Monetary policy dilemmas

One of them is how reliable the model is that the RBI uses to forecast inflation

THE OTHER SIDE

A V RAJWADE

My first reaction to last week's rate cut was that it was too little, too late. But I later felt that there are more serious issues in the thinking of the Monetary Policy Committee (MPC) behind rate setting. Let me start with the minutes of the June meeting of the MPC released in July. Viral Acharya, deputy governor of the Reserve Bank of India (RBI) and a member of the MPC, has been quoted as arguing that "tolerance for a slightly higher real rate of interest is justified to ensure that weak banks do not find relatively low the hurdle rate for ever-greening of bank loans". (Ever-greening means granting a fresh loan to avoid an existing debt getting classified as a non-performing asset.) How many cases of ever-greening have the central bank supervisors come across? Are they significant enough to "punish" the whole economy with high interest rates? And would high rates discourage ever-greening?

Also debatable is the definition of "slightly higher" real rates. The latest available inflation number (for June) is 1.5 per cent, a historic low. Thus, even after last week's reduction, the "real" rate is 4.5 per cent. (For most bank borrowers it is much higher given the intermediation costs.) To be sure, the MPC has acknowledged its inability to arrive at a "conclusive segregation of transitory and structural factors driving the disinflation". But since policy rates are meant for the future, let me turn to expectations about the future. Projected inflation rates for the second and third quarters are four per cent plus, and in the post-policy press conference Acharya said the central bank was comfortable with a real rate of 1.75 per cent. The question is, how reliable is the model the RBI uses for forecasting inflation. For sometime, it has consistently overestimated future inflation. (The record reminds me of what Galbraith said about economic forecasts in general — that they make astrology look more credible!) If even the past is unexplainable how much can we rely on the projections, which suggest a real rate of 1.75 per cent? When people believe in a theory and the models based on it, do they too often select the evidence that supports the conclusion?

As for theory and models, while releasing the annual accounts last month, the general manager of the Bank for International Settlements (BIS) said: "An obvious policy question at the current juncture is whether an inflation flare-up could bring to an end the expansion underway. This question, in turn, begs an even more fundamental one: How much do we really know about the inflation process?" And not only the BIS economists; author and fund manager Felix Martin, in a recent article (*Financial Times*, July 28), argued that "the Philips curve (supposed to represent the relationship between unemployment and wage rises) has gone ignominiously flat. The world's leading central bankers are scratching their heads".

Or is the basic assumption underlying macroeconomic models, namely the rationality of economic agents — that is, you and me — untenable? To take one example from the domestic market, surely investing in a gold bond that pays interest and gives the same price return as gold itself is more "rational" than holding physical gold, which can also be stolen? And yet, since its introduction in 2015, aggregate sales have been just about ₹60 billion, or less than $1 billion. On the other hand, last year alone we imported gold worth $27.5 billion! Rational? To be sure, humanity's age-old fascination for gold is itself "a barbaric relic of human irrationality", as Keynes said a long time back.

Coming to monetary policy in advanced economies, where the monetary transmission is supposed to be more efficient, huge increases in money supply are taking umpteen years for their effect to be reflected in prices. Has the speed of circulation of money dropped instead of remaining stable, as Milton Friedman had theorised? What the low interest rate policy in most of the advanced economies has done is increase demand for high-yield bonds, and credit risks be damned. Two recent examples of sovereign bonds: Argentina, a serial defaulter for two centuries, sold a 100-year bond; Iraq, a country at war, externally and internally, for a quarter century, with its economy in a shambles, successfully sold a six-year bond in the global markets. Is another bubble building up, this time in the bond market? And will it burst when rates start going up and the central banks become net sellers of bonds in the market?

The author is chairman, A V Rajwade & Co Pvt Ltd; avrajwade@gmail.com

On ex parte orders, it pays to be circumspect

The value attached to the concept of the rule of law is best tested when the most provocative circumstances present themselves

WITHOUT CONTEMPT

SOMASEKHAR SUNDARESAN

It is raining ex parte orders again in the Indian securities market. Essentially, orders that are passed without hearing the person against whom it is passed, the practice is justified in the eyes of the law if the circumstances demonstrate grave urgency and warrant action.

Yet, when an ex parte action is taken, the authority taking the action is expected to do its homework to demonstrate the urgency and get its facts right to defend the action when challenged. Take the case of the 331 listed companies, which the capital market regulator was told — by none less than the Ministry of Company Affairs — were "shell companies". A shell company is one that is merely a shell — without substance in its operations and functions.

