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Consumer power

Both India Inc and the Centre need to learn the right lessons from the surge in festival spending

Indians splurged ₹19,000 crore in just six days at Amazon's 'Great Indian Festival' and Flipkart's 'Big Billion Day' sales. The combined gross merchandise value of the e-commerce majors from this season's festive sale was 30 per cent higher than 2018 and 77 per cent more than the year before. Elsewhere, India's largest carmaker Maruti Suzuki posted its first increase in sales after seven months. It sold 48,000 cars on Dhanteras day alone. The white goods and home appliances sector too registered a 25 per cent increase in volumes. What do these numbers indicate? Some would like to use these facts to deny the obvious slowdown. But the real message for manufacturers, retailers and the government is that consumers are willing to spend if they see real value. In other words, if the price is right. When consumer confidence is low, as the RBI's bi-monthly Consumer Confidence Surveys reveal, people tend to hold back their spending. They did just that, and saved up over the last few months. But when brands enticed them with good discounts, they dropped their reticence and took the bait. There is a signal lesson here for manufac-

turers, who have been looking to the government to bail them out with tax sops — in these difficult times, it is better to drop margins and push sales volumes up, rather than hold on to high margins and not sell at all. Some manufacturers appear to have understood this, and have extended their ongoing discounts till the end of the year. This could bode well for the economy.

But the Centre, which should be happy that the industry is doing its bidding (its initial plan to offer people sops to boost consumption was given up as fiscal math went haywire), may come in the way. Media reports suggest that Centre is looking into the deep discounts that e-commerce giants offered to see if they had violated any foreign investment rules. This followed the Confederation of All India Traders (CAIT), a body representing the brick-and-mortar retailers, accusing them of adopting predatory pricing. Amazon and Flipkart have denied these charges. The CAIT also blamed the fall in GST revenues on the deep discounts offered by the e-commerce players. For a government which has achieved just 37 per cent of the GST target in the first six months, this charge may sound compelling. But discounts are an established practice to boost sales in a depressed market, and as long as the GST is paid on the final price, there is no irregularity.

Accusations of predatory pricing should be referred to the Competition Commission of India, which is best placed to handle it. It is after a while that the consumers have got some pricing power. Allowing market forces to have free play has always worked in the long run. Competition laws should be implemented effectively to curb anti-competitive practices. Using policy power to force markets in a certain direction distorts markets and is anti-consumer.

Slowdown: Aligning responses to causes

There is a need to address immediate issues, such as collapse in credit following the NBFC crisis. A fiscal boost is also needed



ASHIMA GOYAL

Many of the controversies on responses to the current economic slowdown can be traced to ideological positions that obscure a clear diagnosis of the causes and the required alignment of policy.

Different ideologies

The Rightist view is that the cause of the slowdown is inadequate reforms, and the solution is more reforms. Since the ideology says that markets work, any slowdown is due to impediments (largely created by the government) that need to be removed. So the cause is structural and the solution is also structural. Since remedies proposed are largely supply-side and long-term, they cannot reverse a demand-led slowdown that can become entrenched and persistently lower potential growth.

A remedy the Economic Survey proposes, for example, is to raise exports. But this is difficult to do during a global slowdown, and is not going to give quick results. The data clearly shows the slowdown since 2018 is due more to a consumption slowdown than an export deceleration. Then why not address the immediate cause?

The Leftist view is that transfers to the poor are inadequate and the solution is more transfers, since the poor have a larger propensity to consume. The MGNREGA and PM-Kisan schemes have been pumping money into rural areas without visible effect. The call is for more of the same, financed by taxes on the better off. But reforms just got India out of a stagnation caused partly by high taxes. They go

on to suggest structural causes such as a rise in inequality on a market-led growth path that has slowed job and income growth and emasculated consumption. But market reforms have been going on for 30 years now. Why would it lead to a slowdown in 2018 specifically?

It is necessary to identify and respond to the immediate causes of the slowdown. It is also necessary to distinguish between short-run policies that act on demand and long-run policies that improve supply. The market view neglects demand and the Leftists neglect long-run supply capabilities. Demand stimuli consistent with reform need to be identified and implemented. Reform measures that improve consumer and investor sentiment need to be acted on first; those that impose short-run costs can be avoided for now. Corporate tax cuts with removal of exemptions are an example of the former. They are also strategic, since they increase opportunities for India with respect to the current US-China trade war and decoupling.

