Make a virtue of necessity

Faced with a talent crunch while filling several ministerial vacancies, the PM should merge some related ministries and make the govt leaner

RAISINA HILL

A K BHATTACHARYA

With the ongoing monsoon session of Parliament concluding at the end of this week, Prime Minister Narendra Modi will most likely get down to the task of reshuffling his 72-member Council of Ministers. Never before in his tenure has the task of a ministerial reshuffle appeared more urgent.

Three senior Cabinet ministers have left the government in the last few months and their ministerial responsibilities are now being shared by other Cabinet members. In March this year, Manohar Parrikar quit the defence ministry to take charge of Goa as its chief minister and Finance Minister Arun Jaitley was asked to hold additional charge of this critical ministry. Jaitley was already in charge of two ministries — finance and corporate affairs — and this decision meant that a third ministry was added to his portfolio.

Last month, M Venkaiah Naidu was chosen to be the National Democratic Alliance's vice-presidential candidate and that led to his resignation from two important ministries — information and broadcasting, which was handed over to Textiles Minister Smriti Irani as additional charge, and housing and urban affairs ministry became an additional responsibility for Narendra Singh Tomar, who also continued to be the minister in charge of rural development, panchayati raj, drinking water and sanitation. For Tomar, it is a heavy burden as head of four different ministries.

The untimely death of Environment, Forest and Climate Change Minister Anil Madhav Dave in May created yet another ministerial vacancy. Once again, this was filled by giving Harsh Vardhan additional responsibility of this ministry. Vardhan is already holding charge of two ministries — science and technology, and earth sciences.

The first task for Modi in the proposed reshuffle, therefore, will be to reduce the workload of ministers, who have been burdened with new ministries that are quite unrelated to their existing portfolios. This means finding new talents, which is quite a task given the paucity of Modi's manpower resources.

What can Modi do? He can use this opportunity to fulfil his earlier promise of providing maximum governance with minimum government. Nothing can be better than fulfilling that promise by pruning the size of the government at the top. The talent crunch that Modi faces can only provide further justification for a proposal to merge a few ministries to obviate the need for identifying capable ministers to head them.

For instance, with Air India to be sold, is there a need for a separate Cabinet minister for civil aviation? Why can't it be part of an omnibus transport ministry, with a minister of state in charge of the sector? Indeed, the railways, roads, highways, shipping, waterways and aviation should be merged into one mega ministry with one Cabinet minister in charge and separate ministers of state heading these different departments.

Modi has already brought all the energy-related sectors, except petroleum, under one minister, but not one ministry. This is the time for him to take the next logical step: Merge all energy-related departments into one omnibus energy ministry that would include coal, power, non-conventional energy resources and even petroleum products. There can be one Cabinet minister for energy with ministers of state in charge of these different sectors. For strategic reasons, the atomic energy department should still remain under the prime minister.

Why does the government need two ministers for steel — one at the Cabinet level and the other as a minister of state? Why shouldn't steel be made part of a mega industry ministry? Indeed, there is no need for two separate ministers — one for micro, small and medium industries and the other for heavy industries and public enterprises. A sensible option would be to merge all these ministries under three different Cabinet ministers into one industry ministry and, if necessary, let the individual departments be handled by separate ministers of state.

Rajiv Gandhi in 1985 created two omnibus ministries — the human resource development ministry with P V Narasimha Rao as its head and the transport ministry with Bansi Lal in charge, where all the transportation sector departments were led by ministers of state. Political expediency over the years has seen successive governments dilute that principle. The transport ministry has been dismantled and status quo ante restored. The human resource development ministry, too, has been diluted with culture, art, sports, youth welfare, women's affairs and skills development emerging as independent ministries or departments.

Will Modi resume that exercise to streamline these ministries through mergers and make the government leaner?

CHINESE WHISPERS

A 99.99 per cent question

Financial Technologies (FTIL) (now 63 Moons) founder Jignesh Shah and current Chairman Venkat Chary (*pictured*) held a press conference, contesting an order of the Securities and Exchange Board of India charging 13 individuals with insider trading. The conference became a stormy affair, with mediapersons asking tough questions about the ₹5,600-crore National Spot Exchange (NSEL) default. To a question on how FTIL kept everyone in the dark with what was happening at its fully-owned subsidiary NSEL, the 77-year-old Chary said, "It's not a fully-owned subsidiary, it is a 99.99 per cent subsidiary." His answer left most people present at the event scratching their heads trying to figure out the difference between the two.