The Securities and Exchange Board of India appears to have blindly taken the list it received and declared all these companies to be shell companies. Media reports suggest that some noteworthy names have been declared in one sweep to be "shells". Declaring them to be shell companies, suggesting forensic audit of their existence and giving them pariah status on the stock market, where trades in them would be permitted only once a month, would cause serious injury to every holder of securities in these companies.

Some investors would have pledged their shares to lenders, who would determine such an event to be one of default since the underlying asset over which they had security had suddenly become illiquid. Others would have taken trading positions in these securities with a certain assessment of facts in mind; if they were suddenly told that regardless of the facts they assessed, these companies deserved to be shunted to the periphery of the stock market, it would cause them serious losses.

Such a drastic action would, therefore, warrant giving notice to the parties, who would be affected and giving them a chance to explain themselves. At the least, one would expect basic due diligence to be carried out before action were taken so that the (well-intentioned) objective of investor protection, far from being met, were not undermined. If a basic internet check would have shown that some of these are well-functioning, profit-making, loan-taking operating companies, the embarrassment of terming them "shells" could be avoided.

The history of financial markets is replete with examples of such decisions. Ex parte orders purporting to be interim measures get passed and routinely become permanent measures. They are often known to continue for as long as five years. Examples of every kind of sudden shock and surprise are now easily available. We have had securities being introduced into the derivatives segment in the middle of a month. We have had securities removed from derivatives in the middle of a month. Issuers of securities with derivatives riding on them, declaring record dates in the middle of a derivatives trading cycle, too, have been seen.

ILLUSTRATION: AJAYA MOHANTY

Abnormal or extraordinary decisions often point to the need to check if there was any abnormal pattern of trading just before they were announced. Often, that leads to probes and allegations of insider trading. In fact, a recent ex parte order froze every bank account of every individual named in it overnight, rendering them penniless. The suspicion in that order was that publicly known conduct of regulatory proceedings against a company motivated every sale in securities issued by affiliates of that company.

Another type of development is in the risk of being repeated so often that it risks becoming a trend. Relying on private "forensic reports" (often conducted by accounting and audit firms with little training in the rigours of investigative discipline), regulators take ex parte actions. Typically, these reports are riddled with disclaimers that render them poor when considered as evidence. However, in the post-truth world, by the time it can be demonstrated that there is no real legal evidence, the damage is done and destruction of individuals and institutions complete.

Is there a better way to handle this? Surely, if one asks oneself 10 times if the use of emergency powers to pass ex parte orders is warranted, the usage of blunt weapons would get tempered. The value one attaches to the concept of the "rule of law" is best tested when the most provocative circumstances present themselves. It is easy to adhere to values when one's adherence to the rule of law is not being tested to the brink. If one loses all vestiges of being circumspect and stops checking and regulating oneself, the rule of law would be replaced by the rule of men, risking the very credibility and majesty of law enforcement.

The author is an advocate and independent legal counsel. He tweets at @SomasekharS

CHINESE WHISPERS

Emotional disconnect

Call it bad timing or sheer coincidence, but just a day after a Delhi youth and his 60-year old mother were allegedly dumped midway through their ride by a Uber driver — who is also said to have made racist jibes at them — the online cab aggregator launched an advertising campaign highlighting "great stories of togetherness between riders and cab drivers". With "*apnapan*" as the umbrella theme, the company said, the campaign "brings to life the underlying emotional connect among Uber, its riders and their partners". Surely not the way the family from Assam felt when told by the Uber driver to go back to West Bengal.

Change of mood in the BJP

Rarely have Bharatiya Janata Party (BJP) leaders looked as downcast as they did on Wednesday, hours after Congress leader Ahmed Patel won his Rajya Sabha seat from Gujarat. Opposition leaders in Parliament were reminded of the gloom that prevailed in BJP ranks after its Assembly poll defeat in Bihar in 2015. In further bad news, a BJP Lok Sabha member from Ajmer, Sanwar Lal Jat, passed away in the morning. The seat is now headed for a by-poll and the BJP government in Rajasthan is not said to be quite popular, while the Congress led by its state unit chief Sachin Pilot is resurgent. There was speculation in Parliament that Pilot might choose to contest the by-poll. Pilot was sent as the member of Parliament from Ajmer in 2009, and lost to Jat in 2014.

Worth its weight in gold?

