

Burdened with Indiranomics

The Modi government shows a fascination for rejecting everything Nehru stood for, while embracing his daughter's political economy.



SHEKHAR GUPTA

week when India is observing the 45th anniversary of the victory in the 1971 war, the high point of Indira Gandhi's leadership.

Here is a proposition then: the Modi and the broadly shared Rashtriya Swayamsevak Sangh (RSS) worldview is built on a strong repudiation of Jawaharlal Nehru and all he stood for. But an admiration, desperation, to replicate the method, style and politics – especially political economy – of Indira Gandhi.

Let's begin with the government's favourite economist, Professor Jagdish Bhagwati. In his belated defence of *notebandi* last week, he reminded us that he had also taught Indian Constitution at Columbia University in the US for many years and could say for sure there was nothing illegal about the government denying the citizen rights over its legal tender. One of the earliest constitutional amendments, he pointed out, had empowered the state to seize citizens' property for "social" purpose, of course after paying a compensation. Or, he said, abolition of privy purses would have been struck down by the Supreme Court.

We are not asking what compensation was given to the loser princes because that will be neither popular, nor relevant to the issue at hand, which is, that one reputed to be our most committed, pro-reform economist, uses a socialist amendment that bred some of the worst kind of povertarianism under the Congress, especially Indira Gandhi, in defence of another use of brute state power

forcing the country and its economy in disarray. What kind of pro-reform, "less government-more governance" leadership displays such faith in the ability and intentions of the state, justify such sweeping use of its powers, or a state-mandated restructuring of monetary system so massive it would be the equivalent of eight on the Richter scale. A planned change so huge, even PC Mahalanobis, founder of the Indian Statistical Institute and member of the first Planning Commission, would not have imagined possible in the days of Soviet-style planned economy.

This is not personal, and this isn't about Professor Bhagwati either. We know the history, and human chemistry, enough to understand the need for a default position in counter once one of the two greats, Professor Bhagwati and Amartya Sen, has spoken on an issue. The key point is how, from the prime minister who came to power on the promise of economic reform and growth – with a track record in Gujarat – and to his most admired global economist, we are now seeing an admiration for Indira Gandhi's style, methods, even her disastrous economics. Put it another way: How does the prime minister whose first reformist act was to abolish the Planning Commission, now railroad the most centralised transformation in the national economy since bank nationalisation?

No official commemoration of the 1971 victory has given Indira Gandhi much mention through this week, which is understandable. But if you explore the Narendra Modi politics, you can find parallels with her style, and also a grudging admiration. The ability to take institutions in your stride, as if these were no more than minor irritants. Passing a most important income tax act amendment that restores the discretionary power of the taxman at the lowest level and thereby can potentially damage liberalisation of 25 years, without a line in discussion, by a voice vote

(commotion, or *halla* as we prefer to say in our politics) in the Lok Sabha. Or returning more than half of the high court judges' appointments proposed by the Supreme Court Collegium. Using Treasury benches to stall Parliament after cursing the Opposition for having done just that so far. Or reducing the stature of the governor of the Reserve Bank of India to the equivalent of an anonymous joint secretary in the Ministry of Finance, where its civil servants hold forth on

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daily changes in currency policy and where a junior finance minister announces that the government is going to cut tax "and interest" rates in next Budget.

Most importantly, it reflects also in the view expressed by more than one powerful supporter and ideologue of this government that nothing works in India with persuasion. The government has to enforce change, if it needs to use brute force to that end, so be it. There is wariness with procedure, institutions,

whether these are apex committees of the Cabinet or the highest judiciary, irritation with paperwork (barring currency notifications which change at the pace of a T-20 scoreboard) and a total rejection of the "system". This is precisely what Mrs. Gandhi did to the system she inherited from her more "proper" father and his unfortunately short-lived successor Lal Bahadur Shastri.