Ahead of his time

Recent complaints by passengers that they were kept waiting as VIPs boarded the scheduled flights seem to have had an effect on airport officials, particularly those in Bengaluru. After a quick trip to the city airport to announce heli-taxi plans for the tech hub's harrowed commuters, Union Minister of State for Civil Aviation Jayant Sinha (*pictured*) was ready to leave the VIP lounge to board a plane when an aide urged him to take it easy as there was time before the plane was ready to depart. A Bengaluru International Airport official told the aide to ensure that passengers were not kept waiting for the VIP. Only after Sinha was convinced that passengers won't be inconvenienced did he wait for a few minutes before making his way to board the plane.

The monk who got a Scorpio

When Jaggi Vasudev (Sadhguru) of the Isha Foundation got on the wheels of a Mahindra Scorpio in Nepal, he decided to tweet the photo and tag Mahindra Group Executive Chairman Anand Mahindra. Mahindra tweeted back saying, "The Monk who sold his Ferrari (for a Scorpio)?"

Bullish, but don't bet too much on it yet

If the positive sentiment erodes, the market could see a deep correction because fundamentals can't justify the current valuations

FRONT RUNNING

DEVANGSHU DATTA

The market zoomed past the Nifty 10,000 mark despite increasingly disturbing macro data and the index ended Friday above that level, despite some unloading from tired bulls. Valuations are optimistic to say the least, especially in the face of an open-ended disruption like the goods and services tax (GST) implementation. Globally, there are storm clouds hovering over the US, with President Donald Trump looking increasingly likely to be called out for "Russia-gate".

The Purchasing Managers' Indices (PMI) for July hit multi-year lows in both the services and manufacturing segments. Both indices fell below the 50 mark and this indicates a trend of contraction across the entire economy. At least part of this is due to businesses holding off large commitments during the GST transition.

But the economy was not doing particularly well anyway. The Index of Industrial Production (IIP) for May indicated there was a slowdown and the data for the eight core sectors in June suggest that slowdown became more marked. The IIP was down to 1.7 per cent year-on-year in May and the eight core industries, which contribute a large chunk of the IIP, were down to 0.4 per cent year-on-year in June.

Inflation was also down to 1.54 per cent in June for the Consumer Price Index (CPI) and that was well below the tolerance level of the Reserve Bank of India (RBI), which looks to keep consumer price inflation between the band of two and six per cent, with an ideal target of four per cent. Given the slowdown and the low prices, the Monetary Policy Committee was expected to cut rates. It did, reducing policy rates by 0.25 per cent. However, there were bulls speculating about the possibility that the RBI would cut by 0.5 per cent and/or reduce the Cash Reserve Ratio as well. So the policy review led to some disappointment and a brief sell-off, followed by a recovery.

The policy statement makes for interesting reading. It has plenty of doom and gloom but it retains the projection of 7.3 per cent gross domestic product (GDP) growth for the financial year. Given the rest of the document, that's hard to believe.

Even prior to the rate cut, the system was sloshing with liquidity. There is around ₹200,000 crore sitting with the RBI on the repo account and banks would surely prefer to lend that money out at higher interest if possible. A token rate cut will not supercharge such a muted credit cycle.

The statement speaks of "loss of speed in manufacturing", "deficiency in demand" for electricity generation, "contraction in consumer durables" and "retrenchment of capital formation in the economy". The bank's industrial survey indicates waning of optimism. The capex cycle has collapsed. Infrastructure continues to suffer from slow clearances and the usual issue of land acquisition. The non-performing assets situation, where banks are struggling to cope with massive bad loans, will be exacerbated by the farm loan waivers, which are now the flavour of the day.

Inflation is expected to rise from here on and monetary policy projects CPI running at 2.0-3.5 per cent in the first half of 2017-18 and 3.5-4.5 per cent in the second half. Household inflation expectations are also much higher — no surprises given that Indians are terrified of inflation and the price of tomatoes has gone through the roof due to the demonetisation disruption. Indeed, demonetisation is probably responsible for some of the slowdown and apprehensions about GST are contributing to the caution. Incidentally, the RBI's own annual statement is delayed, supposedly because it hasn't finished counting the currency returned during that disastrous experiment — an excuse that has been met by polite and not-so-polite disbelief in many quarters.