Those who do not shop for their wives may get confused with the prices of precious items. Power Minister Piyush Goyal (*pictured*) is no exception. At an event, he said one kilogram of gold could be bought for ₹50,000. Realising his mistake, he said he got mixed up because he did not buy gifts for his wife. Probably, it would be just 10 gm of gold, he corrected himself. Actually, 10 gm of gold costs around ₹28,000. This means the price for a kilo of gold comes to ₹28 lakh.

BUSINESS LIFE

The culture wars have come to Silicon Valley

It is under the scanner for penalising people who express dissenting opinions

NICK WINGFIELD

The culture wars that have consumed politics in the United States have now landed on Silicon Valley's doorstep.

That became clear this week after Google on Monday fired a software engineer, James Damore, who had written an internal memo challenging the company's diversity efforts. The firing set off a furious debate over Google's handling of the situation, with some accusing the company of silencing the engineer for speaking his mind. Supporters of women in tech praised Google. But for the right, it became a potent symbol of the tech industry's intolerance of ideological diversity.

Silicon Valley's politics have long skewed left, with a free-markets philosophy and a dash of libertarianism. But that goes only so far, with recent episodes putting the tech industry under the microscope for how it penalises people for expressing dissenting opinions. Damore's firing has now plunged the nation's technology capital into some of the same debates that have engulfed the rest of the country.

Such fractures have been building in Silicon Valley for some time. The tensions became evident last year with the rise of Donald J Trump, when a handful of people from the industry who publicly supported the then-presidential candidate, faced blowback for their political decisions.

At Facebook, Peter Thiel, an investor and member of the social network's board of directors, was told he would receive a negative evaluation of his board performance for supporting Trump by a peer, Reed Hastings, the chief executive of Netflix. And Palmer Luckey, a founder of Oculus VR, a virtual reality start-up owned by Facebook, was pressured to leave the company after it was revealed that he had secretly funded a pro-Trump organisation.

Peter Thiel (*pictured*), an investor and member of Facebook's board of directors, was told he would get a negative evaluation of his board performance for backing Donald Trump

PHOTO: BLOOMBERG

Scott Galloway, a professor of marketing at New York University's Stern School of Business, said Damore's comments carried additional weight to people on either side of the political spectrum because he was an engineer at Google. Alongside other giants such as Facebook, Amazon and Apple, these companies "are seen as pillars of our society", Galloway said. "Controversy and statements that emanate from these employees take on a different heft."

The technology industry has long marched in lockstep on issues such as supporting immigration and diversity, even though their companies remained largely male, white and Asian. But last year's election of Trump — with his broadsides against political correctness, his coarse language towards women and his actions to restrict immigration and deny climate change — seemed to threaten many of those ideals.

At the same time, Trump's words may have made dissenters in the tech industry more comfortable about speaking out. "Trump, in a sense, licensed people to express what some people would call politically incorrect thoughts," said Adam Galinsky, a professor at Columbia University's Business School. "Then there's the other force that a lot of Trump's policies go against the inclusive ideals these companies espouse."

Some prominent Silicon Valley figures are concerned there is too much political conformity in the tech industry. On a podcast in May, Marc Andreessen, the venture capitalist, said he knew of only two Trump supporters in Silicon Valley, Thiel and Luckey.

"What does it do to somebody when they feel like they literally can't express themselves," said Andreessen, a Facebook board member who backed Hillary Clinton last year.

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LETTERS

No room for complacency

Ahmed Patel's return to the Rajya Sabha seat from Gujarat should be seen as a rebuff to Bharatiya Janata Party (BJP) President Amit Shah as well as Shankarsinh Vaghela, who recently resigned from the Congress and was the BJP's candidate for the same seat.

Their script did not work this time, thanks to two Congress members of the Gujarat Assembly rendering their votes for the BJP invalid by their acts of wrongdoing. The Election Commission acted promptly on a complaint by the high-profile Congress delegation led by senior leader P Chidambaram.

For Shah, whose political craftsmanship led the BJP to capture power in some states without even getting the people's mandate, the defeat of his candidate, an ex-Congress man, in his home state is a setback to his (Shah's) image.

While Patel's return could boost the morale of the Congress cadre in the state amid squabbles in the party and lack of effective leadership, this victory should not lull the party leadership into complacency. With Gujarat going to the polls later this year, the Congress has so far failed to energise itself and present a formidable challenge to the BJP by exploiting the anti-incumbency factor against its uninterrupted rule. Can Congress Vice-president Rahul Gandhi deliver, is a question uppermost in the minds of political observers.