Immediate causes

Real interest rates became high as inflation fell with soft oil prices after 2014, but nominal rates were not lowered adequately. Liquidity conditions became extra tight in 2018, because foreign outflows were not compensated for. After the 2015 AQR (asset quality review), lending from banks slowed. NBFCs picked up the slack propelled by all the liquidity coming into the formal financial system after demonetisation. As a result, output growth remained robust until mid-2018.

But with the problems in IL&FS in the second half of 2018, extreme risk aversion set in and credit to NBFCs slowed. They lent long-term on the basis of short-term borrowings, and were particularly vulnerable to rollover risk. Since they had no access to a liquidity window, even the better NBFCs began hoarding credit, result-



First priority Reforms that boost sentiment need to be pushed ISTOCKPHOTO

ing in a large fall in credit growth. Both consumption and investment slowed. Export growth also fell due to global slowdown and excessive appreciation.

India's dependence on oil imports also rules out too much currency depreciation. Therefore, export competitiveness must come largely from long-run supply-side reforms that lower costs of doing business. The limit to depreciation implies domestic demand must take priority in the short term. A conservative squeeze on domestic demand since 2011 has already hurt domestic industry, jobs and investment and led to over-reliance on imports. While macro-economic stability is important, policy must also be counter-cyclical.

While interest rates are coming down and durable liquidity is in surplus, not enough has been done to revive credit delivery and compensate for the drying up of formal and informal channels. Complaints continue of poor liquidity in rural areas. M3 growth has not risen. Only banks have access to the RBI liquidity, as lender of the last resort. Relying on them to provide liquidity to other institutions has not worked well, since they have become extra cautious. More AQRs will not add much, since asset quality is dynamic, and only

staunching the negative spiral can prevent further deterioration.

Linking the cures

The view that the slowdown in consumption is a result of slow income growth, and that consumers have borrowed too much and have therefore retreated, too does not explain the recent credit and growth slowdown. Wage growth has been slow since 2012. It rose sharply only during the high-growth period in the mid-2000s. An alternative explanation is the breakdown in inclusive credit supply-channels; more likely, since the slowdown directly followed snapping of such channels. Credit share and growth in India is much below other peer economies.

It follows that liquidity windows and refinance based on good collateral or effective restructuring based on market principles, as well as bridge financing to complete viable housing projects, are more likely to revive confidence. Surplus has to continue for some time — with complementary policies — to counter the long drought. Government spending, transfers and tax cuts can also help put money in pockets.

There is a view that interest spreads continue to be high because government borrowing is high relative to shrinking household savings.

But savings are not a constraint, since there is excess cash with firms — households are not the only source of savings now. In the past, savings have risen with incomes. If the combined fiscal deficit is too large, it should be creating excess demand. Why is there no inflation? Why is income growth slowing? Spreads are more likely high due to rise in credit risk. If so, fiscal-monetary stimulus by reviving activity can help reduce the spread.

Even then, to restrict the government borrowing requirement, fiscal stimulus should largely come through fiscal restructuring. The share of spending that has higher multipliers, such as infrastructure (railways if roads are slowing), low income housing, and other non-tradable goods — including health and education facilities — should rise. Funds can be raised by asset sales, cutting unproductive subsidies, and tightening up administrative processes. Tax cuts must be accompanied by a reduction in exemptions.

Rural pluriactivity, which is anyway rising, must be further encouraged to raise rural incomes. The rural real wages rise during the mid-2000s was not based on productivity and thus sustained food inflation, since demand for food rose at a time when its supply was constrained. These constraints have relaxed and a rise in rural incomes would now support growth and counter the liquidity squeeze. But to be compatible with reform, it should come through asset creation, empowering expansion in local health or education facilities or transfers such as income support schemes compatible with the WTO; not through a distorted rise in prices.

Land and labour reform should focus on legal and administrative simplification, encouraging competition and coordination among States, using technology to create databases of vacant land. Supply-side improvements with compatible short-term demand boosts would complement each other and sustain growth.

The writer is Professor, IGIDR, and Member, EAC-PM

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Democracy is on the march, not in retreat

Democracy as an assertion of social equality is gaining in strength, even if its expansion as a political system has suffered a setback

PANKAJ MISHRA

Across the world, from Hong Kong to Ecuador, Sudan to Iraq, angry protesters are filling urban streets and squares, clashing with police, smashing shops and burning tires. They do not have a clear leadership. Yet, even in hopelessly sectarian Lebanon, demonstrators seem defiantly united against their rulers. And they have claimed three major scalps already: the leaders of Sudan, Algeria and Lebanon.