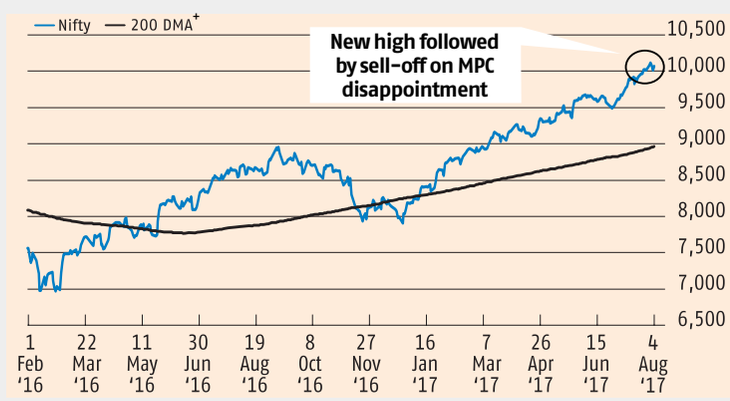
The bright spots in the economy are services including foreign tourism and also a pick in the external trade cycle. Global conditions are better. Europe is seeing decent growth, despite the stronger euro. China seems to be doing well in July, which is a bellwether for the global economy. The bearish triggers here could be geopolitics. Brexit is a serious unresolved issue. The investigation into the Trump campaign's collusion with Russia is gathering steam and expanding in scope.

The GST will completely disrupt the Budget projections of February and, if it does trigger a prolonged slowdown, fiscal deficit could expand significantly. The questions here involve the speed of implementation. Every analyst and sane investor will have made allowances for GST and most seem to be expecting two quarters of disruption. History, meaning the European experience, suggests it could be longer and patience might run out if GST impacts earnings adversely for a fiscal year or even longer.

Valuations are off the scale despite all the doom and gloom. The Nifty is trading PE25-plus; mid-caps are trading at PE32-plus. Foreign institutional investors took some money off the table in the last fortnight as they were net equity sellers. But foreign portfolio investors continue to buy rupee debt. Domestic institutions remain positive and retail is massively optimistic, with huge contributions to equity mutual funds and via the direct equity route.

By definition, a market that's trading at all-time highs and trending up is bullish and will remain so, unless sentiment changes. If sentiment does change, however, this market could see a deep correction because fundamentals cannot justify the current valuations.

TRENDING UP



	Value		Equations
	Jul 21	Current (Aug 4)	Change %
Nifty value	9,915.25	10,066.4	**1.52**
Index PE	25.32	25.61	1.15
Index dividend yield	1.01	0.96	-4.95
Index book value	3.53	3.49	-1.13
USD INR (RBI reference rate)	64.32	63.58	**1.15**
FII net equity buys/sales (Jul 1-7) (₹ cr)	5,161*	**-1,514**	
DII net equity buys/sales (Jul 1-7) (₹ cr)	4,786.37*	1,785.46	

*July 1-31 net equity buys/sales, +200-Day Moving Average
NB FIIs bought net debt of ₹25,685 cr (Jun 1-30) and ₹18,867 cr (Jul 1-31)

BUSINESS LIFE

Aficionado culture is where fun goes to die

From cooking to woodworking, rising levels of skill have become a barrier to entry

MEGAN MCARDLE

Are we making cooking too complex?

That's the gist of a thought-provoking tweetstorm from economist Lyman Stone, which I've edited into a slightly easier-to-read paragraph form:

There are two things happening in the US food culture: More eating out and a complexification of cooking. If you look at recipes from a generation or two ago, there are few ingredients, few steps. Simple, largely working-class type stuff.

A "good cook" today is expected to be an expert at analysing the vast panoply of globalised ingredients available on the market today. We are told that good cooking requires specific ingredients, has numerous rules, has to have a salt-rubbed cast-iron skillet.

The normative hurdles we erect for what constitutes good cooking are enormous as we have gotten more choices. ...But what you're doing isn't excellent household food prep but farm-league restauranteuring.

Some of this is welfare maximising: Globalisation creates new choices and scale efficiencies that make the whole food culture tastier! But I worry that the preference-forming mechanism in our food culture is changing too; are people really more satisfied with their food now?

I think that the answer is "Yes, they are." As I've noted before, a once-common creature has nearly gone extinct in our society: the bad cook. My grandmother's generation was full of them, people who understood that they had an obligation to feed their families, but lacked either the skill or the willingness to do it well. Now, I'm always surprised on those rare occasions when I sit down to the table of someone who's a bad cook; most people who don't like to cook eat out, or buy something they can heat up. And the rest of us don't much miss the rock-hard biscuit; flaccid, overcooked vegetables; and flavourless gray meat which are so ubiquitous in the novels of yesteryear. On the other hand, Lyman Stone also has a point. There's a common pattern you see when technology renders some skill less necessary: It becomes a sort of luxury, and in the process, upskills. A hundred and fifty years ago, lots of people climbed onto the back of a horse every day. Outside of a few specialty professions like herding, the people who do so in 2017 are likely to be affluent, and engaged in some fairly complicated sport like show-jumping, barrel-racing, or dressage. The kinds of folks who just plopped themselves into the saddle and sat there like a sack are all off doing something else.