S K Choudhury Bengaluru

Pre-empting damage

Ahmed Patel's (*pictured*) Rajya Sabha win carries several messages. By voting against the Bharatiya Janata Party, the Janata Dal-United (JD-U) has sought to de-hyphenate its linkage with that party in Bihar, asserting its identity and gaining some recently lost political stature.

The Nationalist Congress Party had the BJP and the media chase red herrings even as it voted for the Congress. The Congress has imbibed unfamiliar virtues of toil and ground combat. These might help bring it down from its ivory tower.

The Patidars registered their disaffection with one cross vote, one reason why the BJP chief had to enter the local fray. His presence was a clear acknowledgement of the changed political atmosphere in Gujarat. It has helped pre-empt greater damage. The BJP has realised that in a crunch situation, the Opposition could find its lost coherence — something that augur wells for a democracy.

R Narayanan Ghaziabad

Question of sustainability

With reference to the editorial, "Reform or entitlement?" (August 9), the reform and rationalisation of central labour laws to effectuate the Minimum Wage Bill across the formal and informal sectors is a bold move. Concerted effort and deliberations of policymaking bodies on wage anomalies and labour law regulations for long deserve mention here.

Nonetheless, the regulation to vouch for the Bill is far from the benefits accrued to the absorbed labour force, which has a structural variation in terms of socio-economic disintegration, for example, cost of living, expenditure bills and welfare access. An important concern: Will the Bill ease labour market rigidities and make it relatively an arbitrage-free market with respect to spatial variation and price parity? So, when the Bill comes into force, an informal sector worker is entitled to the benchmark wage. This is in opposition to a job in the formal sector or the government that offers "insurance" cover of personal and liability risks along with welfare to employees and their families.

If the reform espouses all-round development of the labour force, it is welcome and can build a bridge between the labour market structure, conduct and performance. Otherwise, the Bill remains an entitlement. A larger question is, if per capita income increases post implementation of the Bill, how long would it be sustainable given complexity of jobs, skill set and macroeconomic uncertainties.

Kushankur Dey Bhubaneswar

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

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Sebi jumps the gun

Principle of natural justice cannot be ignored

The Securities and Exchange Board of India (Sebi) decided on Monday to suspend trading in 331 listed companies that it suspected were "shell companies" and received suspicious cash deposits in the wake of the demonetisation announcement last November. These deposits are being investigated. Predictably, the action knocked down investor sentiment as trading in the companies under scrutiny will be allowed only once a month under stringent conditions. A deposit of 200 per cent of the trade value must be submitted and this deposit will be held by the exchange concerned for the next five months. At one level, it is laudable that money laundering is being investigated so that the country can move towards a cleaner business environment. Finance Minister Arun Jaitley told Parliament recently that as many as 162,000 shell companies had already been deregistered.

But the latest Sebi move raises several questions — the reason why a number of the companies labelled "shell" moved the Securities Appellate Tribunal on Wednesday against the market regulator's decision. That is because Sebi seems to have acted in haste and has violated some of the basic principles of natural justice. The accused were given no chance to defend themselves before trading was suspended and no show-cause notices were sent to the firms specifying the charges. Sebi's clarification on Wednesday that it has not concluded that they are shell firms and the action has been taken based on a list forwarded by the ministry of corporate affairs is surprising. The wisdom of the regulator in taking such a drastic measure on mere suspicion and without the criteria being publicly declared is difficult to fathom. Although the finance ministry later clarified that the companies would be given an opportunity to defend themselves, the opacity of the order adversely affected the interests of minority shareholders. Due to the suspension of trading without notice, minority investors did not get a chance to assess the situation and, possibly, exit these stocks in an orderly fashion.

The term "shell company" is undefined in the Companies Act but it is being used in public parlance to characterise entities suspected of indulging in, and enabling, tax evasion. Share prices can indeed be manipulated to absorb black money and launder it via circular trades with the connivance of the promoter-broker nexus. For example, a trader may buy a share from a promoter who rigs the price upwards with the connivance of brokers. The share may then be sold back to the promoter (or the cronies) for capital gains, with the trader paying the difference in cash under the table. Or, if the promoter wishes to launder black money, a share may be sold by the promoter and the price rigged down. The buyer will show a capital loss, which can be used to offset profits in other stocks. In this case, the buyer will receive cash under the table from the promoter.