Their immediate motivations differ. Public rage was stirred in Lebanon by a proposed tax on WhatsApp calls, and in Chile by an increase in subway fares. More broadly, persistent inequality has grown more intolerable in all these countries, especially among the unemployed and underemployed young people, against the backdrop of a global economic slowdown.

If it's hard to pinpoint a unifying cause behind the simultaneous protests, it is possible to dispel one myth. The unrest hasn't erupted, as the *New York Times* suggested last week, because the expansion of democracy has stalled globally.

Such assessments owe too much to a conservative notion of democracy. Upheld by Cold War institutions such as Freedom House, this idea confuses democracy with elections and other procedural matters. It fails to grasp that democracy is, above all, a social sentiment, a potentially revolutionary demand for equality and dignity — what by the 20th century in the West had ended millennia of rule by kings and the feudal land-owning class.

Inevitable reality

Alexis deTocqueville, the sharpest analyst of democracy, prophesied that it was the inescapable fate of all societies, no matter how deeply hierarchical. He was clear that having destroyed monarchy and aristocracy, democracy would not stop short before the bourgeoisie and the rich.

Indeed, the European bourgeoisie and the rich of the 19th century spent much energy trying to contain democracy, and to keep ordinary people — especially the industrial working classes and women — in their place. Walter Bagehot, celebrated editor of the *Economist*, wrote obsessively on what securities against democracy we can create. A



Public rage Fighting for equality AP

broader suffrage beyond the propertied classes was mooted, and some social security offered to the struggling poor.

But one political shock after another revealed that, as Tocqueville wrote, people in the democratic age have an ardent, insatiable, eternal, invincible passion for equality, and that they will tolerate poverty, enslavement, barbarism, but they will not tolerate aristocracy. This intolerance is again evident in the furious anti-elite revolts in the West today.

It is even more strikingly manifest in the post-colonial world, which since the Arab Spring has hosted the world's biggest mass upsurges.

Those above the age of 40 can re-

call a time in Asia and Africa when extreme deference, if not fear, marked the relationship between rulers and the ruled, rich and poor, and upper and lower classes and castes. Assured of immunity, the wealthy and powerful got away with murder — sometimes literally.

A reminder of those good times for the Suhartos, Bhuttos and Mubarak of the Third World is provided today by Lebanon's recently departed Prime Minister Saad Hariri, who allegedly showered a \$16-million gift on a bikini model he met at a luxury resort in the Seychelles.

Hierarchy in India

Even in India, supposedly the world's largest democracy, a single family dominated politics for decades, including a loyal few in its network of patronage but excluding countless others. Visitors marvelled at the infinite forbearance of the degraded and suffering millions, wondering why they did not mutiny against their cruel masters.

Social hierarchies finally began to crack faster from the 1990s, with broader politicisation and the growth of literacy, satellite television channels and digital media. Massive

street protests against a corrupt ruling elite in India in 2011 were the first sign that Indian society and politics were about to be radically transformed.

Indeed, the protests set the stage for Narendra Modi, who rose to power denouncing venal and inept dynasts and claiming to represent their victims.

There is no guarantee that the current upsurge against ruling elites won't empower demagogues. In late 19th century Europe, far-right and anti-Semitic movements also hijacked the demand for democracy, marginalising Left-leaning and liberal parties.

The practical challenge, now as much as then, is how to make mass democracy compatible with individual liberty — how to find political and economic institutions capable of deploying the tremendous energy of social mobilisation for the larger good.

In the meantime, we should resist concluding that democracy is in decline. For, if democracy means rule of the people, and a demand for social equality, then we are witnessing its flowering in the most populous parts of the world. BLOOMBERG

FROM THE VIEWROOM

In the Eden of day-night cricket

Sourav Ganguly has finally on-boarded India to pink ball cricket

One of the first major decisions that the newly anointed BCCI chief Sourav Ganguly took was to green-light 'day-night' Test matches. The first one will be played in Ganguly's home ground — Eden Gardens, Kolkata — against Bangladesh later this month.

