Pradhan's *Chakravyuha*

Cutting taxes on petrol and diesel will hit the fisc, but long-term solutions would be to extend GST to them and introduce cost-plus pricing for oil firms

RAISINA HILL

A K BHATTACHARYA

Petroleum Minister Dharmendra Pradhan is under intense political pressure. He is being asked to reduce retail prices of petrol and diesel, which have now risen to levels that prevailed a little more than three years ago, when the monthly average price of the Indian basket of crude oil was almost double of what it is today.

Pradhan has resisted all such pressure, arguing that he can't interfere in the fixing of retail prices, which are now linked to the market. Equally comforting is Pradhan's determination to use the opportunity to ask for the inclusion of petrol and diesel in the goods and services tax (GST). But how feasible are these suggestions?

Monthly averages of the Indian basket of crude oil prices began moving southwards from 2014. They declined from $107 a barrel in May 2014 to as low as $28 a barrel by January 2016, before rising to $55 a barrel by September 2017.

Consequently, diesel's retail price in Delhi in January 2016 went down by 22 per cent to ₹44.18 a litre, compared to ₹56.71 in May 2014. Similarly, Delhi's retail petrol price went down by 17 per cent from ₹71.41 a litre to ₹59.35 in the same period. Clearly, the decline was much smaller than the 74 per cent reduction in crude oil prices in this period.

This was largely because the Union government pocketed a major chunk of the gains from softening crude oil prices by raising excise duty on petrol and diesel on 11 occasions between May 2014 and January 2016, with the excise burden on them rising by 127 per cent and 387 per cent, respectively.

Remember that the states also increased the sales tax and value-added tax on these two products and their overall collections in 2016-17 rose by 16 per cent, compared to a lower rise of four per cent in the previous year. Delhi's revenue growth on petrol and diesel went up by 14 per cent.

However, when the crude oil price went up to $52 a barrel in April 2017, an 86 per cent increase over that of January 2016, retail prices of petrol and diesel also increased, but by lower margins of 11 per cent and 24 per cent, respectively, in the same period. And when the crude oil price went up by another six per cent in September 2017 over the April 2017 price, retail prices for petrol and diesel increased by almost similar margins of seven per cent each, respectively, in the same period. Taxes were not changed in this period and indeed they have remained unchanged since January 2016.

The real cause of the current discomfort, therefore, is the tax on petroleum products raised between July 2014 and January 2016, as a result of which excise and VAT collections rose to ₹4 lakh crore in 2016-17, of which the Centre collected ₹2.4 lakh crore and the states accounted for ₹1.6 lakh crore. But since the states also had a share of 42 per cent in the Centre's revenues, their total tax collection on petro products was ₹2.6 lakh crore, compared to the Centre's excise kitty of ₹1.4 lakh crore. Thus, if taxes have to be cut, the states will be the bigger loser!

The decision to increase taxes was justified on the grounds that the governments needed to reduce their respective fiscal deficits and oil companies had to be spared the burden of their rising under-recoveries on all these products. Indeed, fiscal deficits were reined in and the oil companies' under-recoveries too came down, as the Centre's oil subsidy bill declined from ₹76,285 crore in 2014-15 to ₹22,738 crore in 2016-17.

But Pradhan and Finance Minister Arun Jaitley did not reckon on the problem that raising taxes on petrol and diesel, while crude oil prices fell, was like entering the *Chakravyuha*, a war formation in the Mahabharata. The skill of exiting that formation is more important than entering it.

Even while raising tax rates, Pradhan and Jaitley should have figured out their strategy in the event of oil prices going up and triggering popular unrest. As it turns out, crude oil prices have gone up, but reducing taxes for both the Centre and the states is a difficult task because of revenue and deficit implications.

Including petrol and diesel in the GST is a way out, but this is a long-term solution. When crude oil prices were soft, the government also could have asked oil companies to abandon trade parity-based pricing of petroleum products and embrace a system of cost-plus pricing. It is still not too late. Both the GST and enforcing cost-plus pricing for oil companies could be a way out of the *Chakravyuha* to avoid economic as well as political consequences of the price rise.

CHINESE WHISPERS

Rahul's new fans

Congress Vice-President Rahul Gandhi's (*pictured*) interaction with students and faculty at a university in the US last week seems to have found him new fans. The interaction has emboldened a section within the Congress, as well as outside, which otherwise disagrees with the current crop of senior Congress leaders on economic policies. Most of the senior leaders in the Congress have pursued a liberal economic agenda. But Gandhi, or so these younger leaders are telling the world, made it evident that he was a social democrat. Communist and socialist leaders find Gandhi close to their positions on social and economic issues. He is known to be a good listener. Apart from turning to senior leaders in his party for advice, Gandhi is known to respect the views of Communist Party of India (Marxist) chief Sitaram Yechury and has in recent months got along well with dissident Janata Dal-United leader Sharad Yadav on issues of agrarian distress and how to understand the caste system.

