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A case of putting all your eggs in one basket?

While focusing on inflation target, monetary policymakers shouldn't forget their mandate includes growth

THE OTHER SIDE

A V RAJWADE

In my last article, I had argued that despite the drop of 0.25 per cent in the repo rate, real interest rates in India still seem too high, limiting the actual output (and job creation) below its potential. I was pleasantly surprised to see economist Helene Rey emphasising the equivalence between output loss and high real rates in her Andrew Crockett Memorial Lecture last month — "The Global Financial System, the Real Rate of Interest and a Long History of Boom-Bust Cycles". In it, she quoted Larry Summers' argument that "we had entered into an age of 'secular stagnation', that is, an era where output remains chronically below its potential, or equivalently, real rates remain above their natural rate". To be sure, she was talking about advanced economies, but is not the point equally relevant for us?

She also stressed that "key countries' monetary policies affect other countries' monetary conditions and financial stability in several ways. Financial imbalances may arise. Or the presence of foreign financing may lead to powerful balance sheet effects that will alter the transmission channel of domestic monetary policy". In other words, it is not only the inefficiency of our bankers that leads to poor transmission of policy rate changes to borrowers, something which the central bank is trying to remedy through a revised marginal cost of lending rate mechanism. She made one more point relevant to our inflation target approach: "Monetary spillovers may conflict with the domestic mandates of central banks".

As for the exchange rate, are our policymakers making the same mistake which the Bank of England did in 1921 in restoring the gold parity of the pound to its pre-war level, ignoring the inflation that had occurred in between? This led to a deep recession in the UK, and a million and a quarter unemployed. According to the CMIE, we lost 1.5 million jobs between January and April 2017 at a time when, given our demographics, we need to create a million jobs a month. Surely, this was partly because of an uncompetitive exchange rate? (The rupee has gone up further since April). Are we paying a heavy price (and could pay an even heavier one) to retain the confidence of international portfolio investors in order to meet the inflation target? Inflation hurts the poor the most, but does unemployment not hurt them even more? We should not forget that, as Rey argued (ibid), "International investors appear subject to sharp swings in sentiment: During 'risk-on' periods financial capital flows across boundaries, leading to increases in risky asset prices and more leverage. This process can reverse sharply during high-volatility 'risk-off' periods."

The Economic Survey Part II, which was published last Thursday, apprehends the possibility of deflation (that is, negative inflation) as against the Reserve Bank of India (RBI) estimate of four per cent plus for Q2 and Q3 of the current fiscal year. It also makes the point that the real interest rate is very high, and the targeted economic growth may not be reached either in real or nominal terms. The survey makes the point that over recent quarters the central bank has overestimated inflation in the following quarter, on an average, by 1.8 per cent — in other words its forecast was wrong by an average of 40/50 per cent!

For an economy like ours, which needs to create a million jobs a month, even a seven per cent growth would be equivalent to "secular stagnation" for advanced economies. As it is, factory output is at a 48-month low in terms of the latest Index of Industrial Production number; the worst affected sector is capital goods, suggesting lower investment and hence, lower future growth. This clearly has adverse implications for (this year's and future) revenue, which has already been hit by a lower RBI dividend to government (its profit has been hurt by the translation losses on foreign currency reserves because of the rupee appreciation). According to the Economic Survey, 50 per cent of the private investment in thermal power plants is unviable. Add to this other non-performing assets, the farm loan waivers, the capital needed by public sector banks to meet the Basel capital norms etc and the demand on fiscal support goes up further. In the absence of such funding, lending growth will remain anaemic. All this will affect the government's ability to give fiscal stimulus to the economy thanks to the deficit target linked to the nominal gross domestic product; 80 per cent of the budgeted deficit has already been exhausted in Q1.

Are monetary policymakers focusing only on the inflation target overlooking that their mandate also includes growth?

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CHINESE WHISPERS

When blooper reveals inspiration

Congress Vice-President Rahul Gandhi's (*pictured*) speech at the inauguration of an Indira Canteen in Bengaluru was peppered with bloopers. He said every city in Bengaluru — mind you, not the state — would get Amma... er, Indira Canteens. He corrected himself quickly but in the process revealed the inspiration. The Congress, which is in power in Karnataka, seems to have been inspired by the Amma Canteens in neighbouring Tamil Nadu. A vegetarian breakfast or tiffin at an Indira Canteen — named after former prime minister and Gandhi's grandmother Indira Gandhi — will cost ₹5 while lunch and dinner will be priced at ₹10 each.

Back to school

Rahul Gandhi will visit Uttarakhand on August 18 to participate in a programme organised by his alma mater Doon School, party officials said on Wednesday. Uttarakhand state Congress chief Pritam Singh held a meeting with senior party leaders to discuss the preparations. Party spokesperson Garima Dasauni said Gandhi would be accorded a warm welcome by party workers and leaders on his arrival at the Jollygrant Airport on Friday. Gandhi's father and former prime minister Rajiv Gandhi also studied at the Doon School.

