



The Gujarat stakes

Congress needs a cohesive agenda if it wants to push back the BJP in PM Modi's home State

It is in no small part due to Prime Minister Narendra Modi and Bharatiya Janata Party president Amit Shah that Gujarat wields a disproportionately high influence on national politics. The so-called Gujarat model of development was an important part of the BJP's campaign in the 2014 Lok Sabha election. To say that the Gujarat Assembly election of 2012 had a huge bearing on the parliamentary election that followed in less than two years will be no exaggeration. For the same reasons, Gujarat 2017 carries an additional layer of importance: whether for the Congress or the BJP, a win or a loss will cast a much longer shadow until the summer of 2019. The two-phase polls on December 9 and 14 will thus be keenly fought, with the BJP seeking a sixth straight win, and the Congress trying for a breakthrough against all odds. The timing of the announcement of the election schedule itself became a controversy, as Chief Election Commissioner A.K. Joti faced criticism for delaying it till after Mr. Modi had made two more visits to Gujarat to inaugurate projects and announce new schemes. The argument that flood relief work in the State would have been affected if the schedule had been announced along with that of the election in Himachal Pradesh, which is ruled by the Congress, was not very convincing. One, relief work had been mostly completed, and two, the Model Code of Conduct would not have stood in the way of such works.

However, when the votes are counted, what would have mattered is not the two-week delay in the announcement, but the BJP's performance over the last five years. Also the Congress's ability to offer a viable alternative. On the debit side of the political ledger for the BJP, Mr. Modi is not the chief ministerial candidate in Gujarat and may not be able to cash in on his charisma the way he did in previous elections. The three years since Mr. Modi moved to the Centre have not been the best for Gujarat in terms of governance. The BJP had to replace Anandiben Patel, who succeeded Mr. Modi as Chief Minister, with Vijay Rupani in order to infuse more life into the administration. But the Congress does not seem to be well-placed to press the advantage. It is reduced to seeking the support of leaders of caste groups to make a dent in the BJP's vote bank. The wooing of the Patidar leader Hardik Patel and Dalit leader Jignesh Mevani, and the induction of Alpesh Thakor, a leader of a backward classes grouping, into the Congress might have brought an accretion to its vote bank, but the party will not get far by artificially yoking together leaders with support bases locked in social conflict. These youthful leaders in the company of Congress vice-president Rahul Gandhi will need much more in common than a desire to vote the BJP out. Without presenting a cohesive programme, this nascent, loose alliance will have no game-changing impact.

Czech churn

A billionaire businessman could unsettle the establishment in Prague

Electing businessmen who claim to offer something better than the established order is not just an American temptation, as the results of last week's parliamentary election in the Czech Republic show. Billionaire Andrej Babiš's party ANO (Action for Dissatisfied Citizens, but ano is also Czech for "yes") won 30% of the vote, making the second richest man in the Czech Republic its most likely future Prime Minister. Mr. Babiš's business ventures include food, chemicals, two of the country's leading newspapers, radio stations and a news portal. While ANO is part of the outgoing coalition, he established a political foothold on an anti-establishment and anti-corruption platform, promising to cut through cronyism and to run the state more like a business. Ironically, Mr. Babiš himself is embroiled in controversies. He is currently being investigated by the European Union for his alleged misuse of EU subsidies in financing a construction project. How Mr. Babiš, who during the 1980s used to work for a state trading company in what is now Slovakia, established himself so powerfully in the business world following the formation of the Czech Republic in 1993 is unclear. Slovakia's top constitutional court has recently overturned a decision by lower courts to exonerate him of ties with the StB, the former communist regime's secret police. This is likely to complicate an already complex situation following last week's vote, which saw mainstream parties taking a beating. Given the fractured mandate, ANO will need at least two other parties to form a viable coalition.