House that!

Former Bihar chief minister Rabri Devi saw a plot to "finish off" her family when her son Tejashwi Yadav's (*pictured*) request to continue residing in the bungalow he had been allotted during his term as deputy chief minister was turned down by the chief minister's secretariat. A Janata Dal-United (JD-U) spokesperson advised Tejashwi Yadav, now leader of the Opposition in the state Assembly, to not be "fascinated with the bungalow" as "he already owns more than 26 properties". Both Tejashwi Yadav and his brother, Tej Pratap Yadav, live with their parents, Lalu Prasad and Rabri Devi, at 10, Circular Road, in state capital Patna.

'If IMFL works, so can IFRS'

At a conference on financial reporting standards, one of the speakers exhorted the audience, largely accountants and finance professionals, to make the new reporting norms under Ind-AS (Indian Accounting Standard) as popular as Indian-made foreign liquor (IMFL). "If IMFL can work in India, so can IFRS, where the 'I' should stand for India," he said. Ind-AS is based on IFRS that actually stands for International Financial Reporting Standards.

Inflation rears its head again

The CPI and CFPI are up and there are fears that food inflation will continue to rise. High inflation could prevent RBI from reducing policy rates

FRONT RUNNING

DEVANGSHU DATTA

Another day, another North Korean missile test. The week ended badly with the yen crashing and Asian equities seeing a sell-off as a result. In fact, there was currency volatility across most major markets for other reasons, too. The yuan gained, the USD lost ground, as did the GBP. The euro ruled strong given low inflation. The rupee was stable enough against this backdrop.

Traders around the world are liable to get a little skittish, given that the latest print on US inflation ran higher than estimates and headline inflation was close to the Fed Reserve's target of two per cent. This may mean the Fed resumes its policy of rate hikes and accelerates plans to start unwinding the vast balance sheet created by its long series of quantitative easings. A tightening would probably cause exits from emerging market assets.

Indian policymakers have plenty of trouble on their collective plates anyhow and it seems inflation is also moving up again. Retail inflation as measured by the Consumer Price Index (CPI) was up year-on-year by 3.36 per cent in August as opposed to 2.4 per cent year-on-year in July.

The Consumer Food Price Index (CFPI), which contributes about 45 per cent to CPI weight has gone up to 1.52 per cent for August as against minus 0.36 per cent in July. The monsoon has hit transport and crops in some parts. There are fears food inflation will continue to accelerate.

Another worrying data point, the Index of Industrial Production (IIP) for July went up only by 1.2 per cent year-on-year. The cumulative growth in IIP for the period April-July 2017 over the corresponding period of the previous year stands at 1.7 per cent.

However, the Purchasing Managers' Index suggests there was a recovery in August since both manufacturing and services registered at above 50, indicating expansion of business activity in August. This was despite continuing confusion on the goods and services tax front, with widespread complaints about difficulties with reporting. It's anybody's guess what the final tax collection will be, net of offsets.

Trade data could be interpreted in several ways. The trade deficit and the current account deficit (CAD) both shot up in the April-July quarter. The trade deficit hit $41 billion and the CAD widened to a four-year high of 2.4 per cent of gross domestic product. That's clearly worrying and gold imports rose sharply, which is a poor sign since it wasn't accompanied by corresponding rise in jewellery exports. But exports did rise and so did imports of other goods, which could be taken as a sign of encouraging activity.

The higher inflation could stymie the hopes that the Reserve Bank of India (RBI) will cut policy rates again. That might make a difference to the attitudes of foreign portfolio investors (FPI). The FPI attitude has shown some change in this fiscal already. In 2016-17, FPIs bought a net ₹55,000 crore of equity and sold just under ₹8,000 crore worth of rupee debt. So far in this fiscal, they have bought ₹102,000 crore of rupee debt and just ₹3,000 crore or so of equity.

This could mean that they were hoping for capital gains on rupee debt if the RBI cut rates. It could also mean risk aversion, with equity values spiking sky high. If FPIs assume that the RBI will just hold rates, they might change stance on their asset mix.

Emerging market equities are topping global performance in calendar 2017 with dollar-based returns of 26 per cent. Factory production and exports jumped in China in August. Earnings expectations were beaten in most emerging markets in April-June.