The 'real' and the 'rebel'

It seems the Janata Dal-United (JD-U) is at war with itself. The Nitish Kumar-led JD-U has its national executive meeting in Patna on August 19. The "real" JD-U that the rebels claim they lead is discussing a plan to organise a "parallel" national executive not far from where Kumar (*pictured*) and his party will gather in Patna. There is also a war of words between the two groups, with leaders in the Kumar camp claiming that the rebels are being supported by the Lalu Prasad-led Rashtriya Janata Dal (RJD), and that the "parallel" national executive is likely to be attended by RJD workers, but without their party flag. However, neither the JD-U nor the RJD has an exhaustive list of party workers, and it is likely to be an uphill task if RJD workers populate the venue of the "rebel" meeting. Meanwhile, JD-U leader Sharad Yadav, who has disagreed with Kumar's decision to ally with the Bharatiya Janata Party, has dismissed speculation that he would join any political party. This has put the Kumar camp in a fix as it does not want to be seen as expelling the senior leader from the party.

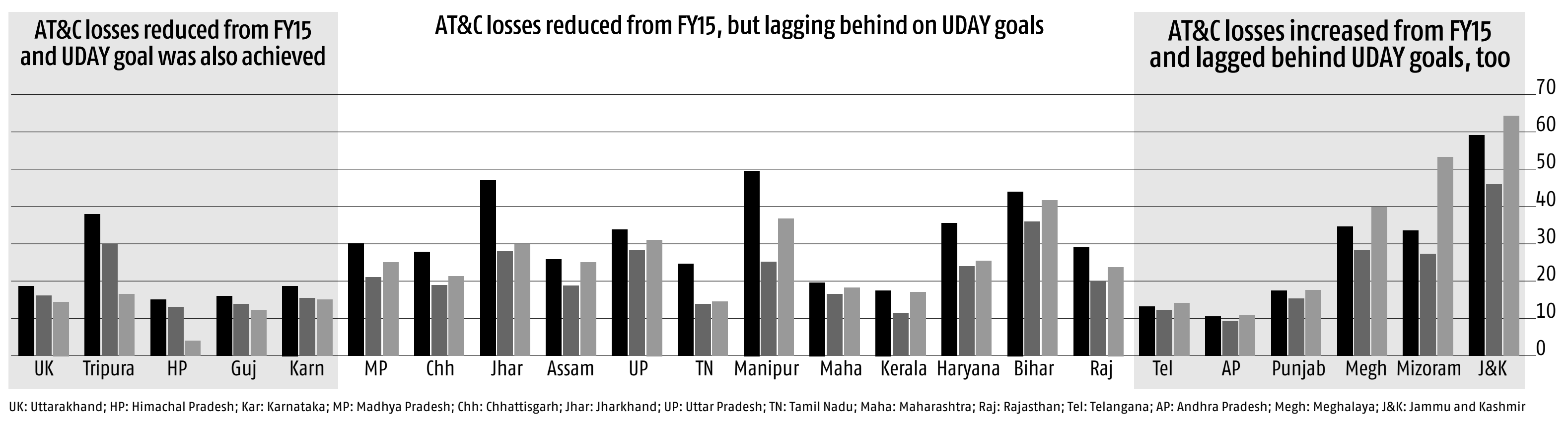
UDAY needs four transformational steps

Several states are falling behind in meeting the goals of the scheme

VIVEK SHARMA

PROGRESS OF AT&C LOSSES AS COMPARED TO TARGET AND HISTORICAL PERFORMANCE

■ Actual (FY15) ■ Target (FY17) ■ Actual (FY17)



State electricity distribution companies, or discoms, may be up against a wall given the steep loss-reduction target set under the Ujwal Discom Assurance Yojana (UDAY), which aims to improve their financial health.

While the central scheme takes over 75 per cent of a discom's debt (the state has to raise the balance 25 per cent by issuing bonds), and rightly focuses on cost recovery to bring down the interest burden quickly, it also harps on reducing aggregate technical and commercial (AT&C) losses to 14 per cent by 2020 and hiking tariffs as required over this period.

A year and a half since the scheme was launched, cost recovery, or the gap between average cost and revenue, has improved in several states. Some discoms have shown a reduction in AT&C losses, too, but many are trailing. Telangana, Andhra Pradesh, Punjab, Meghalaya, Mizoram and Jammu and Kashmir have actually seen their losses mount after implementation of UDAY.

