disguise his displeasure. He said there was a "plausible alternative macroeconomic assessment" that dictated a cut in the policy rate. Mr Subramanian remarked acidly, "Inflation forecast errors have been large and systematically one sided in overstating inflation." The media promptly went to town about another RBI governor being at odds with the government.

Who's right — the CEA or the RBI? The RBI says that it's not clear whether the factors that have contributed to the current low rate of inflation are transitory or persistent. It would like to wait and watch until it's clearer that inflation will stay below 4 per cent. The CEA may think otherwise but he can't argue that the RBI's position has no basis. Differences of this sort are impossible to resolve.

The argument the CEA should be making is that the mandate given to the MPC is an inflation rate of 4 plus or minus 2 per cent. So the RBI need not be fixated on a target of 4 per cent. You can't be sure that inflation will stay below 4 per cent but you can be a lot surer that it will stay below 5 per cent. On the latter view, a rate cut would certainly be on. Why the CEA has not made this argument is a bit of a mystery.

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Jinnah: Love, hate and books

KITABKHANA

T C A SRINIVASA-RAGHAVAN

Recently, after reading Sheela Reddy's book on Mohammad Ali Jinnah's personal life someone asked me why Indians have written so many books on Jinnah while the Pakistanis have written so few on Gandhiji.

I told him the Pakistanis had not written much on Jinnah either. They are like that only, I said.

When I Googled it later, I didn't find a single book on Gandhiji published in Pakistan or by a Pakistani author. So we have no idea what they think of him other than telling their people that he opposed Pakistan and Jinnah. But they do give him credit for khilafat and blame him for stopping it.

China did better on this count, at least till the Communists captured it in 1949. Until 1947, 26 books had been written on Gandhiji there. Since then there seem to be none.

If I am wrong about this imbalance please correct me because I would love to read Pakistani and Chinese books on Gandhiji. What would they make of non-violence as a political strategy, for example, or vegetarianism, or no sex?

In contrast, Indians have written at least a dozen books each, if not more, on Jinnah and Mao Zedong. They have all been published in India. Indeed, as beacons go, Indians acknowledge Mao very generously even going so far as to have political movements based on his thoughts.

But it is different with Jinnah. Indians think he broke up India by putting forth the absurd and eventually self-destructive notion that religion should be the basis for nationhood.

Seventy years after he, Jinnah, got them a Muslim country, many Pakistanis, to the utter chagrin of their sensible countrymen, are being very silly and claiming to be Arab! Religion was necessary, it seems, but insufficient.

Jinnah books

Thanks to Arun Shourie who kindled my interest in the freedom movement, I have read several books on Jinnah which tend to be very fair. They can even be quite admiring of the man and his pre-1937 politics, which was not based on shouting that Islam was in danger.

The four I like most are the ones by Stanley Wolpert published in 1984 and by Jaswant Singh in 2009. But since Mr Wolpert is an American, we can leave him out.

Mr Singh, of course, is as Indian as they come. He said the Congress was as responsible for partition as Jinnah was. The Congress, in power in 2009, ignored it. But for his pains, he was expelled by his party, the Bharatiya Janata Party, for writing it! How dare you, it asked him.

Indians think he (Jinnah) broke up India by putting forth the absurd and eventually self-destructive notion that religion should be the basis for nationhood. Seventy years after he, Jinnah, got them a Muslim country, many Pakistanis... are being very silly and claiming to be Arab!

Then in 2016 came another book on Jinnah. This time it was a fabulous novel by Kiran Doshi, written around Jinnah. I can't see a Pakistani writing novel around Gandhiji, can you? Or a Chinese, for that matter.

The latest Jinnah book is by Sheela Reddy. It is about his unhappy marriage and the two-year courtship that preceded it. His bride, Ruttie Petit, was just 16 when they fell in love and 18 when they married, much to the fury of her father. Jinnah was 40 but his age was not the only thing that made Sir Dinshaw angry.

Sadly, Mrs Jinnah died 11 years later in 1929, a very disconsolate woman. There was much love between husband and wife but no companionship. Most uncharacteristically for him Jinnah was seen crying at her funeral.

He never got over that tragedy. One Pakistani writer has written that he cried again when he visited her grave before leaving for Karachi in August 1947.

I wonder how things would have turned out politically had Mrs Jinnah not died when she did. Would she have allowed her husband to break India up? We will never know.

But only Jinnah books

The Pakistanis don't seem to have written any books on Jawaharlal Nehru, either. If they have, someone please tell me.

But then, how many books have Indians written about Sheikh Mujibur Rahman, D S Senanayake or the Bandaranaikes? In Bengali, on Mujib, quite a few; in English none that I could find. The same is true for Senanayake and the Bandaranaikes as well.

Although their stature is just as great in their countries as of Gandhiji and Nehru in India, modern Indian departments of history ignore them equally. So do Indian writers.

Since this cannot be because of a paucity of material, one must assume we don't regard them as being very important although, as neighbours, they obviously are.

Scholarly folly in South Asia, it would seem, transcends everything — religion, culture, history and, above all, geography.