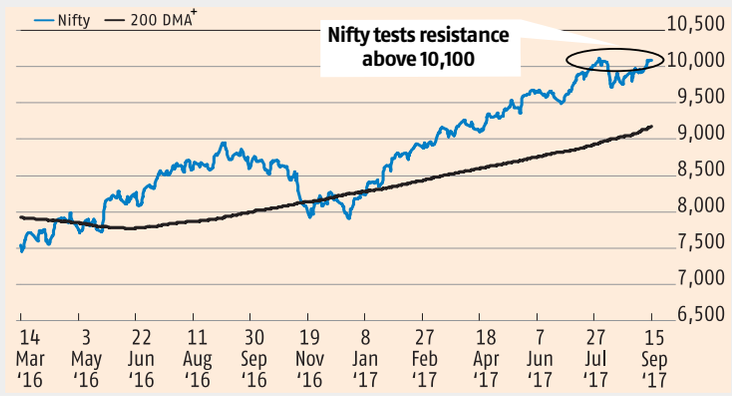
India was an outlier with results below estimates. The GST implementation uncertainty and the SBI Ecowrap suggesting that growth would continue to be muted due to structural issues are dampeners, too. The SBI report analyses data from 1,695 listed companies for 2016-17 and states that the issues are structural rather than being purely GST-related. In fact, it says the GST impact has been overemphasised and that destocking started earlier, in 2016-17. GDP growth is likely to stay below 6.5 per cent in the current fiscal. It also looks at the results of 2,395 companies in Q1, 2017-18, and points out that growth declined quarter-on-quarter for 40 out of 69 sectors. The report attributes falling consumption to demonetisation while generic slowdown might have contributed to falling investment. Growth isn't expected to rally until Q1, 2018-19.

In addition to the economic malaise, there's the prospect of multiple state elections in 2018. There could be exits from India if FPIs decide they would rather go to better-priced emerging markets with more earnings visibility.

Domestic liquidity and sentiments remain strong, however. This could actually create conditions for companies to raise money easily through initial public offerings and debt offerings at low yields. The insurance sector, in particular, may be a beneficiary, given several issues in the offing. However, this sentiment could be affected by political considerations if the Bharatiya Janata Party is perceived to be vulnerable in the upcoming elections. It could also be hit by the ongoing crackdown on shell companies if the trading community fears an intensification of the Raid Raj. GST has also created a working capital crunch of sorts and this may translate into an unwillingness to commit funds into the markets if it continues.

Technically speaking, the Nifty has moved up above 10,000 again and could break through to a new high in one session. So the rally might continue on momentum alone. However, the next correction may be very deep.

BID TO BREAK THE BARRIER



	Value		Equations
	Previous (Sep 1)	Current (Sep 15)	Change %
Nifty value	9,974.4	10,085.4	**1.11**
Index PE	25.99	26.24	0.96
Index dividend yield	0.93	0.94	1.08
Index book value	3.51	3.51	0.00
USD INR (RBI reference rate)	64.02	64.07	**-0.08**
FII net equity buys/sales (Sep 1-15) (₹ cr)	*-14,293	**-3,085**	
DII net equity buys/sales (Sep 1-15) (₹cr)	*16,205.22	5,777.05	

*Aug 1-31 net equity buys/sales, +200-Day Moving Average
NB FIIs bought net debt of ₹15,249 cr (Aug 1-31) and ₹18,867 cr (Jul 1-31)

BUSINESS LIFE

In this sports gender gap, men fall short

Male athletes are denied the recognition of a full life off the playing field

WILL LEITCH

The electric talent Sloane Stephens, a player just now coming into her own after having her career nearly wrecked by injuries, won the US Open women's tournament last week. But let's not kid ourselves: The real winner of this year's tournament was Serena Williams.

More specifically, Williams' Instagram. From the shots of her baby shower to her glorious pregnant belly and finally an adorable shot of mother and child dozing together, Williams owned the Open. The only tennis story bigger this entire year was a seven-months-pregnant Williams smashing backhands in a video posted during Wimbledon. (Pity her poor sister, Venus: She couldn't even enjoy her own run to the Wimbledon finals without having announcers tell us how inspired she must be by Serena's impending motherhood.)

Surely, this is a step forward from years past, when female athletes had to end their careers for childbirth or were discouraged from playing when pregnant. Motherhood is now even part of female athletes' heart-warming hero narratives, like Kim Clijsters and Lindsay Davenport in tennis, and the married WNBA players DeWanna Bonner and Candice Dupree, who are raising twin daughters together despite being on different teams.

In this area — the recognition of a full life off the playing field, the acceptance that our athletes don't materialise out of thin air when they step on the field — male athletes fall short of their female counterparts.

While Serena Williams was absent on court during the US Open, she made headlines with her Instagram posts as she became a mother PHOTO: REUTERS

They remain stat-generating robots who exist solely to make our teams win: Their off-field lives aren't just irrelevant to us, they're annoying distractions from what really matters.

Colin Kaepernick's protest and subsequent blackballing by the NFL is the most high-profile example. But our insistence that male athletes keep their lives to themselves isn't limited to their political views. Every time a male athlete takes a few days off for the birth of his child, he's inevitably showered with "Where are his priorities?" complaints from fans and sports columnists. ("If they choose not to plan their nine-month family expansion activities to coincide with the eight months per year when their work activities don't entail playing games that count, why should their teams suffer the consequences?" Mike Florio at NCB wrote, succinctly summing up the mind-set in 2012.)