Such slippages upend cost recovery efforts at discoms. A back-of-the-envelope calculation suggests that an average deviation of one per cent by states that signed up for UDAY will lead to ₹24,000 crore of cash losses unless offset by bigger tariff hikes and cost reduction measures.

States with higher AT&C losses and steeper loss reduction targets such as Uttar Pradesh, Bihar, Jharkhand, Rajasthan, Chhattisgarh, and Jammu and Kashmir will have greater incentive to remain cash neutral.

Indeed, adequate and timely increase in tariff is a crucial parameter for the success of UDAY. On this, too, many states are well behind requirements. One aspect that's not highlighted is that average tariff hikes of 4.7 per cent is required annually in states along with reduction in AT&C losses. In some states, the tariff hike needed is north of 10 per cent. Here again, a back-of-the-envelope calculation shows that even a 50 per cent deviation can lead to a cash loss of ₹48,000 crore.

Regulations require tariff revision for any financial year to be made before April. However, as of June 2017, 12 states haven't done their tariff revisions for fiscal 2018. Of those that have, the revision falls short of the estimates made under UDAY.

There could be many reasons for this, including a delay in filing of the petition. Besides, it appears that the regulators were not aligned with the overall UDAY package, which has an in-built requirement of tariff increase and freedom to meet AT&C losses during the three-year window. Further, tariffs remain a politically sensitive issue. Rajasthan had to roll back tariff increase for agricultural consumers by almost 25 paise leading to an additional burden of ₹500 crore on the state.

All the same, with so many states missing the target in just the second year, there is a question mark over whether discoms can tap the opportunity provided by the central government through this package. Also, what if these targets are not met, especially considering discoms cannot raise working capital loans?

Clearly, four transformational steps would be necessary.

First, discoms should seek active support of private players through distribution franchise or other public-private partnership options, especially in the notoriously high AT&C loss areas.

Second, they should take the help of central government entities for bringing in best management and operational practices. The draft energy policy issued recently by the NITI Aayog, too, mentions this.

Third, tariffs should be increased automatically for at least three years based on inflation or the percentage specified in the UDAY agreement, with no scope for regulatory or political interference. This will be subject to regulatory scrutiny at the end of the three-year "control period" for tariff.

Fourth, to plug leakage, states should explore direct benefit transfer in this sector along with retail and supply segregation to infuse competition for the benefit of consumers.

With barely a year and a half to go for catching up on the AT&C loss target, such out-of-the-box ideas have become imperative to improve the operations and management capability of discoms.

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BUSINESS LIFE

Putting a woman in charge may boost productivity

Women managers could be the key to fixing deadening corporate culture

NOAH SMITH

Work-life balance, gender equality and results-oriented management are all aspects of a unified whole

PHOTO: iSTOCK

If you've never tried a Japanese snack called Jagariko, I highly recommend it. When I visited the Tokyo offices of Japanese snackmaker Calbee Inc, I made sure to ask if I could have a free pack of my favourite snack. "Maybe," the managers hedged.

I wasn't at Calbee to talk about their potato sticks, but their corporate culture. Calbee is famous in Japan for a progressive, female-friendly workplace. Japan's government has scaled back its ambitions to put more women in corporate management roles, but Calbee is pushing ahead full steam. The company has increased the share of female managers from 5.6 per cent in 2010 to 22.1 per cent in 2016, and is aiming for 30 per cent by the end of the decade.

But Calbee managers explained to me that gender equality is only a small facet of the company's attempts to transform the company's management style. The real goal, they told me, was to shift from a culture that valued input of effort to one that rewarded results, efficiency and productivity. They asserted that female managers are actually more productive than men — where men feel social pressure to stay at work even if nothing needs doing, the Calbee folks said, women feel pressure to finish their tasks quickly and efficiently so they can get home to spend more time with their kids. My interviewees therefore argued that work-life balance, gender equality and results-oriented management are all just aspects of a unified whole.

A shift from long hours to efficient, goal-oriented work is exactly the right medicine for white-collar Japan. Almost alone among developed countries, Japan has actually seen its total factor productivity — a measure of overall business efficiency — fall rather than rise over the last four decades.

Though the country's factories are top-notch, thanks to rapid adoption of automation and other technologies, its service sector lags badly.

One big reason is that service industries depend less on robots and more on human office workers. And there's evidence that Japanese office culture has been badly broken for quite some time. Japanese workers put in famously long hours — so much that death from overwork is a well-known concept. But many companies are still using antiquated technologies like fax machines and cassette-tape recorders.

Failure to care about upgrading ancient technology is a sign that many Japanese companies aren't placing a high premium on the amount of work that actually gets done in their offices. Instead, punishingly long hours are probably a way that workers signal their loyalty to their bosses and employers. Signalling, as every economist knows, is a costly, even wasteful process. If Japanese companies trust their workers so little that they force them to sacrifice much of their personal life just to prove their commitment, that lack of trust is holding back the economy. It's probably decreasing fertility too, since long hours at the office make it much harder to raise children.