There is no doubt that companies engaged in this "laundry system" deserve punishment. But it should always be done in a manner that protects the minority shareholders. That is not the case here. Moreover, the accused have already suffered a loss of market value and they will inevitably suffer a loss of reputation as a result of this action. In the interests of transparency and natural justice, the regulator should make public the specific charges immediately. This is the normal procedure in the case of listed companies and there is no reason why Sebi should deviate from that.

A pointless debate

No need to invoke the phantom of the foreign hand

Rajiv Kumar, National Institution for Transforming India (NITI) Aayog's vice-chairman-designate, stirred up a vociferous debate on Tuesday by suggesting in a newspaper column that "the grip of Indian-American economists is fading as part of the ongoing policy transformation in the government". He then went on to name the outgoing chairman of the NITI Aayog, Arvind Panagariya, and the former governor of the Reserve Bank of India (RBI), Raghuram Rajan, as examples of this trend. In fact, he also hinted that many more such resignations could be on their way and incumbents might be replaced by economists who better understood "India's ground realities". This is quite a claim as it, quite unnecessarily, invokes the phantom of the foreign hand and asserts the existence of a deliberate exercise to weed out all those economists who have spent a better part of their career abroad. Considering that Mr Rajan parted ways with the government on a sour note last year, Mr Kumar's linking it to Mr Panagariya's resignation could lead many to speculate on the actual reasons for the latter's exit from the NITI Aayog. Moreover, the suggestion that other similar resignations might be on the way will lead to speculation about the future of many other individuals who are in important positions in the finance ministry and the RBI. Bibek Debroy, NITI Aayog's member, was quick enough to tweet a limerick, apparently to mock the foreign influence jibe.

It is unclear what made Mr Kumar write what he did, but it was certainly not in good taste. There is also absolutely no merit in the notion of provenance playing a part in an economist's ability to guide policy. For one, like so many of the so-called foreign economists, Mr Kumar himself holds a DPhil in economics from Oxford and has done stints at the Asian Development Bank in Manila. Surely, there is no formula to determine the exact number of years an economist has to work in India before he/she can claim to have enough knowledge about the country's ground realities. Also, it is facile to assume that only home-grown economists are better qualified to frame policies for India. Clearly, as former chief statistician of India, Pronab Sen, suggested in this newspaper on Tuesday, it is not an issue of whether home-grown economists are better than those who have worked abroad, the real issue is their axiomatic approach to the subject. A market fundamentalist, irrespective of his place of birth, will argue against any interference by the government, while a Keynesian will frame the opposite policies.

Mr Kumar's observations are also not in sync with the NITI Aayog's vision document, which states that India's continuing integration with the world needs to be incorporated into the country's policymaking as well as the functioning of the government. It is also a fact that several of the government's schemes need to be benchmarked against international best practices and hence, the windows need to be kept open. While being informed about the complexities of local situations is a must, the theory that only home-grown economists can do the job and "Indian Americans" cannot is a questionable assumption.

ILLUSTRATION BY AJAY MOHANTY

Economic slowdown and revival

The growth dividends of a more competitive exchange rate policy could be sizeable, near-term and easily secured

A PIECE OF MY MIND

SHANKAR ACHARYA

Over the past year, the evidence has mounted of a significant economic slowdown in the growth of national economic output, investment and employment and raised the issue of what can policymakers — notably the government and the Reserve Bank of India (RBI) — do to revive the pace of economic activity and generate more jobs.

Slowdown

First, the official data on economic growth shows that there has been a steady and sizeable decline in the growth rate of gross valued added (GVA) by quarter (annualised) from 8.7 per cent in Q4 2015-16 to 5.6 per cent in Q4 2016-17, the latest quarter for which data is available. Most objective analysts attribute much of the deceleration in the two most recent quarters to the impact of the massive November 2016 demonetisation. They go further to point out that since the official data does not include much direct information on the unorganised/informal sector (which accounts for about a third of all non-agricultural output and over half of all non-agricultural employment) and that demonetisation inflicted disproportionately greater disruption on the largely cash-based unorganised sector, the official data probably overestimates GVA growth (post Q2 2016-17) and correspondingly, underestimates the rate of recent deceleration in GVA.