Players who have taken time off to deal with mental health problems are seen as weak or somehow not "focused" enough to overcome them. "To show weakness, we're told in sports, is to deserve shame," the former tennis star Mardy Fish, who withdrew from a 2012 US Open match against Roger Federer because of anxiety, told *USA Today*.

Emotional states in male athletes can even be mostly ignored or given more "comfortable" explanations. Stephen Piscotty, a right fielder for my beloved St Louis Cardinals, has had a disappointing year at the plate. A logical reason for this might be that early in the season his mother was told she had ALS. But Piscotty's struggles have not been attributed to that. Instead, "his timing is off" or "he's just having one of those years" is the preferred nomenclature.

LETTERS

Not the end of the story

It must have been unnerving for Finance Minister Arun Jaitley to find the utilisation of a staggering ₹65,000 crore as central goods and services tax (GST) transitional credits for July alone. Attributing such utilisation to a possible "mistake or confusion", the Central Board of Excise and Customs is said to have sought verification from those utilising credits of ₹1 crore and above.

One would be inclined to believe that once "mistakes" or "errors" are detected amongst such units, the verification may have to be extended to units availing credit of less than ₹1 crore as well.

This is not the end of the story. The amounts of such credits taken on value-added tax (VAT)-paid stocks that remained unsold as on July 1 are also eligible for transitional credits. State VAT authorities, therefore, have to undertake similar exercises. This would be a nightmare for both tax collectors and taxpayers.

Rules governing these complex transitional credits were notified just days before the introduction of the GST, leaving little time for traders to comprehend them for proper compliance. Despite persistent demands from all quarters, Jaitley was somewhat obdurate in not deferring the launch to September.

Till now, there has not been a formal division for exercising administrative jurisdiction over tax-paying units between the central excise and state VAT authorities. The net result is a total mess for which Jaitley as chairman of the GST Council cannot escape blame.

S K Choudhury Bengaluru

Legalise bitcoin

The Weekend article, "Biting the bitcoin" (September 16), was an interesting read. In several countries such as the USA, Japan and South Korea, bitcoins have become popular and are in regular use, be it for paying hotel bills, import-export trade, in some cases, escrow accounts, and for

making e-commerce payments. In India, bitcoin transactions are yet to be legalised.

As the popularity of this cryptocurrency rises, the government has been trying to regulate its use. Recent comments by a top official of the Reserve Bank of India are discouraging and disappointing. The government is trying to bring bitcoin transactions within the ambit of the Securities and Exchange Board of India. This goes against the interests of investors. These attempts appear whimsical; there is no need to panic so much over the bitcoin or try to ban it.

Bitcoins should be declared legal tender in India. This will likely spur economic activity and help generate additional indirect tax revenues. Banks will gain in transaction charges. Bitcoins can fulfil the government's digital push. This may also minimise black money. Stiff regulation of the bitcoin will go against the Digital India initiative.

A Sathyanarayana New Delhi

Crude politics

Daily revision of petrol and diesel prices has burdened the masses, who already have skyrocketing prices of food items, edible oils and other articles of daily use to contend with.

Even as the agrarian distress worsens, a hike in the prices of petrol and diesel by about ₹5 per litre and ₹7 per litre, respectively will aggravate the crisis, as there would be a cascading effect on people's livelihood.

Globally, when crude prices were falling between 2014 and 2016, the government had raised the excise duty on petrol and diesel and earned about ₹3 lakh crore from July 2014 to March 2017.

The petroleum minister's remark that global crude prices have risen due to factors such as Hurricane Harvey in the US does not hold up. Harvey hit the US two weeks ago, whereas prices of petrol and diesel have been rising since May 2014.

The government should not play politics with the people on petrol and diesel prices. It should revise petrol and diesel rates in line with international crude prices, given that India imports 80 per cent of crude.

S K Khosla Chandigarh

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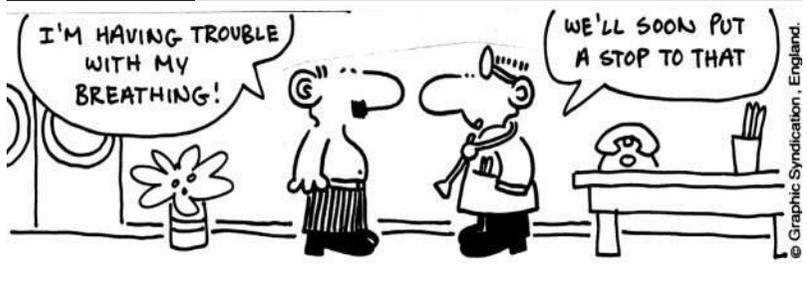
HAMBONE BY MIKE FLANAGAN



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Worrisome trade data

Overvalued Indian rupee needs attention

The data released last Friday revealed that India's current account deficit in the first quarter of 2017-18 is at its highest level in four years, at 2.4 per cent of gross domestic product (GDP), or $14.3 billion. This was driven by rising imports of gold, which were 69 per cent higher year-on-year. Imports overall rose by over 20 per cent year-on-year in August, while exports rose by only 10 per cent. Thus, the trade deficit in the month increased to $11.64 billion; it was $7.7 billion in the same month last year. Fortunately, there is no immediate threat of a crisis, since foreign exchange reserves crossed $400 billion earlier this month. But the trend is clear and worrying: Exports from India are simply not keeping pace with those from peer countries, and India's share of world trade does not look like it is increasing appreciably.