That's why results-oriented management, which might seem obvious and natural to an American, represents such a revolution in Japan. It calls into question the whole idea of what work means.

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LETTERS

Identity crisis

With reference to Shrimi Choudhary's report, "PAN deactivation jolt for tax evaders in stock market" (August 16), the issue is not just about tax evaders. Frequent meddling into citizens' identity by the authorities is making them embarrassed, especially those who are not involved in any crime, financial or otherwise.

Last week, at the check-in counter of a reputed hotel in Mumbai, I saw a guest being asked to produce "some identity proof other than PAN card". The guest produced his Aadhaar card, which was accepted. While waiting in the lobby, the guest casually asked me why PAN was not acceptable. He was not convinced when I shared my guess that "maybe, because recently thousands of PAN cards have been deactivated, the front desk staff may not want to take a risk". According to him, the list of deactivated cards should be on the website of the income tax department and hotel staff "should be able to check (that) out in case of doubt". Citizens are now more aware of the possibilities of technology than the BBB — businessmen, bureaucrats and bankers — elite think, I thought.

Perhaps, my short-time friend was making a valid point. The government has been meddling into citizens' identity this decade beyond tolerance levels. Modernisation, introduction of new technology or better procedures and practices should not inconvenience the target clientele group too much. There should be a project approach to such shifts, ensuring and planning for backward and forward linkages, making transition a smooth affair.

If technology is amenable, the Aadhaar cards issued so far should be converted into multipurpose single index numbers with appropriate alphanumeric prefixes/suffixes to identify uses for bank accounts, ration cards, passport among others.

M G Warrier Mumbai

All things circumstantial

It is quite disturbing to read that outstanding loans by wilful defaulters of public sector banks have gone up 20.4 per cent to ₹92,376 crore at the end of the financial year 2016-17 compared with ₹76,685 crore at the end of 2015-16. The number of wilful defaulters has also risen to 8,915 from 8,167.

The concept of non-performing assets (NPA) was introduced to ensure that balance sheets of banks reflect the true picture of their financial position. The underlying idea was that banks should take follow-up of loans and advances sincerely so that the profit of the banks does not suffer.

But the trend of ever-increasing NPAs in the last few years points to laxity on post-credit action by banks. They should not give the public a chance to get the feeling that banks and loan takers are working hand in hand to loot the money. This applies to private sector banks, too. A private sector bank that started functioning two years ago sold about ₹2,000 crore of a dozen accounts to an asset reconstruction company during 2016-17. Such facilitators help banks give a facelift to their balance sheets, but it does not augur well for those banks discharging their duties.

A few days back, State Bank of India Chairman Arundhati Bhattacharya said: "In India, NPA is treated as criminal; it should not be. Permission to fail is not given by society. But failures will take place." She said the loans were given when the gross domestic product (GDP) growth was 8.5 per cent and loans had turned bad as the GDP had fallen to four per cent. Who should be blamed for the economic ills of the country? Not politicians, not economists not bankers! Everything is circumstantial?

Ramanath Nakhate Mumbai

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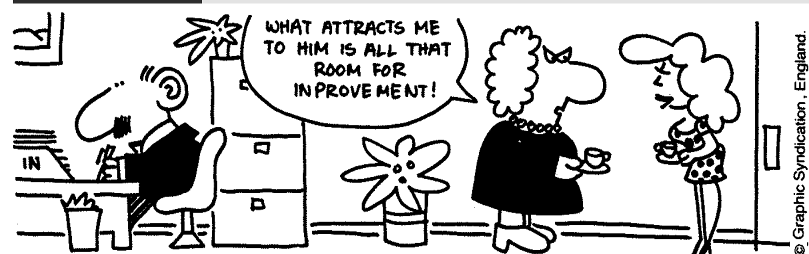
HAMBONE BY MIKE FLANAGAN



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Consolidation fiasco

SBI shows how mergers can be a wrong solution

In May this year, while announcing the bank's dismal quarterly results for the fourth quarter of 2016-17, State Bank of India (SBI) Chairperson Arundhati Bhattacharya had talked about a "little more pain" that lay ahead in the near term. The fourth quarter results were the first quarterly performance of the merged entity comprising SBI, five associate banks and Bharatiya Mahila Bank (BMB) — a part of the government's consolidation drive. While it catapulted the country's largest lender to among the top 50 banks in the world, it also weakened the original standalone entity considerably in terms of non-performing assets (NPAs). As the first quarter results for the current financial year were announced last Friday, the "little more pain" became a huge understatement.