India has for long resisted playing 'day-night' Tests. Cricket Australia tried very hard to convince the BCCI to play one at Adelaide in the 2018-19 series, but in vain. So what made the Indian cricket board change its mind in just 12 months?

New man at the helm, Ganguly, is keen on bringing in fresh ideas. Also, there is this feeling that Test cricket — the game's oldest form — is fast losing in popularity to T20 (and now, the T10). The just-concluded series against South Africa hardly drew any crowds. The fact that all three matches were played in cities which are not 'traditional' Test venues may have also played a part.

Indian captain Virat Kohli made an eminently sensible suggestion a few days ago, of confining Test matches to the five 'traditional' centres — Mumbai, Kolkata, Chennai, Bengaluru and New Delhi. Smaller centres can be allotted ODIs and T20 matches, which are guaranteed to bring in crowds. Of course, to guarantee crowds for Test matches, the quality of the opposition also matters. An India-Australia or India-England Test match will always attract more crowds than one against any other nation.

Ganguly also made another relevant point recently on better scheduling of test matches to ensure that they don't clash with T20 cricket. He specifically referred to last year's India-Australia Adelaide Test, which clashed with the 'Big Bash'.

But we must also be a little realistic about Test cricket — it is a niche segment within the cricketing firmament and will always draw fewer crowds than its more glamorous cousins T20 and T10. So even in traditional Indian Test centres, an average crowd of 15,000 per day should ensure the survival of Test cricket.

Baskar Senior Deputy Editor

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BELOW THE LINE



Look who made it to the 'gram

Move over actors, models and self-acclaimed young celebrities, at 81 this man still goes for the kill! Usually when actors join the Instagram, it is big news for their avid followers; but last week, the news of a business leader joining the social media platform got just about everyone excited.

He was none other than tycoon and the Chairman Emeritus of Tata Group, Ratan Tata, who joined Instagram on October 30. He already has over 7.6 million followers on Twitter.

"I don't know about breaking the internet, but I am so excited to join all of you on Instagram (ratantata)! After a long absence from public life, I look forward to exchanging stories and creating something special with such a diverse community!", he wrote on his first Instagram post. He quickly raked up over 4,90,000 followers.

Falling in one's own trap

The WTO ruling against India's export subsidies was expected by most keeping track of the dispute, as the country had crossed the threshold gross national income limit a long time ago. What will be interesting to see, however, is what will happen if New Delhi goes in for an appeal.

With the WTO Appellate Body set to be dysfunctional from December 10 — as the US is not allowing new judges to be elected to fill up vacancies — there is a chance that

India's appeal, if made, will not be taken up. With its appeal pending, could India be faulted if it does not implement the WTO panel's suggestions on withdrawing some of the sops?

Interestingly, the US is the one that filed the complaint against India's export subsidies at the WTO, and the country that could actually end up paying for not allowing the WTO's Appellate Body to function.

Assumed linguistic hegemony

The second International Solar Alliance, held in New Delhi last week, witnessed an unexpected situation when ministerial delegations preferred to address journalists in French, not English. In the absence of a translator, France's Minister of State for Ecological & Inclusive Transition Brune Poirson volunteered to help.

A make-shift translator of sorts

was hastily arranged, and the press interaction continued with addresses from the ministers on their expectations from the ISA and the other multilateral institutions. The ISA however saw a poorer attendance than expected, with just 29 ministerial delegations present.

Yuva of the country

During an event recently centred around the youth of the country, the host by mistake introduced Minister for Women and Child Development Smriti Irani as 'Shri' Smriti Irani. Oops! Irani definitely won't miss this. Before starting her speech, Irani acknowledged the gaffe saying: "It's only a youngster who can change your gender when he calls you and gets away with it".

FM's quarantine

It is not only journalists, but also officials are unhappy with the

post-Budget quarantine. Journalists are finding it difficult to get information from the Finance Ministry, as the quarantine is still in force. Now, with presentation of new Budget just three months away, there is no hope for it being lifted any time soon.

While the media has found ways to deal with it, now, it is the officials in the Finance Ministry who are complaining as they are not getting information and gossip from journalists.

Of course, there are always newspapers, channels and portals, but the news is limited and off-the-record conversations with officials/employees in other Ministries — or even in the North Block itself — are not being shared. The radio silence is making life dull for Finance Ministry officials. They hope things will change after the presentation of the FY21 Budget in February.

Our Delhi Bureau