Spurred perhaps by the setbacks of the 1967 elections, she embarked on a project of dismantling that "system," reducing her Cabinet and party leadership into "yes-men", undermining other institutions, demanding "socially committed" judiciary and bureaucracy, fuelling a new sense of hyper-nationalism, anti-West xenophobia, *swadeshi*, import-substitution pride and most importantly, extreme, and equally insincere socialism. The RSS has never really questioned most of these in principle as much as they detested Nehru's philosophy and policies. Their admiration for Indira Gandhi also came from the acknowledgement that in her tenure, especially 1969-77, she dismantled much of the moral, liberal democratic edifice Nehru had built. Who better to destroy Nehru's legacy than his own daughter. Mrs. Gandhi came up to those expectations fully by suspending citizens' rights and putting her opponents in jail, something Nehru would never have dreamed of. The basic Modi-RSS proposition is also a tough government, willing to use the "danda" where "needed" and not get distracted by pestilence like media, civil society or overzealous busybodies like experts, technocrats, judges.

Whether now, or in the pre-Modi era, the BJP-RSS criticism of Indira Gandhi has more or less been limited to her political actions, not her economics. Even when the Janata Party came to power, defeating her in 1977, most of her illiberal political laws and actions were set aside, but economic ones were retained. Nobody wanted to question her

fake socialist ideas. In the second half of his tenure, Atal Bihari Vajpayee made a beginning, privatising some key public sector companies. But it ran into immediate opposition from the RSS, as did his wary openings to a globalised economy and a post-Cold War political order. Brajesh Mishra, who fronted both of these policies, was painted as foreign (American)-inspired fifth columnist in his core group.

With the rise of Narendra Modi, the expectation was a clearer repudiation of Indiranomics, particularly given his reputation in Gujarat. At half-way mark, the conclusion has to be that he has confined his ideas of fundamental change to Nehru's "woolly-headed" ideas of liberalism (the word liberal is now a pejorative), pacifism and hard secularism. All of Indira Gandhi's bad economic ideas are being strengthened, from nationalised banks to anti-poverty, handout *yojanas*. The big, suspicious state is back, with its heavy hand, raiding taxmen, rampaging policemen, the CCTV camera. Not only has the Modi government refused to privatise any old public sector yet, it has carried out the first nationalisation in a long time (several tea gardens in Assam on the eve of Assembly elections earlier this year) and announced the revival of nearly two dozen fertiliser plants.

The Indira-esque idea of Big Government comes with its own baggage. It includes an impatience with institutional checks and balances, diminishing trust in the individual citizen and exaggerated faith in the civil servant. John Maynard Keynes has been a much quoted man lately. It is time to pull out one of his less famous lines: "The difficulty lies not so much in developing new ideas as in escaping from old ones." We can say the really bad old ones, like Indira Gandhi's style of politics, governance and, most importantly, economics.

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2017: TIME FOR ASIA TO TAKE RISKS



ANDREW SHENG

crisis erupted in 1997, followed ten years later with the global financial crisis (more accurately the North Atlantic financial crisis).

Will 2017 mark the outbreak of another severe financial crisis, particularly in the emerging markets?

The common thread linking all four events is the US dollar.

In 1917, after the First World War nearly bankrupted Great Britain, the US dollar began its ascendancy over pound sterling, which was confirmed after the Second World War three decades later.

The Latin American crisis of the 1980s and the 1990s Asian financial crisis were associated with periods of dollar strengthening.

The US subprime crisis in 2007 was the result of the US not monitoring the fragility of the mortgage market, super-charged by toxic derivatives and sold by over leveraged investment banks.

But the dollar's role became pre-eminent when the Eurozone debt crisis broke out in 2008, because it was the swaps by the Fed with five major central banks that provided the liquidity to contain worldwide crisis contagion.

The 2007 global financial crisis marked a watershed in global economic affairs.

Many thought that the crisis that hurt the US and Europe would confirm the rise of the emerging markets, especially the BRICS economies.

Initially the emerging markets, particularly

the commodity producers, powered ahead, after China embarked on its 2009 investment splurge.

But once China slowed down to correct its credit excesses in 2014, commodity prices collapsed.

Today, many emerging markets, including those in Asia, are facing declining trade, lower balance of payments surpluses, slower growth and loss in foreign exchange reserves.

In November 2016, when American businessman Donald Trump unexpectedly won the US Presidential elections, there was another dollar tantrum, in which capital flew out of the emerging markets, causing sharp depreciation pressure on almost all currencies, including the Chinese RMB.