That the merger took a toll on the bank's recovery is evident from the sharp rise in slippages leading to higher provisions, which went up 91 per cent, year-on-year. It was obvious that SBI inherited a miserable portfolio of dubious corporate loans, which post-merger have swelled to 10 per cent of the total, while the percentage of net NPAs went up from 3.7 per cent to 6 per cent, quarter-on-quarter. It was no surprise that the deterioration in asset quality was essentially because of the merger with weaker banks. This is not the only worry for SBI. The bank has yet to provide for ₹30,000 crore of its ₹50,000 crore exposure to 12 large corporate accounts that went bad. Also, SBI receives a huge portion of India's deposits — 23 per cent — and yet its lending growth has slowed to just 1.5 per cent in the June quarter. Responding to the pressure that such a scenario would create, SBI had recently lowered the interest rate for its depositors.

The unravelling of the SBI story has several lessons for the government, which till recently was reportedly waiting for the public sector banks to announce their first quarter results before restarting the consolidation process. For one, past experience of mergers such as that of New Bank of India with Punjab National Bank and Oriental Bank of Commerce taking over Global Trust Bank has shown how the performance of the efficient bank is hampered as a result of ill-planned mergers. The SBI episode is yet another example of the same. What makes the prospects of future mergers worse is that unlike in SBI's case, where the conflicts and disparities of work culture might have been fewer, other banks may have to bridge a much bigger chasm in terms of making things work at an operational level. For instance, a merger that brings about increased geographical reach for the merged entity also brings with it cultural differences. The truth is, while public sector bank consolidation sounds good on paper, more often than not it is not so in reality. The problems facing Indian public sector banks run deeper and mergers cannot provide a quick fix. The solution requires better recapitalisation as well as governance reforms so that the banks do not repeat their mistakes.

Protest Inc

Corporate America sets a standard worth emulating

In declining to unequivocally condemn the violent neo-Nazi rally in Charlottesville, Virginia, which resulted in one death and many injuries, Donald Trump may have hit a new trough in the already low moral tenor that marks his presidency. Mr Trump was forced to modify his statement, but he swiftly backtracked on Tuesday. Amid the uproar of criticism that erupted from across the political spectrum, it is ironic that a president who campaigned on the promise of reviving manufacturing jobs should have sustained sharp rebukes from three representatives on the American Manufacturing Council. On Monday, Kenneth Frazier, CEO of the pharmaceutical giant Merck & Co, announced that he was stepping down from the council in protest. In forthright criticism of Mr Trump's blatant pandering to this crass constituency that forms the core of his support base, Mr Frazier, who is African American, said, "America's leaders must honour our fundamental values by clearly rejecting expressions of hatred, bigotry and group supremacy, which run counter to the ideal that all people are created equal." That statement provoked a not unexpected undignified Twitter riposte from Mr Trump but Mr Frazier, it turned out, was not alone.

Two more CEOs followed Mr Frazier in tendering their resignations. One was Brian Krzanich, CEO of Intel, and the other was Kevin Plank, CEO of Under Armour. Their statements were more oblique in criticising Mr Trump but the message was clear. Mr Krzanich said he was resigning because "many in Washington seem more concerned with attacking anyone who disagrees with them". On Twitter, he was more direct: "There should be no hesitation in condemning hate speech or white supremacy by name. #Intel asks all our countries (sic) leadership to do the same". Mr Plank wrote: "I love our country & company. I am stepping down from the council to focus on inspiring & uniting through power of sport." It is worth noting that even the manufacturer of Tiki torches, the bamboo torches that the white nationalists carried that night, took the trouble to distance itself from the events at Charlottesville, putting out a statement that it did not support the white supremacists' message or the use of its products.

Altogether this year, six CEOs have chosen to quit Mr Trump's various advisory councils in protest against his policies. In February, Travis Kalanick, then still the CEO of Uber, stepped down from the president's economic advisory council following the executive order imposing a temporary ban on travellers from seven Muslim-majority countries. In June, Bob Iger of Disney and Elon Musk of Tesla quit the president's business advisory council after he pulled the US out of the Paris climate change agreement. Taken together with many open statements in opposition to the US president's policies, America Inc, which has rarely been a shining exemplar of ethics and values, has set an honourable precedent. To this can be added the role played by signature corporations — Google, Starbucks and Facebook — in getting the Supreme Court to overturn archaic laws that outlawed same-sex marriage in 2015. Their activism, however mild, offers a contrast to the studied silence of India Inc to the social atrocities that have been polarising the country for over two decades. For a group that seeks to emulate global best practices, this would be a good example to follow as well.