When activities become hobbies, the average skill level rises, and the activity itself tends to become more complicated and intensive

You can name any number of other activities where this is true, from rowing a boat to woodworking. When activities become hobbies, the average skill level rises, and the activity itself tends to become more complicated and intensive. After all, the people doing them really enjoy what they're doing, so naturally they look for more ways to enjoy themselves — and to show off for their fellow hobbyists.

But that rising level of skill, effort, and information intensivity becomes a barrier to entry for the casual aficionado who might well develop a solid repertoire they could at least occasionally haul out, if the core hobbyists weren't so busily complexifying everything.

Bloomberg

LETTERS

Loan waiver no panacea

With reference to the editorial, "Make it count" (August 4), farmers' distress persists. The severity of the distress depends on the rainfall. As 60 per cent of the population is engaged in agriculture and allied activities, any kind of change in their earnings impacts consumption, demand and the propensity to save.

There is a cascading effect on the overall growth of the economy. Stability in farmers' earnings is possible only if the government ensures that they receive reasonable support prices for their produce, irrespective of a good or bad monsoon.

Another factor contributing to the distress of farmers is poor infrastructure. Lack of motorable roads inhibits approachability to markets, and farmers, particularly the landless, small and marginal ones, are forced to go for distressed sale of their produce. Development of markets is essential to enable farmers to sell their produce at competitive prices.

Poor availability of health care systems leads to ill health and adversely affects the productivity of farm labourers. Lack of educational institutions adds to the woes of the rural population. It prevents them from adopting modern techniques and their dependence on primitive methods of cultivation hampers their productivity.

Availability of credit at affordable rates is essential to ensure smooth and profitable cultivation. The availability of institutional credit at affordable rates at the doorsteps of farmers is also far away. In fact, several farmers are still compelled to borrow from local moneylenders at exorbitant rates. This situation also contributes to the distress of farmers.

The government needs to come up with comprehensive reforms to accelerate the development of rural areas and eliminate the distress of farmers.

Loan waiver is not the panacea for farmers' distress, rather it hampers their willingness to repay the money. Instead of offering farmers loan waivers, they should be supported and encouraged to continue with their agricultural activities.

V S K Pillai Changanacherry

Rate cut worth a debate

The report, "Corporate India says rate cut not enough" (August 4) by Arnab Dutta, Ajay Modi, Shubham Parashar and Amritha Pillay is worth a good debate.

The Reserve Bank of India (RBI) Committee on Monetary Policy did not have a unanimous opinion on rate cut. It is hard for two economists to agree on one rate cut; each one will have his or her thesis on it. So what figure for the rate cut is the most appropriate to jump-start industrial growth? I am not sure there is a single answer to this.

In some countries what impact a zero rate had on growth is known. Industrial growth is the result of several governing factors such as the demand side, liquidity, inflation, disposable incomes and interest rates. The last factor is just one of them. The RBI has been doing its best to spur growth by managing the rate period to period; pressure on the central bank to cut more would be counterproductive.

N Subrahmanyam Hyderabad

Colossal waste of money

Members of Parliament (MP) are each getting ₹15,000 as telephone allowance. With 245 MPs in the Rajya Sabha and 545 in the Lok Sabha, the amount comes to ₹1,18,50,000.

When unlimited calls and data are available for ₹399 only, why this colossal wastage of money? It could be used for better infrastructure, the defence sector or any other "*achhe din*" programme. Such an allowance for MPs is a cruel joke on honest, sincere taxpayers.

Sharad Asgaonkar Mumbai

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All letters must have a postal address and telephone number

HAMBONE BY MIKE FLANAGAN

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Another weak quarter

High costs and weak sales hurt India Inc

Corporate India is facing new challenges to growth, going by the April-June quarterly financial data of more than 600 companies that have declared their results so far. The gains from lower commodity and energy prices are over and operating margins are now on a downward trajectory due to a combination of higher raw material costs and lower growth in revenues. For the entire sample of 687 companies, net profit has declined 2.8 per cent year-on-year (YoY) in the June 2017 quarter, which is the worst in five quarters. If companies in the oil and gas, and banking and financial sectors are excluded, net profit has declined by 2.9 per cent, which is the worst in the last six quarters. The net profit growth figures are at a three-year low if the large exceptional losses posted by companies such as Vedanta, Tata Consultancy Services, and Tata Steel in the past are excluded. The revenue growth of ex-oil and financial services companies is down to 5.7 per cent YoY in the June quarter from 7.6 per cent in the March quarter and 6.3 per cent in the June 2016 quarter.