Second, the downward slide in GVA growth has also been accompanied by a significant decline in the rate of gross fixed investment (that is gross fixed investment as a per cent of gross domestic product or GDP) from 28.5 per cent in Q4 2015-16 to 25.5 per cent in Q4 2016-17. Indeed, in real (inflation-adjusted) terms, gross fixed investment in Q4 2017 was actually 2 per cent lower than a year before. Furthermore, the new Index of Industrial Production (IIP) for the first two months of 2017-18 shows a 3 per cent decline in the production of capital goods. Even more worrying for the near-term future, survey data compiled by the Centre for Monitoring the Indian Economy (CMIE) and the RBI indicates a weakening pipeline of new projects. As the RBI puts it in its August 2 Monetary Policy Statement, "The weakness in the capex cycle was also evident in the number of new investment announcements falling to a 12 year low in Q1 (2017/18), the lack of traction in implementation of stalled projects, deceleration in the output of infrastructure goods, and the ongoing deleveraging in the corporate sector."

Third, ever since the new series of national incomes estimates was launched in 2015, there has been a significant disconnect between the GDP/GVA growth data and high frequency indicators of economic activity such as growth in bank credit, sales and earnings of listed companies, the IIP, cement production, passenger vehicle sales and purchasing managers' indices (PMI). These suggest weaker economic activity than the official national income data. Ominously, the IIP for April-May 2017-18 shows just 2 per cent growth, with only 0.4 per cent expansion of the "core sector" in June. Even worse, the Nikkei-Markit composite PMI, combining manufacturing and services, fell sharply to 46 (below 50 indicates contraction) in July, the lowest level since March 2009. Of course, some of this may reflect transitional frictions of shifting to the new goods and services tax (GST).

Fourth, and most unfortunately, we lack reliable and up-to-date information on national employment levels and trends. The last large sample National Sample Survey was for 2011-12. Until the next one comes out, perhaps the best guide to what is happening to employment is provided by the CMIE's "Waves" of Consumer Pyramids Household Surveys, which cover over half a million adults and began to include employment/unemployment data in early 2016. These show that total employment (including in the unorganised sector) in January-April 2017 had fallen by 1.5 million compared to the September-December 2016 Wave, with job-losses concentrated in the younger age brackets. Furthermore, these surveys point to significant declines in the labour participation rates (see Mahesh Vyas' article in this paper of July 11, 2017). Such worrying declines are consistent with the production slowdown narrative and the expected impact of demonetisation.

Based on current trends and policies, and bearing in mind the inevitable transitional disruptions of the major new GST reform, it is unlikely that GVA growth in 2017-18 will exceed 6 per cent. Nor is total employment likely to increase significantly, given the special stresses of GST transition for the unorganised sector and the consequences of recently tightened regulations for slaughter and marketing of bovine livestock and the associated "cow vigilantism".

Revival?

So what can be done to revive the flagging economy? In the medium term, ongoing structural reforms (such as GST, the new bankruptcy code and the government/RBI efforts to reduce the massive twin balance sheet problems of banks and highly indebted companies) as well as possible new ones relating to education and skills, labour laws and land markets could spur growth. But their growth dividends are unlikely to be significant in the next 12-18 months. For the near term, we have to turn to macroeconomic policies.

Fiscal policy offers little scope. Even if the Centre's budget targets are met, the demonstrated fiscal laxity of states (loan waivers, etc) will likely ensure that the combined fiscal deficit in 2017-18 is close to 7 per cent of GDP. That leaves no room for any further pump-priming, other than the "front-loading" of budgeted expenditures, which the Centre is already doing to an unprecedented degree. Indeed, with the huge uncertainties relating to short-term GST revenue yields and usual shortfalls on disinvestment receipts, the Centre's fiscal deficit targets may be breached.

Monetary policy could (and should) have cut policy rates earlier and more aggressively given the sharp declines in the rate of consumer price inflation in recent months. But given the various supply rigidities in the economy and the pervasive overhang of the twin balance sheet problem, it is doubtful that an additional half a per cent or so repo rate reduction will trigger significantly higher investment and growth.

Exchange rate policy is the domain where government/ RBI policy has erred seriously in allowing substantial over-valuation of the rupee over the past 18 months and continues to do so (see my article, *Business Standard*, 11 May, 2017). This has discouraged growth of both exports of goods and services and domestic production of import substitutes. The growth dividends of a more competitive exchange rate policy could be sizeable, near-term and easily secured, and the sooner we reap them the better for growth of GVA and employment.