Jobs will not be created unless there is a major increase in manufacturing, particularly in labour-intensive sectors. And domestic demand will not be sufficient to ensure that this manufacturing increase happens on the scale required. As such, exports remain necessary. But labour-intensive sectors such as textiles and garments are also frequently cost-sensitive, and Indian exports are simply not competitive enough. On the one hand, it is necessary to ensure that efforts to reduce paperwork and costly over-regulation are continued and intensified. On the other, however, the effect of an over-valued currency on competitiveness should not be denied. On September 8, the rupee dropped again below the 64-to-a-dollar mark. Since January this year, the rupee has gained six per cent against the dollar. This is a reduction in margins or decrease in competitiveness, which exporters can ill afford.

It is part of a longer trend, since the "taper tantrum" period of 2013, in which the rupee has generally been far more expensive than, it appears, India's trade position would warrant. What is the reason for this? Partly it is that foreign inflows have been so robust. While this fact is generally seen as a triumph of confidence in India, it is worth noting that it has had a problematic effect on the exchange rate. Since January, foreign institutional investors have bought $6.6 billion in Indian equity and $20.3 billion in Indian debt. This will naturally lead to a tendency for the rupee to appreciate. Equity, perhaps, should not be such a concern; such flows can reverse, and indeed they may have already begun to do so. But debt is a different issue. It is worth examining what the caps on foreign investment in debt are currently, and whether they are harming India Inc, by reducing competitiveness via an increase in the rupee's value, more than they are helping it by allowing companies to access new sources of funds.

The Reserve Bank of India's actions should also be examined closely. Comfort with record reserves could change under certain circumstances; for example, instability in West Asia could spike oil prices. It is not certain, therefore, whether the RBI has built up enough reserves in this period since 2013, an action which would have also allowed it to fight back the rupee's tendency to appreciate. Clearly, business-as-usual cannot be allowed to continue, and some hard decisions will have to be taken.

Good tidings from Japan

The growing friendship comes at a crucial time

Prime Minister Narendra Modi can look back with a lot of satisfaction at the recently concluded visit of his counterpart in Japan, Shinzo Abe. Nothing broadcast the warmth and spirit of cooperation between the two Asian countries better than Mr Abe's resolve that Japan would be India's friend forever. The growing convergence on strategic issues and the mutual understanding comes at a crucial time for both the countries. Japan, as the most important US ally in the Pacific, is facing sustained provocation from North Korea even as China aims to extend its control over the region. India has just avoided a clash with the Chinese over Doklam and successfully negotiated the BRICS Summit in Xiamen by building diplomatic pressure on Pakistan towards controlling terror groups originating from it. That Japan was the only country that publicly supported India during the Doklam face-off suggested a realignment taking place. The promise of increased cooperation across various sectors from the railways to nuclear power to counter-terrorism bodes well for India's geopolitical heft in the region and it is something that Mr Modi could count as an achievement.

From India's perspective, possibly the biggest plus at the geo-strategic level has been the further strengthening of its narrative against Pakistan, providing a safe haven to terror outfits. The joint statement, issued at the end of the visit last week, clearly mentioned Lashkar-e-Taiba (LeT) and Jaish-e-Mohammad (JeM) for the very first time. Combined with a similar success in the BRICS Summit, this will further bolster India's stance against Pakistan-based terror and India's negotiating position internationally. The other big achievement was the reiteration of well-laid international norms related to the development of cross-border connectivity (in an obvious reference to China's One Belt One Road initiative) or the freedom to navigate and use for commerce the broader Indo-Pacific region. The latter, without actually mentioning in so many words, included the developments in the South China Sea. The fact that the credibility of the US's influence at the international level has seen a distinct dip in the recent past makes this proximity with Japan all the more important for India. A better understanding with Japan will hold India in good stead when dealing with China in the future.

Within the country, however, the visit of the Japanese PM was devalued by the pointless, yet vigorous, debate surrounding the bullet train, which is scheduled to run between Ahmedabad and Mumbai in a few years. That the country has seen a flurry of train derailments in the lead-up to the announcement of the bullet train — in fact, a Rajdhani derailed the very same day — has justifiably made everyone question the government's ability to provide safer rail travel. The fact is, the money available for the bullet train cannot simply be used for other purposes. Moreover, having a bullet train does not hold back the government from investing in improving railway safety. The project will not only provide thousands of jobs but could also be an engine for growth in the times to come, apart from providing key technical lessons.