While the oil and gas, and metals and mining sectors have reported 20 per cent plus revenue growth, the weak performance of the information technology (IT), pharmaceuticals, and telecom sectors has weighed on the numbers. Top line growth for IT companies — the country's biggest exporters — is the lowest in the last three years while core operating margins (excluding other income) are the lowest in at least four years. This is due to a combination of lower revenue growth and a steady rise in labour cost. Pharmaceuticals have reported a 1.7 per cent decline in revenue growth, the first in several years, as exports to the US have been disrupted due to the US Food and Drug Administration action against several Indian exporters. The disruption in the telecom industry due to the low-cost service of Reliance Jio has taken a toll on the sector's revenues, with a more than 12 per cent drop in the second consecutive quarter. The net profit of IT is down marginally, while pharma companies have seen their profits halve and telecom a loss in Q1 FY18 compared to a profit a year ago. Exporters have also faced headwinds from the appreciating rupee.

After demonetisation in November 2016, businesses that sell their goods and services largely in the domestic market are braving another uncertainty in the wake of the goods and services tax. While oil and gas, and metals and mining firms are cyclical commodity plays where prices are driven more by global demand and supply, the net profit growth of India market-focused companies excluding financials is down 9.5 per cent during the quarter, which is the worst in at least three years. In comparison, net profit growth for the sample was up 9.8 per cent a year ago and 2.9 per cent in the March 2017 quarter. Clearly, India Inc is not out of the woods as yet.

Sweeten the deal

Sugar states should adopt the Rangarajan pricing model

The Centre's counsel to Uttar Pradesh to scrap the outmoded system of state-advised price (SAP) for sugarcane and, instead, go in for the pricing formula suggested by the Rangarajan committee (2012) on sugar sector reforms has come at a time when the market conditions are conducive for this change. Two other major sugar-producing states, Maharashtra and Karnataka, have adopted the Rangarajan method. Under this, mills are supposed to pay upfront the "fair and remunerative price" (FRP) fixed by the Centre and settle the farmers' final accounts subsequently to share with them either 70 per cent of the realisation from sugar or 75 per cent of the combined revenues from sugar and its byproducts. This system, being market-linked, seems fair to all stakeholders.

Besides, it can potentially end the sugar sector's lingering woes, such as cyclical ups and downs in production and the consequent instability in prices. Besides, it can avert an accumulation of cane price arrears, which cause a cash crunch for cane growers. This aside, given that the FRP is related to sugar recovery, efficient farmers, as well as mills, stand to gain. Those growing good cane varieties with a sucrose (sugar) content in excess of 10.5 per cent — recovery levels of around 11.5 per cent are fairly common in Maharashtra — may get returns equivalent to or higher than the SAP without impacting the profitability of the sugar industry. The Rangarajan model, therefore, offers a win-win situation for all.

However, there are some crucial caveats that cannot be disregarded. The success of this system depends critically on meticulous accounting and procedures followed by sugar mills. Caution would be needed to ensure that sugar recovery is not underreported by the mills to deny farmers their rightful share in revenues. Also, some states, including Uttar Pradesh, which have enacted their own legislation to protect the SAP regime after the Allahabad High Court declared it illegal, would need to amend their statutes. Or else, the Centre would need to pass its own legislation to override the state laws to facilitate the switchover to the new pricing mechanism.

The Centre would also need to goad Uttar Pradesh and the other sugar-producing states to implement the other recommendations of the Rangarajan panel that have remained unexecuted till now. The most noteworthy among these pertains to cane area reservation for different factories and binding cane growers to selling their produce to the specified mills. This amounts to providing monopoly power to mills over cane grown in their catchment areas and denying farmers the freedom to sell their stocks to any mill of their choice. No state has yet done away with cane area reservation, although Maharashtra has discarded the minimum distance criterion for setting up sugar mills. The Centre has done well to carry out the liberalisation measures that fell in its domain, such as removing levy on sugar mills and abolishing the monthly sugar release mechanism. It is time for the Centre to nudge all sugar-producing states to implement the entire reforms-oriented agenda mooted by the Rangarajan panel to fully unshackle this key agro-industrial sector.

ILLUSTRATION BY AJAY MOHANTY

Elements of the recovery

A way out of the present economic slump is to revisit the template of 15 years ago and follow its constituents

SNAKES & LADDERS

AJAY SHAH

We have been in a sustained downturn from 2011 onwards. How will this end? It is instructive to look at the last difficult downturn, of the late 1990s. We roared out of it through the exit of firms, improved productivity of firms, respect for policymakers, and a global revival. This gives us a rough template of what it will take to get out of this slump. This time, we will fare better on the exit of firms, through privatisation, the bankruptcy reform, and the resolution corporation.