The Social Democrats, who have led the incumbent government in a coalition with ANO and the Christian Democrats, got just 7.3% of the vote, down from 20.5% in 2013. The election has also seen the growth of the far-right Freedom and Direct Democracy Party (SPD), which won about 11% of the vote. The party, run by Tokyo-born Tomio Okamura, wants to take the Czech Republic out of the EU, bring immigration down to zero and ban propagation of Islam. Despite the fact that the Czech economy is doing reasonably well and there is low unemployment, candidates have played on fears around immigration. Mr. Babiš himself used this to his advantage during the campaign. Mr. Babiš has indicated he is pro-EU and pro-NATO but is against the bloc's migration policies, has ruled out joining the euro and seems to view the EU mostly through the prism of trade. The relationship with Brussels is tense, with the EU already having started infringement proceedings against the country for not accepting its share of migrants to the EU under a 2015 deal. Meanwhile, the fact that Mr. Babiš has transferred his business to a trust does little to assuage concerns over the power he would wield. Those within the republic as well as in the neighbourhood have legitimate cause for concern.



T.T. RAM MOHAN

With India's economic growth faltering in the last couple of years, the government has been casting about for ways to galvanise the economy. Last November, it tried demonetisation. It was a bold move but its economic benefits will be long in coming while the short-term disruption has been very real and demoralising. This year, it pushed through the goods and services tax (GST). Again, this is hugely positive over the medium term, but is painful in the short run.

Cheering the markets

The government seems to have realised that a simpler, more effective remedy is at hand: recapitalising public sector banks (PSBs) and enhancing the flow of credit. The proposal to recapitalise PSBs to the extent of ₹2.11 trillion (₹2.11 lakh crore) is a winner by any reckoning. It is, perhaps, the most effective way to provide a much-needed fiscal stimulus to the economy and revive growth. Small wonder that the markets have given the move a rapturous welcome.

To understand the significance of bank recapitalisation, we need a little primer on bank capital. Regulation requires that banks hold assets only in proportion to the capital they have. 'Capital' is a combination of equity, equity-like instruments and bonds. For a given balance sheet, there is a certain minimum of capital that banks must hold. This is called 'capital adequacy'. The higher the capital is above the regulatory minimum, the greater the freedom banks have to make loans. The closer bank capital is to the minimum, the less inclined banks are to lend. If capital falls below the regulatory minimum, banks cannot lend or face restrictions on lending.



NIKHIL SHENOY

The tragic death of an 11-year old girl in Jharkhand – which has resulted in the government going into defensive mode – reflects the dire situation that poor families in India find themselves in every day. On October 18, the Aadhaar-issuing body, the Unique Identification Authority of India (UIDAI), said that 'the family of the girl, who allegedly died of starvation, had Aadhaar and that stringent action should be taken against those who denied her government benefits'. While it has been accepted that she was excluded from having access to rations due to Aadhaar, the government has gone out of its way to assert that the child died due to other causes. The Jharkhand Minister for Public Distribution has rescinded the order requiring the cancellation of ration cards not seeded with Aadhaar. This is another addition to a long list of mass exclusions that a callous state claims as "savings".

While Aadhaar is part of a larger ecosystem of centralised gov-



When loans go bad and turn into non-performing assets (NPAs), banks have to make provisions for potential losses. This tends to erode bank capital and put the brakes on loan growth. That is precisely the situation PSBs have been facing since 2012-13.

'Stressed advances' (which represent non-performing loans as well as restructured loans) have risen from a little over 10% in 2012-13 to 15% in 2016-17. This has caused capital adequacy at PSBs to fall. Average capital at PSBs has fallen from over 13% in 2011-12 to 12.2% in 2016-17. The minimum capital required is 10.5%. An estimated 10 out of 20 PSBs have capital of just one percentage point above the minimum or less. Inadequate capital at PSBs has taken its toll on the flow of credit. Growth in credit has fallen below double digits over the last three years. Between 2009-10 and 2014-15, annual credit growth was in the range of 15-20%. In the 'India Shining' period of 2004-09, credit growth had been over 20%.