ILLUSTRATION BY AJAY MOHANTY

Probity and political funding

Given the international practice, it is inexplicable why the Union government is going ahead with anonymous electoral bonds

A political bombshell in the last one month was the "ghar-wapsi" (return of the prodigal) of Bihar Chief Minister Nitish Kumar's Janata Dal (United) (JD(U)) to realign itself with the Bharatiya Janata Party (BJP). It is a welcome development since the issue on which the splitting of the "mahagathbandhan" (grand alliance) of Mr Kumar's JD(U), Lalu Prasad's Rashtriya Janata Dal (RJD) and Sonia Gandhi's Congress took place was on probity in public life. However, it was an example of the "theatre of the absurd" that JD(U) had agreed to form a grand alliance which included the RJD in the first place. The RJD is headed by Mr Prasad, who was convicted in October 2013 of corruption in a 17-year-old fodder scam case. Mr Prasad was sentenced to five years in jail and debarred from contesting elections for 11 years.

JAIMINI BHAGWATI

Well, as they say better late than never. Mr Kumar should stop pursuing prohibition and focus on dredging Bihar's major rivers and repair the embankments to prevent the recurrent human misery caused by floods. It is not enough to take a one-time decision to distance JD(U) from a corruption-tainted RJD. The JD(U) and the other major parties – the BJP and the Congress – also need to walk the talk on political funding. As we all know well, one of the principal drivers of corruption is how funds are sourced for elections.

It was India's 71st Independence Day just 48 hours ago. It is timely then to remind ourselves about the cleaner political funding mores in the 1950s. For one, adjusting for inflation and higher incomes, candidates spent far less on elections in that era. Candidates for Assembly or parliamentary seats were well known in their constituencies because of their record of public service. Since then the standards of probity in politics have slipped dramatically. For instance, a number of parties registered with the Election Commission (EC) never contest elections. Why is it rocket science for the EC to strike such parties off its books and publicise this action?

The Union finance minister mentioned, about three weeks ago on July 22, that the "EC (has) failed to check invisible money in polls". However, the EC did ask for individual cash donations to be brought down from ₹20,000 to ₹2,000. It is not clear why any cash donations to political parties should be allowed. It cannot be that those who make smaller contributions do not have bank accounts and hence make their donations in cash. The EC should recommend plugging this loophole.

As for this so called "invisible" money funding elections, contrary to what the central government maintains, it would be encouraged by the government's decision to allow anonymous (i.e. the donor's identity is kept secret) electoral bonds with no limits on amounts donated. The government's position in defence of such bonds is that the bonds can only be bought by a bank transfer and hence unaccounted cash cannot be used to purchase such bonds.

Plain and simple, this assertion is wrong. For instance, a corporate entity could purchase bonds from a bank and donate these "anonymously" to a political party registered with the EC. To say the least, it is highly unlikely that private firms and others would make donations to political parties without letting recipients know who has made the donations. Or is it the intention that political parties and donors would know who is gifting to whom but the EC and voters would be kept in the dark? In practice once such bonds are deposited in a political party's account, cash could be withdrawn in instalments and funnelled back to donors, individual politicians or third parties. That is, donors, political parties or individuals could use the funds for personal purposes and not necessarily for legitimate political activities.

It could be argued that such involved transactions are unlikely because of fear of detection. However, the evidence from Tamil Nadu politics is to the contrary. Currently, there are two (maybe three) factions of All India Anna Dravida Munnetra Kazhagam (AIADMK) led by O Panneerselvam, T T V Dinakaran and Chief Minister E K Palaniswami. The depressing fact is that all the three factions say they are loyal to late J Jayalalithaa — a convicted criminal.

Given the concern about bias in the courts in Tamil Nadu, the corruption cases against Jayalalithaa dating back to 1991 were moved from Tamil Nadu to Karnataka. Finally, in September 2014 a Special Court in Karnataka convicted all four accused namely Jayalalithaa, Sasikala Natarajan, Ilavarasi and V N Sudhakaran and sentenced them to four years of imprisonment and levied fines on them. In May 2015 the Karnataka High Court (no less) overturned the Special Court's judgment. In February 2017, after Jayalalithaa had passed away in December 2016, the Supreme Court overruled the Karnataka High Court and restored the Special Court's judgment. It has to be bizarre by any standard that now the leaders of the AIADMK factions (inheritors of the proceeds of corruption) are being wooed by national parties.

In the US there are restrictions on campaign finance if any government funding is accessed. And, all contributions towards election purposes can be traced to donors if the government so decides. In the UK there are no provisions for anonymous donations. Given such international practices it is inexplicable that the Union government is taking a stand that anonymous bonds would not be misused and would be an improvement on current practices.

According to the Union government about 540,000 new taxpayers have come into the tax net after demonetisation. This is a welcome development on direct taxes and hopefully a similar buoyancy would be evident on indirect taxes thanks to the goods and services tax (GST).