In a recent review of Asia in the global economy, Fed Governor Jerome Powell argued that the global trade slowdown may be structural and that emerging markets may have to re-think their export-led growth strategy.

Competing depreciation of emerging market currencies may be self-defeating, since recent research by the BIS showed that growth

and exchange rate appreciation are positively correlated, particularly for the emerging markets.

The problem is not that emerging economy growth or currencies are weak, but that the dollar is stronger.

The April 2016 BIS Triennial FX survey showed that the dollar retained its position as the dominant reserve currency, accounting for 88 percent of currency trading (in pairs), equivalent to 44 percent of all foreign exchange trading.

The survey also showed that emerging market currencies, particularly the Renminbi, had gained ground in market turnover at the expense of the Euro, Sterling and Yen.

But the emerging market currency trading was paired mainly against the US dollar, reinforcing its premier position.

The US economic recovery demonstrates the old dictum that he who reforms fastest is the first to recover after a crisis.

Ten years after the 2007 crisis, there are still doubts over structural reforms in Europe and Japan, whereas the lack of reform progress in many Asian economies has slowed their ability to respond to the return of a strong dollar.

The real reason why a strong dollar is associated with slower global trade is that with trade denominated in dollars, any volatility in non-dollar currencies widens the credit and currency spreads that make trade more expensive.

Furthermore, the new banking reforms restrict the role of US and European banks in market-making foreign exchange business, making offshore dollars more expensive than onshore dollars.

Here-in lies the dilemma facing Asian exporters. As competition narrows the margins from export trade, currency depreciation in local currency widens the transaction costs, making exports less profitable and imports more costly.

The obvious strategy, as recommended by Powell, is to switch to domestic consumption, but many smaller Asian economies do not have large domestic markets.

Moreover, as China, India and other larger emerging economies begin to upgrade their productivity and competitiveness, smaller middle-income economies will find their manufacturing sectors hollowing out.

There is a risk that countries will protect their economies with various forms of capital controls, which effectively create more barriers to trade.

Global trade is not going to be helped by the likely collapse of the Trans-Pacific Partnership (TPP), which Trump openly opposes.

The Chinese-led Regional Comprehensive

Economic Partnership (RCEP) to promote a free trade area amongst Asean countries and six major trading partners (China, Japan, South Korea, India, Australia and New Zealand) promises much, but will take time to reach agreement.

As the old Chinese saying goes, distant water cannot save nearby fires.

The irony facing Asia is that it remains a global growth region with surplus savings, but these savings are increasingly hoarded in dollars, rather than being channelled to many Asian economies that need foreign exchange to keep their growth momentum.

This begs the question whether Asian financial centres can become hubs to intermediate Asian savings to Asians and other emerging markets, rather than being sub-hubs of Wall Street and London.

As American and European banks begin to pull back to their home markets, under the weight of new regulations on risk-taking, Asian financial institutions are not quite ready to fill in the gaps, partly due to the exact same new risk-adverse regulations.

Asian regulators have themselves to blame for not appreciating that these global regulations are hampering their own economies' needs to grow. Growth is itself a risk. To be risk adverse, as these new regulations require, is to fear growth.