The writer is Honorary Professor at ICRIER and former Chief Economic Adviser to the Government of India. Views are personal

Women outside the comfort zone

SWOT

KANIKA DATTA

So Ramveer Bhatti, Bharatiya Janata Party (BJP) state vice-president, wants to know what Varnika Kundu was doing driving around on her own at midnight. Okay, but, as Ms Kundu legitimately asked, what was his party colleague's son, Vikas Barala, and his pal doing out on a midnight jaunt?

Implicit in Mr Bhatti's comment is the assumption that Ms Kundu was up to some hanky-panky, or had irresponsible parents, as he suggested in a disastrous attempt to clarify thereafter. But he was strangely incurious about Barala Junior & Co. We know they didn't chase Ms Kundu 7 km to tie a *rakhi*, though she miraculously became his "sister" when confronted with the police. But we also know that Mr Bhatti's query would have been considered pertinent by many Indians across the gender and political divide. Within the accepted paradigms of behaviour in a country that aspires to be modern, women aren't supposed to be out alone at night. That's not just for the good reason that there are predatory men out there; such conduct falls outside a designated comfort zone of chauvinism.

No one would question men for the following: Enjoying a drink in a bar, out on a date, driving home after a late night shift, taking a cab home after some heavy drinking. Did you miss the *sotto voce* disapproval — from men and women — when women victims were discovered to be indulging in similar activities?

No matter how much BJP's Chandigarh MP (Member of Parliament) Kirron Kher asserts a woman's right to be out on her own at night, Indians of both genders suffer the ingrained paternalism that prescribes behaviour exclusively for women. College administrations offer dress advisories for women (focusing on "modesty") but never recommend moderating behaviour for men. Delhi's woman chief minister asks why girls should be "adventurous" when a young TV reporter is found shot dead in her car after driving home in the small hours. In Pune, a female Shiv Sena corporator sparks a campaign against — no kidding—provocative shop mannequins (the male ones with artificial six-packs don't provoke improper thoughts, apparently).

The implicit message in this double standard is that it's somehow understandable if women who behave in a non-prescribed manner are harassed. She's asking for it, the cliché goes, though you wonder which woman would ask to be harassed or raped, or, for that matter, why so many minor girls, who do not indulge in any of the above, should become victims too.

Now, Ms Kundu is decidedly out of the box. She is a DJ, a rare profession for women in the big cities, let alone in a conservative town like Chandigarh (so we can guess why she was out late; Barala *fils*, however, is yet to explain his late-night roving). Importantly, she also represents a growing cohort of women who define themselves on their own terms. She has chosen to dispense with the veil of anonymity — a standard legal protection for victims of sexual crime in India. *She* wasn't the criminal, she pointed out, Barala Jr enjoys that distinction though Daddy's contacts helped him avoid a night in the slammer.

Ms Kundu says she wants to name and shame in solidarity with all victims of sexual harassment, a visible, vocal ambassador of an inconvenient truth about Indian society. Her recent forebear in this is the late Suzette Jordan, gang-raped in Kolkata in 2013 and excoriated by the state's female chief minister for visiting a bar. Ms Jordan not only declined to mask her identity, she became a crusader for women's rights in the short time left to her (she died in 2015).

Their sisters were visible on several cold days and nights on Raj Path after December 2012, expressing collective outrage at the rape and murder of a paramedic student out on a date with a male friend and the innate bigotry that makes India one of the most unsafe places for women. Poignantly, the victim's father declared his daughter's name, asserting that she, too, was not the criminal.

Those protests attracted global headlines and forced through tougher rape and sexual harassment laws. Still, you understand the depth of the problem when a President's son, whose owes his rise in politics entirely to Baba (who emphatically does not share his views), sneeringly dismissed the protestors as the "dented, painted" brigade. In his narrow, Neanderthal world, women wearing make-up (the "denting, painting" allusion) are disqualified from being taken seriously.

Welcome, all, to the new India, just about to turn 70, where women head companies, pilot aircraft, win international tournaments, join the police force, will soon participate in combat and form a visibly growing proportion of the white-collar world. As they earn their own incomes, they will also learn to draw their powers from their own capabilities, not from fathers, husbands or sons. The Pink Chaddi campaign that enveloped Pramod Muthalik of the Ram Sene whose goons attacked women in Mangalore pubs and the #aintnoCinderella handle that's mocking Mr Bhatti now are part of that new-found confident defiance.

We are but a tiny proportion of women who can enjoy these rights — and we highlight more than ever the urgent need for faster, deeper economic reform.