We had a credit boom in the mid-1990s. Banking regulation was faulty so the banks gave bad loans, and we got a banking crisis. The Asian Crisis started in August 1997. The RBI raised rates by 200 basis points in January 1998, in order to defend the rupee, which harmed the domestic economy. There was an IT bust and then there were the 9/11 attacks. These problems ran from 1997 to 2002, after which India roared back remarkably well. Net sales of listed non-finance non-oil companies grew by 2.5 times, in real terms, from 2002 to 2007. This was average annual growth of 20 per cent in real terms.

History does not repeat itself, but it sometimes rhymes. We had a credit boom in 2004-08. Banking regulation was faulty so the banks gave out bad loans, and we got a banking crisis. The RBI raised rates by 400 bps in 2013 in order to defend the rupee, which harmed the domestic economy. We are now in a rough spot. Sales of listed non-finance non-oil companies have negative growth, in real terms, from 2011 to 2017. The outlook for external demand is clouded by geopolitical risk through the rise of nationalism worldwide.

How did the dramatic turnaround of the economy occur last time? The first element of the story was the exit of firms. Thousands of firms went out of business. In those days, 'going out of business' was not a clear bankruptcy filing. Thousands of firms either shrank to an irrelevant size, or ceased operations. This helped reduce competition for the survivors.

The survivors sharply increased productivity. It was clear to the survivors that there was no easy option, that customs tariffs and the barriers to FDI were going to end. They focused on increasing productivity. A variety of metrics shows the transformation of Indian firms in that period, with improved processes and improvements in management.

Policymakers had their back against the wall. There was candour about the difficulties of the economy, and this pressure was channelled into economic reforms. Teams were assembled and executed complex change in numerous areas, including: (a) Resolving the banking crisis; (b) the equity market reform; (c) the New Pension System; (d) the NHAI; (e) the telecom reforms; and (f) a sustained pace of incremental tax policy reforms.

These teams went after deeper reforms and not superficial patches. As an example, the UTI crisis was followed by a 50/50 sharing of the burden between customers of UTI and the taxpayer, the old UTI Act was repealed, and the viable part of UTI was privatised. This permanently solved the UTI problem. Similarly, in the equity market reform, the old 'badla' trading of the Bombay Stock Exchange and the Calcutta Stock Exchange was ended, and derivatives trading began. This permanently put the Indian equity market on a sound footing. Similarly, in the telecom reform, control of Indian telecom was wrested away the DoT/MTNL/BSNL, with the entry of private and foreign telecom companies. This gave revolutionary and permanent gains.

These successes in reform were important in and of themselves. They were even more important in the hope that they created. The private sector (in India and abroad) started looking at Indian policymakers with new respect. A team that can figure how to build highways will possibly, in the future, learn to build airports and railways too. A team that can figure how to build an equity market will possibly, in the future, learn how to build the bond-currency-derivatives nexus too.

The world economy turned around after the 9/11 attacks, and experienced a good expansion till 2007. The stronger Indian firms were able to tap into external demand in this period, which helped demand conditions and optimism domestically. Indian firms graduated from being cry babies demanding protectionism to exporting and building MNCs.

Optimism is measured by the stock of 'announced' projects, by the private sector, in the CMIE Capex data. This went up from ₹5 trillion (₹5 lakh crore) in 2003 to ₹30 trillion (₹30 lakh crore) in 2007. (It has declined to ₹25 trillion in 2017.)

In summary, India roared back from 2002 onwards because of four things: Exit of firms, productivity gains by survivors, respect for the policy establishment, and a global recovery. This gives us a rough template to think about how we can come out of the present slump.

One element where things could work well is the exit of firms. The Insolvency and Bankruptcy Code (IBC) is a half-done reform (https://goo.gl/icwngm) that could help significantly increase the pace of firm exit. The privatisation process can yield important gains in this regard. The exit of firms will free up labour, land and capital, which will give reduced prices of labour/land/capital, which will reduce the cost structure of the survivors.

`Zombie firms' are those that ought not to exist, but are kept alive on artificial life support by the government or by banks. They are selling goods and services at artificially low prices, which harms the profit rates of the healthy firms in their industry. The presence of zombie firms harms healthy firms. When the government pulls the plug on Air India, or when the banks pull the plug on companies that have been kept alive by additional bank credit, or zombie banks exit the banking industry, this helps increase prices and profitability of survivors. These gains can be obtained by pushing on four fronts: Privatisation, the IBC, Resolution Corporation, and reforms of banking regulation.