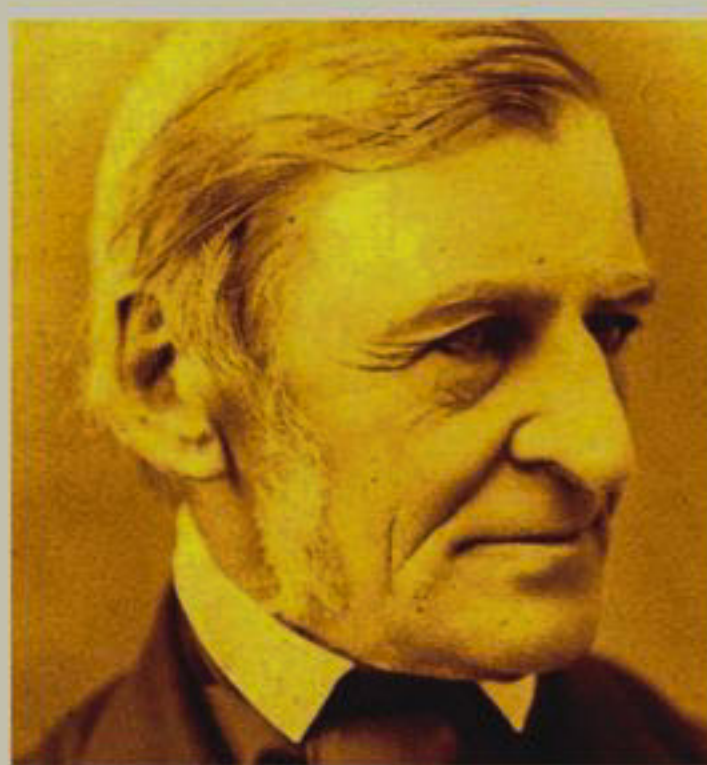
In other words, Asian policy makers must take bigger risks to overcome the mental and regulatory barriers that present headwinds against growth. At a time when the growing populations of Asia demand faster growth, no growth is the bigger risk.

Time to take some tough decisions.

The writer, a Distinguished Fellow with the Asia Global Institute of the University of Hong Kong, writes on global issues from an Asian perspective, for the Asia News Network.

This is a series of columns on global affairs written by top editors from members of the Asia News Network and published in newspapers across the region.

QUOTABLE Quote



RALPH WALDO EMERSON

American Essayist, Lecturer, and Poet

To be yourself in a world that is constantly trying to make you something else is the greatest accomplishment.

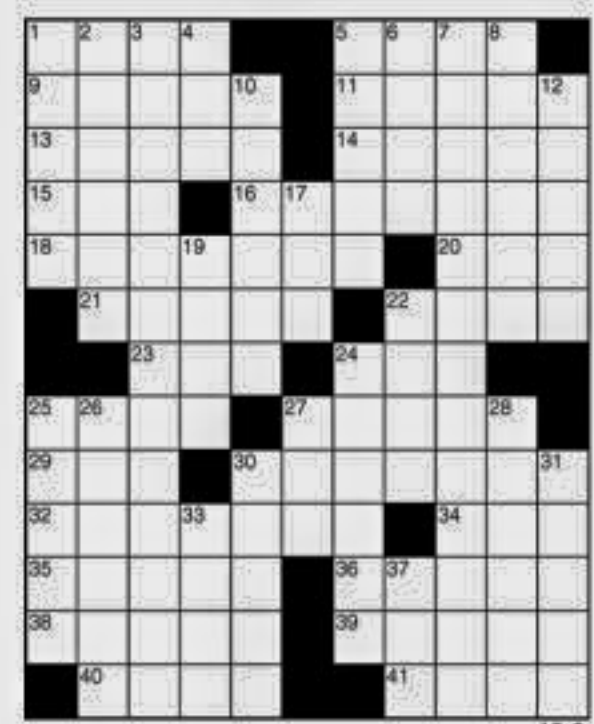
CROSSWORD BY THOMAS JOSEPH

ACROSS

- Wilson's predecessor
- Quick second
- Market-place
- Gay (WWII bomber)
- Does KP work
- Tempress
- Brunched
- Fried, in a way
- Black eyes
- Bar cubes
- Bond, for one
- A very long time
- DC baseballer
- Home in the woods
- Captivated
- Mislike holders
- Bustle
- Uses semaphore
- "Gigi" author
- Gym unit
- Writer Jong
- Inquisitive one
- Home design
- "Superman" star
- Unit of force

DOWN

- Spanish snacks
- Christie of mysteries
- State Department responsibility
- Uno plus due
- One of the Alou brothers
- "What's -- for me?"
- Export's destination
- Rip off
- Agreement
- Llama's land
- Cunning
- Orderly
- A very long time
- Makeshift bookmark
- Sped
- Put on a pedestal
- Smidgen
- Shirt part
- Gawk
- Bender
- Bus, course
- Poseidon's home



YESTERDAY'S ANSWER



BEETLE BAILEY

by Mort Walker



BABY BLUES

by Kirkman & Scott