Some observers ascribe the deceleration in credit growth to poor demand. They say that corporates have excessive debt and are in no position to finance any investment. This may be true of large corporates. However, it is not true of enterprises in general. One study, which covered over 4,000 companies, showed that the debt to equity ratio fell below 0.8 (which is a low level of debt) in 2008-09 and remained low until 2012-13. (J. Dennis Rajakumar, 'Are corporates overleveraged?', *Economic and Political Weekly*, October 31, 2015).

Moreover, demand for invest-

ment finance may have decelerated but demand for working capital remains strong. If anything, the introduction of GST has increased small business demand for working capital. Low growth in credit is confined to PSBs. Private banks have seen loan growth of 15% this year.

Evident since 2014

The government has realised that there is a problem with the supply of credit. It has to do with PSBs' inability to lend for want of adequate capital. The National Democratic Alliance (NDA) government should have recognised the problem when it assumed office in May 2014. At the time, stressed advances were already 10% of the total. The NDA government should have moved swiftly to recapitalise PSBs.

Instead, it chose to sweep the problem under the carpet. Market estimates had placed the requirement of government capital at a minimum of ₹2 lakh crore over a four-year period. In 2015, under the Indradhanush Plan, the government chose to commit a mere ₹70,000 crore over the period.

The dominant view in government at the time seemed to be that PSBs had messed up in a big way, so putting more capital into them was simply 'money down the drain'. Their role needed to be shrunk through consolidation or by selling strategic stakes to private investors.

This is a mistaken view. The bad loan problem at PSBs is not entirely the result of mismanagement. There have certainly been cases of malfeasance and poor appraisal of

Left behind on the path ahead

Social welfare beneficiaries should have the option to choose a payment mode convenient to them



ically re-verify themselves. This process is supposed to cost ₹11 but "enterprising" e-mitras charge ₹100.

For the elderly poor, end-to-end digitisation of social security pension processes is a disaster waiting to happen. The inability to open and use bank accounts, seed them with Aadhaar and Bhamashah, and then withdraw pension payments from their accounts using biometric authentication every month is resulting in sanctioned beneficiaries being removed from pension lists. Nobody knows how many of them were alive when arbitrarily classified as "dead". Take the case of Kanku Devi, Sita Devi and Dhaku Devi, pensioners who the government said were dead.

Every village has a Kanku Devi. Now 50, she has a congenital disability that rendered her limbs life-

less. Single, she lives in a one room, stone house. Her brother's daughter-in-law gives her enough firewood, ration and water to prepare a small meal for the day – a dry roti with salt.

Before she passed away, Sita Devi, 40, had been bedridden for five years after a spinal injury at work. Her three children, the eldest who is 15, looked after their mother and house. Her children are now struggling to get social security benefits, challenged by digital requirements.

Dhakhu Devi, 90, who also passed away, and with no children to look after her, was almost blind and did not have an electricity connection in her house. She managed to be mobile within the house. Her daily roti, if it came, was brought to her by a family member who lived nearby.

These women were the luckier ones who got their pensions restarted after the intervention of civil society organisations. The meagre pension gives them some semblance of dignity and independence. There are countless such people across India, who are now bewildered and suffering the consequences of new digital systems.

Lack of options

Though effective digital applications exist, the question is this: who

fiscal deficit. In the past, India has used this accounting fudge. The proposed recapitalisation bonds are likely to add to the fiscal deficit unless the government resorts to other fudges such as getting the Life Insurance Corporation of India or a separate holding company to issue the bonds. The government should not worry unduly about missing the fiscal deficit target of 3.2% of GDP. The markets will understand that the fiscal stimulus is well spent.

Getting the record straight

Analysts also fret over repeated bailouts of PSBs and the costs to the exchequer. They seem to think that bank bailouts have to do with government ownership and inefficiency and the answer is to privatise some of our PSBs. They couldn't be more wrong.

The overwhelming majority of bank systems worldwide are privately owned. And yet these systems are prone to periodic bouts of bank failures. The International Monetary Fund has documented 140 episodes of banking crises in 115 economies in the world in the period 1970-2011. The median cost of bank recapitalisation in these crises was 6.8% of GDP. India's cost of recapitalisation over a 20-year period is less than 1% of the average GDP during this period.