The writer is a professor at National Institute of Public Finance and Policy, New Delhi

The deceit and loot in home loans

IRRATIONAL CHOICE

DEBASHIS BASU

Shriniwas Marathe, a volunteer with Moneylife Foundation, is a retired banker. In September 2015, his wife and son took a home loan from a public sector bank at a floating rate of 10 per cent. On March 1, 2017, when he enquired about the rate of interest rate applicable to him, the bank told him that the interest rate was 9.75 per cent. By this time, the Reserve Bank's repo rate had dropped from 7.25 per cent to 6.25 per cent while the bank's base rate, the benchmark, was down from 10 per cent to 9.75 per cent. But the bank had not reduced the equated monthly installment (EMI).

Satyam Savla availed of a home loan from a private sector bank in September 2007, when the bank prime lending rate was 14 per cent. In August 2012, he realised that his rate of interest was 17.5 per cent — a rate as high as unsecured loans — and the number of EMIs had been increased to 123 from 108. Only when he raised the issue with the bank had it brought the rate down 12.3 per cent in November 2012 and the number of EMIs came down to 114 from 123.

Both Mr Savla and Mr Marathe argue that the RBI has issued comprehensive guidelines to banks on how to charge for loans. The Master Circular of July 2010 says: "In the case of existing loans of longer/fixed tenure, banks should reset the floating rates according to the above method at the time of review or renewal of loan accounts, after obtaining the consent of the concerned borrower/s." This clearly puts the onus on banks to communicate to borrowers, take their consent, and reset the rate. An unfair and unethical system will quietly keep looting customers until they come forward. When Mr Savla asked the private bank why this was not done, the bank said that his sanction letter "does not mention loan to be reviewed". Mr Savla has since raised the issue with the Banking Ombudsman, which expectedly fobbed him off. The RBI, too, expectedly, refuses to answer his queries. As I have pointed out many times, regulators in India are by nature anti-consumer.

The stories of these two gentlemen is representative of millions of home loan borrowers, who are told by an excited media with every downtick in interest rates how their loans have got cheaper. But the brutal fact is this: For banks, floating rates remain fixed when the rates go down — they don't reduce rates. But the same rates get unfixed when the rates go up — they are quick to hike rates. But the question is: Do even those who are quick to ask their banks to reduce interest rates get a fair deal?

Mr Marathe, being a banker with mathematical skills, has dug into the RBI guidelines on interest, and trawled the websites for every scrap of information he could on banks' costs and lending rates. Here are his findings.

The base rates declared by most of the banks have not changed more than 50 basis points since January 1, 2015, when the RBI initiated rate cuts vigorously. In fact, the repo rate has dropped from 8 per cent on January 1, 2015, to 6 per cent now.

The RBI introduced the MCLR (Marginal Cost of Lending Rate) on April 1, 2016, after realising the reluctance of banks to reduce interest rates on their advances in line with the repo rate changes. However, Mr Marathe's enquiries with his bank revealed that the bank circulated these guidelines with a delay of two months to their branches.

Most banks have either not informed the borrowers at all or have selectively informed them about rate changes. Mr Savla insists that the private bank in question did not inform him. In these days when we are moving towards paperless banking, this could well have been done through SMS/e-mail, especially when banks have no problem in communicating the hike in charges instantly.

Mr Marathe strongly suspects that banks are violating the RBI's guidelines in calculating the MCLR correctly, leading to unfairly high interest rates being charged to borrowers. He is convinced that banks are recovering bad loans — a product of poor credit decisions and corruption — from borrowers by overcharging them. To prove his point, he filed Right to Information (RTI) applications on seven banks but they, mostly banks, stonewalled him.

When customers approach banks for reducing rates, they arbitrarily charge them a fee.

The RBI has been eager to help banks loot their customers for over a decade now. The malpractice started in 2008, when banks started to offer lower rates to new customers. In 2010, the RBI asked banks to reset loans, but the circular sneakily said: "Existing loans based on the BPLR system may run till their maturity. In case the existing borrowers want to switch to the new system, before expiry of the existing contracts, an option may be given to them, on mutually agreed terms. Banks, however, should not charge any fee for such switch-over." Under the MCLR the loot was complete when even the last sentence was dropped. It has been one-way loot since then. Since borrowers are not a pressure group and can't calculate how much they are losing, there is no furore. More on this issue next time.