To sum up, it would be a travesty if the Union government were to go ahead with electoral bonds. Plus, cash donations up to ₹2,000 should be done away with. It is for the EC to take the initiative on both these issues.

After 12 years I am saying goodbye to Business Standard *readers and this is my last monthly column in this paper*
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Building runways to next growth phase

Passenger traffic at Indian airports has had a phenomenal run, growing over 10 per cent, and outpacing GDP growth over the last decade. Resurgent economic growth and a rapidly growing middle class has ensured that more Indians are travelling by air, more frequently, than ever before. Macro-economic indicators support the case for this to continue.

RAJAT GUPTA, VIKRAM KAPUR & SHANKAR CHANDRASEKARAN

Airlines have anticipated this and are ordering more planes. McKinsey studies indicate that footfalls at Indian airports will likely reach 600 million in the next 10 years (by 2026-27), up from 223 million currently. Passenger numbers at each of two top airports — Delhi and Mumbai — will likely exceed 100 million, catapulting them into the global big-league. Atlanta's Hartsfield-Jackson airport, currently the world's largest airport sees 104 million passengers every year.

While the numbers may seem rosy, part two of the aero-story has the potential to bring us down a few thousand feet. Consider this: 19 of India's top 20 airports are now dealing with traffic above design-capacity (15 are crunched for terminal capacity, while seven are restricted by the runways). Airport infrastructure is lagging demand at most Indian airports, and needs to be expanded. Our assessment suggests that nine terminal expansions need to begin in cities, including Hyderabad and Chennai. Also 10 greenfield airports are required, including at Ahmedabad and Kochi. Considering the long gestation periods, land acquisition for these needs to begin immediately.

Total investment needed to fund India's airport capacity expansion is estimated to be about $35-40 billion over the next five to seven years, or $20 billion, excluding land cost. Stretched balance sheets of the existing set of private airport developers may not be able to support this, and foreign capital has been unwilling to step into this asset class so far.

Flying high with AAI

As India's biggest airport operator with over 100 airports in its portfolio, the Airport Authority of India (AAI) has an opportunity to play a central role in airport infrastructure development over the next decade. Apart from the experience of running airports, it has a far healthier balance sheet compared to the private players. The AAI ended 2015-16 with a profit of about ₹3,700 crore, cash reserves of ₹4,500 crore and long-term borrowings of only ₹500 crore, making it well-suited to take the lead. The nodal agency of the Ministry of Road Transport and Highways, the National Highways Authority of India, has tapped non-traditional sources of funding such as the Employees' Provident Fund Organisation and Life Insurance Corporation bonds to fund roads. These and other new pools of finance can be used to fund airport infrastructure. For better and faster project-execution to keep pace with demand, the AAI could move from its traditional item-based contracting to turnkey engineering, procurement and construction models.

The AAI could also bring in private professional agencies to run terminal operations at its airports. This model has worked well at Singapore Changi and other airports, helping de-bottleneck operations and maximise commercial potential. The AAI has begun the process of outsourcing the operation and maintenance of Jaipur and Ahmedabad airports to private players, which could be extended to more cities.

Attracting private investments to build or expand the next tier of Indian airports is likely to be tougher than the last time, when the biggest five airports by traffic (Delhi, Mumbai, Bengaluru, Hyderabad and Kochi), were privatised. FIIs have been concerned by the lack of a predictable, long-term tariff mechanism. India needs a simplified airport regulatory regime, and a fair and transparent tariff-policy, to draw the world's attention to the traffic growth and potential for investment.

Private Indian companies have been steering clear of airport projects despite the growth in passenger numbers. The proposed amendment of the Airport Authority of India (AAI) Act to remove restrictions around land usage, could change this. Budget 2017 has proposed that airport companies be allowed to monetise land to raise funds for upgrading infrastructure — if implemented, this would allow both private operators and the AAI to raise fresh capital for projects. It will also make the sector more attractive to potential entrants.

It is not only the scale, but also different types of funding that need to be considered. Recycling capital, by allowing existing developers to exit projects is an effective method to generate liquidity. Development capital eventually needs to be replaced by patient capital. The GVK group's stake sale to Fairfax, and their resulting exit from the Bengaluru airport project is one recent example of such recycling.

Innovative mechanisms for broader participation will be required to bring in more private developers and longer-term investors into the sector.

Building for the next 100

Improved air-connections are needed to make India's businesses and trade more efficient. The public-private partnership model has shown the way to improve user experience at the airports. With passenger traffic at the airports doubling in the last six years, this could be the time to start thinking about the privatisation of Chennai, Kolkata and non-metro airports. Bundling small and medium airports to bid them out together, could help attract bidders. The Greek government was able to sign its first privatisation deal for small regional airports in 2015, by bundling 14 airports, and offering them on a 40-year lease.