ILLUSTRATION BY AJAY MOHANTY

A great churning

Reforms are needed to pave the way for the exit of weak firms so that labour and capital can move to healthy ones

SNAKES & LADDERS

AJAY SHAH

High- and low-productivity firms manage to coexist in India when low-productivity firms cheat on compliance. To the extent that a sound GST improves compliance, many low-productivity firms will exit. A sound GST will also disrupt many vertically integrated firms and we will see more trades between specialised industries. The banking crisis has slowed the traditional ways of ever-greening, which keeps zombie firms aloft. RBI reforms, the Insolvency and Bankruptcy Code (IBC), and the resolution corporation will help shift capital from weak firms to healthy firms. These factors suggest that a large restructuring of the economy is underway. This is a daunting scale of churning in the economy. Done right, this will give a new wave of GDP growth. Implementation teams in government hold the key.

Three forces are now reshaping the Indian economy. The first is the impact of the goods and services tax (GST) on low-productivity firms. Under normal conditions, competition in markets induces creative destruction. Weak firms exit. This improves the supply of labour and capital to healthy firms at lower prices. It also improves the pricing power of healthy firms. When capitalism works, the exit of weak firms improves the profitability of healthy firms.

This is not what we see in India. High-productivity and high-compliance firms coexist with low-productivity and low-compliance firms. Low-productivity firms survive by violating health/safety/environment regulations, and cheating on taxes. This harms overall productivity and GDP. The self-enforcing nature of the GST will reduce cheating on taxes. Many firms will be forced to either raise productivity or exit.

The second element is also related to the GST. In India, we have traditionally had taxation of transactions. In the delicate jargon of public finance, all transaction taxes are "bad taxes". If production is organised as firm A making engines and firm B making cars, then the taxation of transactions results in double taxation. This encourages vertical integration: Automobile companies would prefer to make their own engines. However, the essence of high productivity is specialisation. A sophisticated economy is one in which there are a large number of highly specialised firms that trade with one another.

The GST reduces the extent of taxation of transactions and thus reduces the artificial incentive for vertical integration. Many firms have gone through great pain in recent decades to achieve vertical integration. These firms will encounter difficulties when India achieves more specialised industries that trade intensively with one another.

The third element is about zombie firms. In an ideal world, when it is clear that a firm does not work, it should be rapidly dissolved. In India, these walking dead have been kept alive by injections of capital from banks. This process is coming under increasing stress. Any one operational creditor who is not paid on time can trigger the IBC. Any one employee who is not paid a salary on time can trigger the IBC. Any one financial creditor can trigger the IBC. Once any one person initiates the IBC proceedings, it becomes impossible for banks to keep up the facade of a standard asset.

High-productivity firms will be able to bring in enough equity capital and run a tight finance operation so as to make all payments on time. Low-productivity firms will stumble. This will give more exit of low-productivity firms. A Joint Parliamentary Committee of Parliament is examining the law that creates the "Resolution Corporation" (RC), envisaged by Justice Srikrishna's Financial Sector Legislative Reforms Commission (FSLRC). This will improve the pace of exit of weak financial firms, and thus bring greater discipline upon the use of financial capital in the economy.

These three forces add up to a large-scale churning of the economy. Each of the three will impact upon the length and breadth of the country, upon firms large and small. Even with the best implementation teams on the policy side, there will be a slow process of reconstructing Indian capitalism in these directions. This will require new conceptions of the boundary of the firm, and of processes and technologies within firms. These changes call for building new kinds of organisational capital in all firms.

As an example, there will be opportunities for high-productivity firms to grow dramatically. These firms may be able to buy going concerns or assets that come up for sale through the IBC. These firms will see an economy with lower wages, cheaper capital, and higher product prices. Their challenge will be in reshaping themselves to harness these opportunities.

These are valuable and positive features of the outlook for India. However, there are four bottlenecks in the zone of public policy. What do policymakers need to achieve?

A sound GST is one with a single rate, a low rate, a comprehensive base, and a unified and capable administration.

Bankruptcy reform requires the following inputs: Fixing the mistakes in the 2016 law; building the Insolvency and Bankruptcy Board of India (IBBI) into a high-performance organisation; sound regulations; three new private competitive industries for information utilities (IUs), insolvency professionals (IPs), and insolvency professional agencies (IPAs); a capable National Company Law Tribunal and Debt Recovery Tribunal; correcting mistakes in regulation which shapes how financial firms use the levers of the IBC; and correcting mistakes in regulation which hampers the pool of buyers for distressed assets.

RBI reforms are required to put banking regulation and supervision on a sound footing.

The Resolution Corporation requires enacting a sound law. After the FSLRC report of 2013, the Ministry of Finance had set up a "Task Force on the Establishment of the Resolution Corporation" led by M Damodaran, in 2014. It has written an implementation plan for constructing the Resolution Corporation. This plan needs to be put into motion so that a high-performance organisation is built rapidly.