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A Republican senator rails against Trump

BOOK REVIEW

JENNIFER SENIOR

It seems safe to say that Senator Jeff Flake's new anti-Trump book is politically contraindicated. His approval ratings in his home state, Arizona, are so low they are somewhere down in a missile silo; according to *Politico*, the president has privately said he would spend $10 million in the Republican primary to whisk Flake out of the Senate with a broom.

Then again, maybe this is what a man who's facing political expiration does: speaks his mind, goes for broke. Or perhaps he's simply fed up. Flake was one of the few Never Trumpers in Congress to remain so right through Election Day.

Whatever his reasons, Flake has gone "Bulworth" on us, emulating that movie's devil-may-care, truth-telling politician. It's striking how many influential figures in this slim volume he manages to impale with a stick and then lightly spit-roast. Newt Gingrich (a "character with extraordinary talents for self-promotion"). Michael Flynn ("conspiracy theorist"). Alex Jones ("one of the most egregious polluters of civil discourse in America").

But above all others: Donald J. Trump.

Flake calls the president's Twitter posts "all noise and no signal," then adds: "Volatile unpredictability is not a virtue. We have quite enough volatile actors to deal with internationally as it is without becoming one of them."

He also offers a shockingly astute insight into Trump's modus operandi — and modus vivendi — during the presidential campaign. "Far from conservative," Flake writes, "the president's comportment was rather a study in the importance of conflict in reality television — that once you introduce conflict, you cannot de-escalate conflict. You must continually escalate."

No wonder the senator wrote this book in secret. As a Republican member of Congress, he is declaring Trump a domestic and international menace. Other conservatives in the news media and strategist class have been saying just this for well over a year, of course, but they don't depend on a radicalised base to keep their jobs. Flake is the first elected official to cross this particular rhetorical Rubicon, and he seems to be imploring his colleagues to follow. He offers a despairing, unsparing indictment of everyone in Congress who went along with Trump's election.

Conscience of a Conservative takes its title directly from Barry Goldwater's 1960 manifesto. Like Goldwater — who was also a Republican senator from Arizona — Flake bemoans the crisis facing conservatives, and like Goldwater, he believes that conservatives have only themselves to blame.

The contexts are different, naturally. In 1960, liberalism was ascendant; the problem, Goldwater wrote, was that conservatives seemed "unable to demonstrate the practical relevance" of their philosophy — free markets, limited government, a strong defence. Today, conservatism is ascendant, at least in name, with Republicans controlling both the legislative and the executive branches of the federal government. But it has been drained of precisely the principles Goldwater cherished, principles to which Flake very badly wants to return and for which he rebuilds a case. What, Flake wonders, would Goldwater have made of a Republican commander in chief who threatens to dismantle free trade agreements, undermines his own intelligence agencies and cozies up to autocrats?

This book will no doubt make Flake the baron of the rubber-chicken-dinner circuit, should he want the title, and a momentary darling of the left. (Not that the left shares anything in common with him politically. His politics are basically anathema to the left.) And "Conscience of a Conservative" has an undeniable rhetorical power — it is fluid, well written, mature in tone. But Flake also has the material power to change things. How reconcilable are his words with his deeds?

In the Senate, Flake has shown himself to be a pleasant fellow of integrity. He tweeted warmhearted congratulations to his friend Tim Kaine when Hillary Clinton selected him as her running mate; he condemned the "lock her up" chants at Trump rallies; he worked on the bipartisan Senate immigration bill in 2013. In his book, he says outright that he never voted for Trump.

But Flake has also cast most of his votes in favour of Trump's policies. Just last week, he voted for the bill to repeal Obamacare without replacing it, and then he voted for the hastily assembled "skinny repeal." The primary intellectual failing of "Conscience of a Conservative" is that it doesn't untangle the dysfunction in Washington from the dysfunction of his own party. Republicans haven't just embraced Trump's nativism and politics of resentment because it's politically expedient. Many Republicans have peddled anti-immigrant sentiment for years, and a return to Goldwater's principles probably wouldn't remedy that; the rejection of free trade agreements also has complex roots.

But if you take Flake at his word, it's not just Republican principle that's at stake right now. It's democracy itself, imperiled less by one man's philosophical incoherence (Flake's word) than by his disrespect for our institutions and his highly erratic character. Which means that it's the moral duty of Flake's colleagues to act.

"Under our Constitution, there simply are not that many people who are in a position to do something about an executive branch in chaos," Flake writes. But members of Congress can. "Too often we observe the unfolding drama along with the rest of the country, passively, all but saying, *'Someone should do something!'* without seeming to realise that that someone is us," he writes.

What he has in mind, he does not say. I hope someone will ask him.

CONSCIENCE OF A CONSERVATIVE
Jeff Flake
Random House
140 pages; $27