As longer term measures take shape, optimising air navigation services could result in a step-change towards de-bottlenecking air-traffic. Improved CNS (communication, navigation and surveillance) operating models help reduce congestion.

Airport bottlenecks and funding are complex problems, and progress can take decades. India's air-infrastructure build-up will need to be on the fast track, to be able to cater to the growth projected for the next decade.

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Beyond 'Capital'

BOOK REVIEW

MIHIR S SHARMA

In the three eventful years since Thomas Piketty's *Capital in the Twenty-First Century* — abbreviated in the book under review as *C21* — was published, responses to his work have been of four kinds. There is, first, the rapturous: Suggesting that *C21* has somehow broken the mould for economics, and forced it to concentrate on questions of inequality. Second, there is the dismayed: That *C21* is path-breaking, but it has been ignored. Third, there is the outraged: That Mr Piketty is a communist, and a French one at that. And fourth, there is the modestly hopeful: That *C21* is but one reflection of academic economics slowly turning to confront some of the central political issues of our time.

After Piketty, a collection of essays and papers on *C21*'s central principles edited by three progressive American economists, falls squarely within the fourth of the above schools of reaction. In their introductory essay, the editors do not minimise the impact of *C21*; and they correctly note that far too much criticism of the book has been unstructured or content free. But they also clearly note the degree to which *C21* leaves issues unresolved, how many things the book leaves out, and the number of ways in which Mr Piketty's complicated argument is open to being questioned and is empirically suspect.

Most importantly, the editors insist that economics should care about inequality per se, and not about poverty reduction. This argument is worth making, but in their introduction is absurdly US-centric — which will only reinforce criticism from those who believe that economics' turn to investigation of domestic inequality in the West just as global inequality and absolute poverty decreases is another manifestation of the power of Western academia to distort narratives and incentives in economics overall.

The editors describe the aim of the collection as "effective, useful critique that contributes to the advance of knowledge". There are 21 papers in this book, aside from the introduction from the editors and the concluding response from Mr Piketty himself. Unusually for such a large and varied collection, almost all the papers are worth reading. They repeat themselves rarely; they examine multiple different perspectives; and most of them are well and conservatively argued.

Naturally, this review cannot address or even summarise all the papers in the book. They have been broadly organised, however, into four parts, beginning with orientating essays written by Paul Krugman, Robert Solow, and Mr Piketty's translator Art Goldhammer. Mr Goldhammer's essay, which focuses on the nature of the reaction to the book, repeats the editors' mistake in looking too strongly at the Western reaction to a book that was a global phenomenon; if this book is translated, local publishers should insist on adding an essay that avoids this error.

The remainder of the book addresses, one by one, Mr Piketty's fundamental points: That returns to capital grow excessively, leading to an explosion of inequality that in turn has deep political implications.

The second part deconstructs Mr Piketty's somewhat nebulous notion of "capital". This includes a crucial essay by Devesh Raval that summarises one major response to Mr Piketty's famous model of inequality: That it can be disproved. In particular, one crucial testable implication of his model, about the ease with which capital can be substituted for labour, does not correspond with reality. This does not invalidate other parts of Mr Piketty's book; but it does mean that we should look at much of it with caution. In his response at the end, Mr Piketty notes this himself, saying that identities (including the famous r>g) he introduced in *C21* should be seen as "ways of organising the data" rather than as the "laws" he had originally labelled them.

The third section does for the notion of "inequality" what the second did for "capital". It contains an essay by Christoph Lakner that makes the basic point about the relationship between globalisation and the reduction of global inequality; it also does a lot of heavy lifting in a few short pages, in attempting a brief survey of development strategies and their impact on inequality. Not to beat a dead horse, but there should have been multiple essays on aspects of this subject. Two chapters in this section, by Mark Zandi and Salvatore Morelli, return to an older critique of capital than Mr Piketty's by focusing on the links between inequality and macroeconomic stability.

Finally, the fourth section looks at the "political implications" — as well as the hidden political assumptions in Mr Piketty's own analysis. This section is the most hit-and-miss; Elisabeth Jacob's essay on where precisely political power is in *C21* — "everywhere and nowhere" — is particularly striking, as is Ellora Derenoncourt on comparative institutions and the international distribution of wealth. Others, like David Grewal on capitalism as a legal system, seem less on-the-nose. Mr Piketty's own concluding essay concedes some points, such as on the applicability of his model; but it also defends others, such as his attention to nature of power dynamics underlying capitalism. More than anyone else in the volume, he highlights the need to have a non-Western view of inequality, and explains why *C21* did not. But most importantly, it is written with great attention to criticism and humility about his conclusions. In it, Mr Piketty insists that *C21*'s purpose was to start a conversation. By the evidence of his concluding essay, and the book in general, that conversation is well underway.

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