If good implementation teams are put into these four areas, India will translate this phase of structural change into stunning growth. If weak implementation persists, this great churning will turn into a decade long stagnation. The hour is very late, and the choice between triumph and tragedy knocks at our door.

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

Bankruptcy Code being gamed from the start?

IRRATIONAL CHOICE

DEBASHIS BASU

Almost everybody believes that the problems of bad debt-laden public sector banks can be fixed with the new Insolvency and Bankruptcy Code (IBC). Well, they might like to know that the IBC is already off to a rocky start. The Act, stylishly called the Code, allows for the creation of a massive bureaucracy and multiple levels of professionals who will all need certification (more bureaucracy and costs in an already high-cost economy). This bureaucratic superstructure is all very wonderful in an ideal world. When the Act was formulated, a friend of mine pointed out to me, cynically, that Indians have a natural tendency and skill to game any system. How can we ensure that the justice system and insolvency resolution professionals work fairly, he asked. I had dismissed that comment since it would take time for the rot to set in and it would only be fair to give the Act a chance.

However, it didn't take too long for my friend's cynicism to come true. Charges of malpractice are being levelled from the very first case up for resolution. About 10 days ago, Edelweiss Asset Reconstruction filed a complaint with the National Company Law Appellate Tribunal (NCLAT) that the first case of resolution under the IBC involving Synergies Dooray Automotive Ltd was a fraud and a sham. Later Edelweiss complained against resolution professional (RP) Mamta Binani, involved in the Synergies Dooray case, to the Insolvency and Bankruptcy Board of India (IBBI), alleging she conducted herself in a partisan manner and acted without taking approval from the committee of creditors. Binani has refuted these allegations. Edelweiss has complained that Binani refused to investigate allegations of fraud perpetrated at Synergy Dooray. She also did not seek expert legal advice and obtain clarity on her role as the insolvency resolution professional, alleged Edelweiss.

The resolution of Synergies Dooray under the bankruptcy resolution system indeed seems to be a sham. Synergies Dooray made an application to the National Company Law Tribunal, Hyderabad, for resolution. Resolution plans were submitted by the three resolution applicants (RAs): SMB Ashes Industries, Synergies Castings Ltd (SCL), and Suiyas Industries P Ltd. Of these, no details are available for the first. Synergies Castings is a group company of the borrower with significant bank loans of their own. Suiyas has a paid-up capital of just ₹25 lakh, too small to make this bid. A committee of creditors (CoC) was formed and it included Edelweiss ARC, Alchemist ARC Ltd, Millennium Finance Ltd, and Synergies Castings Ltd (SCL). Among these, Edelweiss had a voting strength of 9.84 per cent, Alchemist of 13.83 per cent, Millennium Finance of 76.33 per cent, and Synergies Castings no share of vote since it was a related party.

The CoC rejected the plan of two RAs and accepted that of SCL, a promoter group company. This involved paying only 4.84 per cent of the debt outstanding. Quite clearly, Millennium Finance, with its brute voting power, backed the promoters' plan, allowing them to come back and throw some crumbs to the debt holders in the process. Is this the kind of insolvency "resolution" we will get from now on? SCL and Millennium have certainly offered a template for Indian promoters who cannot pay the bank but want to hold on to their companies. Here is the template: SCL had held 75 per cent of debt of the defaulter. It had transferred a significant chunk of loans to Millennium Finance Ltd. This enabled Synergies Castings to put in place a proxy (Millennium) in the committee of creditors. Interestingly, an expert has publicly welcomed the "resolution" of Synergies Dooray as an example of lenders' openness to take a large hair cut! Edelweiss has filed an appeal in the NCLAT on September 8 against the resolution plan.

If the IBC has to work, it would be critical to do some course correction. Under Section 29, the RP is required to prepare an information memorandum and invite RAs to bid. The best of these bidders has to take over the distressed company. In other words, an ideal resolution process must have enough competitive bids, efficient price discovery, and, eventually, maximum credit recovery. If this core process is compromised, it's a sham. In the worst case, it would mean ticking the boxes to benefit the promoter coming back. In the case of Synergies Dooray, two non-descript parties bid for a large corporate. Rajendra Ganatra, an RP who was also an IDBI director in Synergies Dooray in 2003, says "by not stipulating proper financial and technical qualification criteria, such non-descript parties were allowed, with three so-called resolution applicants, the process was undermined, just to allow the promoter group to walk away with the assets. It was a stunted and inefficient process". The Synergies case is just the tip of the iceberg. There would be many loopholes. As I have mentioned twice already, the IBC is a flawed architecture.

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Hillary's story

BOOK REVIEW

JENNIFER SENIOR

Hillary Clinton has written a book. Have you heard?