Of human lies and digital truths

BOOK REVIEW

MANASA VENKATARAMAN

In an age where data holds the compass to our progress, it is vital for us to understand how it works. This book is for anyone who is curious about how people tick. Funnily, although this book is about Big Data, author Seth Stephens-Davidowitz consciously refrains from defining the term. Instead, its many facets are revealed.

Everybody Lies takes the reader through the powers of Big Data, its uses and shortcomings, and finally, those aspects of Big Data of which we should be wary. Sprinkled with hilarious anecdotes, case studies and a clever writing style, *Everybody Lies* makes Big Data seem like a lot of fun.

The conventional approach to data ignores a large chunk of information — behaviour patterns on the internet. Let's take door-to-door surveys. It is common for people to not be completely unbiased in surveys, resulting in distorted conclusions. Conventional data also does not allow us to zoom in to specific data subsets. This is where Big Data swoops in. For instance, think of how many people are likely to admit to being racist in a conventional door-to-door survey. Not many, surely. The author, however, demonstrates otherwise. He reveals how running a search on Google Trends with the right keywords can reveal astounding insights on consumer behaviour, racism, and even criminal tendencies.

Mr Stephens-Davidowitz begins the book with a Thanksgiving anecdote about his family urging him to get married, and advising him on the kind of woman he must marry. Aside from being completely relatable, this anecdote sets the tone for the rest of the book. Mr Stephens-Davidowitz uses this incident to explain that data science is intuitive because it is all about spotting patterns in behaviour and predicting how one data point will impact another. In fact, our "gut feeling" is probably our most trusted subconscious dataset. Through the following chapters in the book, he builds nuances to this observation.

Just like the gut, Big Data is best when it is intuitive and simple. So, the more complicated the data analysis, the more it fails. Mr Stephens-Davidowitz also places heavy emphasis on data available on Google, Facebook and other websites, turning innocuous information on the internet into a data goldmine. In fact, an entire chapter in the book is dedicated to Freudian slips, and how Big Data from the internet can be used to debunk the connection behind slips of tongue and Freudian slips.

Mr Stephens-Davidowitz argues, and reiterates through the book, that Big Data has four big powers: It keeps offering new types of data; it is honest; it allows zooming in on small subsets; and it allows causation to be detected.

True to the data scientist in him, the author dedicates a few case studies to explaining the first holy tenet of data scientists: Correlation is not causation. The gut can sometimes be wrong. He explains this using counter-intuitive case studies across the book — surrendering that sometimes "*the world works in precisely the opposite way as I would have guessed*".

In the second part, the author unravels Big Data's prophetic powers. If you ask the right questions, a good dataset can tell you how successful you will be one day. Big Data is also big on *doppelgangers*, the author shows. It relies on the information it has on people similar to you, and makes logical conclusions about you. Mr Stephens-Davidowitz submits that these discoveries can be milked to make poignant predictions about human behaviour.

In the final part, Mr Stephens-Davidowitz skilfully addresses Big Data's leading worry: Does it threaten personal privacy? The author does not think so. He concludes that Big Data cannot predict an individual's actions based on her online history. While it may be possible to predict the actions of clusters of people (for instance, which district is least likely to vote at the upcoming elections), it is not possible to apply the same logic to individuals — not just because it is unethical but also because it is impractical. This is probably why, even if a person googles an item on how to murder someone, it is unlikely that the police will come after him immediately. Big Data thankfully leaves our embarrassing (and sometimes worrisome) searches alone.

However, addressing a tangential concern, Mr Stephens-Davidowitz says nothing stops companies from using Google to know a person better. Banks can determine their borrowers' creditworthiness and potential employers can gauge a candidate's employability on the basis of the search results. However, if it's any consolation, Big Data empowers consumers equally, potentially allowing them to impact corporations (for instance, the author observes that customer reviews on Yelp have been shown to impact restaurants' revenues significantly).

Arguably, Big Data and data protection are topics of the future but, often, their analyses are too technical to comprehend. *Everybody Lies*, on the other hand, superbly demystifies Big Data for the reader. It breaks down technical aspects of data science with ease and engages the reader with fascinating data experiments. But above all, this book reminds the reader that although everybody lies, Big Data is the powerful digital truth serum we need.

The reviewer is a Research Associate with The Takshashila Institution

EVERYBODY LIES

Big Data, New Data and what the Internet Can Tell Us About Who We Really Are

Seth Stephens-Davidowitz

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