The Modi government has shown courage in opting for substantial recapitalisation of banks. This is not something that fits into the 'reform' mantra whereby private is good and public is bad. Reserve Bank of India Governor Urjit Patel has welcomed the move in effusive terms: "The Government of India's decisive package to restore the health of the Indian banking system is in the view of the [RBI] a monumental step forward in safeguarding the country's economic future." Indeed. The government's recapitalisation move promises to do more to quickly usher in 'acche din' than any other single measure it has initiated during its tenure.

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LETTERS TO THE EDITOR

Letters emailed to letters@thehindu.co.in must carry the full postal address and the full name or the name with initials.

Politics and poll dates

As a party that has been ruling the State for long, the BJP is bound to leave no stone unturned in ensuring that it continues to rule ("Gujarat elections on Dec.9 & 14", October 26). The Congress may not be a strong or formidable force in the State, but anti-incumbency, resentment among traders and small businessmen over the crippling impact of demonetisation and GST, and palpable resentment among OBCs will make the electoral fight that much tougher for the BJP this time.

The high-stakes electoral contest between the two national parties will be watched with much interest as the verdict will be perceived as a definitive indicator of the trend for the 2019 general election. JEYARAMACHANDRAN MURUGESAN, Sholavandan, Tamil Nadu

Still out of school

We have miles to go to reach the target of achieving cent per cent enrolment of children in schools and ensuring their quality education ("Going back to the basics", October 26). Millions of underprivileged children are attending school on an empty stomach out of compulsion. Their problem is compounded when they are forced to read tomes of inert facts, taxing them. Nobel Laureate Amartya Sen has laid stress on education and health being the priority areas. Unfortunately our society appears to pay more attention to extravaganzas rather than promoting the welfare of the future citizenry. A. PANNEERSELVAM, Pudukkottai

The new 'disorder'

America and China are placed at the two ends of

the spectrum of international relations ("Trump and the new world disorder", October 26). While the U.S. appears to be going its own way, China appears engaged in spreading its net looking for partnerships for its Belt and Road Initiative. In order to find its feet in the new world order, India should work on the existing contours of its ties with China in the form of BRICS, the Shanghai Cooperation Organisation and the China-led Asian Infrastructure Investment Bank. Simultaneously, it should also work with Japan, Australia and Germany in exploring new trade ties with Africa, South America and Southeast Asia on account of sea links. Interaction with like-minded countries is better than an over-reliance on an unpredictable America. BALAJEE SUMANT CHEMOTTE, Ranchi, Jharkhand

A place in history

There were excesses by most rulers in the country including the Mughals, and Tipu Sultan is no exception. But we need to understand the times prevalent then, when waging war was a necessity and some of the tactics and/or results were none too pleasant. Tipu Sultan was commended for his benevolent rule. He is also considered to be the father of modern rocketry. Those from the right wing should refrain from making controversial statements about figures in our history without proper study ("BJP smarts as Kovind lauds Tipu", October 26).

S. KAMAT, Alto Santa Cruz, Goa

■ President Ram Nath Kovind has been fair and non-partisan without toeing the line of the BJP, which is up in arms against the Karnataka government's

Tipu Jayanti celebrations. This litmus test has shown that Mr. Kovind is a true statesman with perspective. M. BASAVARAJ, Bengaluru

The future of work

The OpEd page article, "Should robots be nationalised?" (October 26), highlights the allure of short-term gains that such technological changes offer against the effects they could have on human engagement with work in the future. Work is not merely a source of livelihood. It is deeply connected with ways of living and therefore a source of meaning and fulfilment.

CORRECTIONS & CLARIFICATIONS:

The last paragraph of the report headlined "Linking of Aadhaar, bank account must" (Oct. 26, 2017) erroneously said the Aadhaar linking deadline was earlier extended "from September 30, 2016 to December 31, 2017. It should have been September 30, 2017 to December 31, 2017.

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