Choice quotes have been seeping out for weeks, and I'll admit that I reacted to one of them — "Now I'm letting down my guard" — as if the smoke alarm had started shrieking in my living room. Why believe her? In her previous books, she measured her words with teaspoons and then sprayed them with disinfectant.

Then again, we've been told over and over that Clinton is very different in private. And she is now a private citizen.

This distinction seems to have made all the difference.

What Happened is not one book, but many. It is a candid and blackly funny account of her mood in the direct aftermath of losing to Donald J Trump. It is a post-mortem, in which she is both coroner and corpse. It is a feminist manifesto. It is a score-settling jubilee. It is a rant against James B Comey, Bernie Sanders, the media, James B Comey, Vladimir Putin and James B Comey. It is a primer on Russian spying. It is a thumping of Trump. ("I sometimes wonder: If you add together his time spent on golf, Twitter and cable news," she writes, "what's left?")

It is worth reading. Winning the popular vote by nearly 3 million may not have been enough to shatter the country's highest, hardest glass ceiling. But it seems to have put 2,864,974 extra cracks in Clinton's reserve.

Are there moments when *What Happened* is wearying, canned and disingenuous, spinning events like a top? Yes. Does it offer any new hypotheses about what doomed Clinton's campaign? No. It merely synthesises old ones; Clinton's diagnostics are the least interesting part of the book.

But this book is not just a persevera-tive recap of 2016. It is the story of what it was like to run for president of the United States as the female nominee of a major party, a first in American history. The apotheosis of Leaning In. Doesn't this experience rate an account from Clinton herself?

More generally, something truly extraordinary happened in American politics last year, and Clinton was at the centre of it. Fifty years from now, are historians going to complain that she had no business offering her perspective?

"I was running a traditional presidential campaign with carefully thought-out policies and painstakingly built coalitions," she writes, "while Trump was running a reality TV show that expertly and relentlessly stoked Americans' anger and resentment."

The first two chapters of *What Happened* are wry and dramatic. Clinton recounts the otherworldliness of Inauguration Day — she briefly imagined herself in Bali — and the bleak weeks following the election, when she watched bad television, got in touch with her inner Marie Kondo and did lots of yoga.

The best, most poignant parts of *What Happened* reveal the Hillary Clinton that her inner circle has assured us was lurking beneath the surface all along: A woman who's arch but sensitive. She writes that she's astonished whenever someone else is astonished to discover she's human. "For the record," she writes, "it hurts to be torn apart." She doesn't even bother describing her reaction to the ticker of contumely that's whirred above her head for most of her adult life, though she does write about how "incredibly uncomfortable" it was to be stalked on stage by Trump during the second presidential debate.

Far more controversial and complicated, surely, is the rest of *What Happened*, starting with Clinton's arguments about the role of misogyny and sexism in the election. It's hard to buy the idea that she suffered disproportionately from charges of untrustworthiness or inauthenticity simply because she was a woman. Her husband was considered so eely that the tabloids christened him "Slick Willy," and plenty of male presidential candidates (Mitt Romney, John Kerry) were regarded as catastrophically insincere.

More persuasive is Clinton's contention that presidential politics, especially compared to parliamentary politics, favours arena-filling showmanship rather than the quieter, detail-oriented realism she prefers. And 2016 was nothing if not the year of the blusterer. One of the things that drove Clinton bonkers about Bernie Sanders was that he always managed to outdo her proposals with something larger and less feasible. "That left me to play the unenviable role," she writes, "of spoilsport schoolmarm."

You may have heard that *What Happened* is angry. It's true. Or defiant, anyway. Love it or loathe it, chafe at it or cheer it; you will now see, for the first time, what it looks like when Clinton doesn't spend all of her energy suppressing her irritation. As her book's title implies, Clinton has her own version of what happened in 2016, and she eventually forces readers to reckon with it. She seems at once the best and worst possible person to carry out this assessment. But here, at any rate, is her bottom line:

Comey's letter of October 28, 2016, which notified Congress that he was reopening his investigation into Clinton's use of a private email server to conduct State Department business, effectively ended her candidacy. (She leans heavily on various analyses done by the data maestro Nate Silver to make her case.) Combine that letter with the full-saturation media coverage Comey's investigation had been getting all along, and then add to it Russian interference — fake news stories on social media, email hacks — and you have the perfect storm.

It's hard to say whether readers will buy these explanations. It's possible that a more inspired candidate would have won the electoral college, simple as that.

We'll be arguing about these questions for decades, surely. But one thing we know for certain: History conspired against Clinton. No non-incumbent Democrat has succeeded a two-term Democratic president since 1836, and 2016 was a year when voters were pining for change. Bigly.

In spite of that — in spite of everything — Clinton still won the popular vote by almost 3 million. But it didn't matter. What happened is, it wasn't enough.

WHAT HAPPENED
By Hillary Rodham Clinton
Simon & Schuster
494 pages; $30 (Indian price: ₹699)