



## Dangerous escalation

Russia's expulsion of U.S. mission staff could lock the two countries into a retaliatory spiral

Russian President Vladimir Putin's decision to cut the U.S. diplomatic presence in the country by 755 signals a serious escalation in tensions between the two superpowers. His move came three days after the U.S. Senate passed a sanctions Bill targeting Moscow and allies. The scale of the cut is unprecedented and is comparable to the shutdown of the American diplomatic mission in Russia after the 1917 Bolshevik revolution. The decision also signals that Mr. Putin, who had pinned hopes on the Donald Trump administration to improve ties, is losing heart about such a reset. When Barack Obama expelled Russian diplomats in the last leg of his presidency over Moscow's alleged interference in the presidential election, Mr. Putin did not retaliate, apparently hoping to strike a new beginning with the incoming administration. During his campaign, Mr. Trump himself had expressed interest in building stronger ties with Moscow. But despite Mr. Trump's overtures, the U.S. establishment has continued to take a hard-line position towards Moscow. While the investigation into the allegations of Russia's election-time interference is still under way, Congress went ahead preparing the sanctions Bill. Passed by both Houses of Congress with a near-total majority, the Bill also seeks to limit Mr. Trump's ability to suspend or lift sanctions on Russia. After the White House said the President would sign the Bill, Moscow retaliated.

The new sanctions will add to Russia's economic troubles at a time it is already battling sanctions imposed by Europe and the U.S., and dealing with a commodities meltdown. Mr. Putin could impose counter-sanctions, but the chances of winning a trade war with the world's largest economy are slim. Hence, Russia's formal declaration of a diplomatic war to show that it can hurt America's geopolitical interests elsewhere. Whenever Russia and the U.S. joined hands to address the world's pressing problems in recent years, there were results. The Iran nuclear deal is one example. The Trump administration's willingness to work with the Russians in Syria has also helped calm parts of the war-ravaged country. The ceasefire brokered by Moscow and Washington between the Syrian regime and rebels in July is still holding, raising hopes for a sustainable political solution to the crisis. Besides, if the U.S. wants to address the North Korean nuclear crisis diplomatically, which is perhaps the biggest foreign policy challenge before the Trump administration today, it could do with Russia's help. Russia is also crucial to stabilising Afghanistan, where it is reportedly arming the Taliban. But instead of expanding their cooperation and addressing these challenges as responsible global leaders, the nuclear-armed powers seem to have fallen into the old Cold War-era spiral of irrational mutual hostility.

## Washed out

Protocols followed by State governments to deal with floods need an urgent review

The floods that have ravaged parts of eastern and western India, leaving at least 600 people dead and displacing thousands, highlight the need for a massive capacity-building programme to deal with frequent, destructive weather events. A monsoon deluge is not an uncommon occurrence in the subcontinent, and there is considerable variability in the duration and frequency of rainfall in different regions. Moreover, there is a clear trend of even drought-prone regions in Gujarat and Rajasthan encountering floods, in addition to the traditional axis covering States along the Brahmaputra and the Ganga. What people in the flood-hit regions expect of governments is speedy relief and rehabilitation. Alleviating financial losses is crucial for a return to normality, and the Centre has announced a solatium for the next of kin of those who have died. But there are other actions people need on the ground: short-term housing, food, safe water, access to health care and protection for women, children and the elderly. Given the weak foundations of social support in policymaking, these factors have an aggravated impact during natural calamities. It is dismaying that some States have not been able to use disaster relief funds as intended, and the Centre has asked them to set off the unutilised portion when making fresh claims. Such a wrangle is unseemly at a time when people need relief.

Catastrophic events, such as the Chennai flood of 2015, also necessitate a review of the protocol followed by State governments in controlling flows from dams and reservoirs. Apparently, much of the waters that have inundated parts of Jalore in Rajasthan flowed from a dam that was opened to relieve pressure, catching many by surprise. A review of the deployment of National Disaster Response Force teams near waterbodies and their experience, together with data compiled by the Central Water Commission, is bound to reveal the hotspots where better management and, perhaps, additional reservoirs, can mitigate damage. Such studies should not be delayed, considering that official data put together by the Centre show that even in the past four years, between 1,000 and 2,100 people have died annually, while losses to crops, public utilities and houses touched ₹33,000 crore in one of the years. Governments cannot legitimately expect that people with marginal incomes will take calamitous losses in their stride, with neither social support nor financial instruments available to rebuild lives. Sustained economic growth needs action on both fronts. It is essential also to look at the public health dimension: many without the coping capacity develop mental health issues including post-traumatic stress disorder in the wake of such catastrophes, and need counselling. A vigorous monsoon is vital for the economy, but governments should be prepared to deal with the consequences of excess rainfall.

# The Reserve Bank is off target

The idea that interest rates are the right way to tackle inflation in India needs a serious rethink



PULPAPRE BALAKRISHNAN

“Practical men, who believe themselves to be quite exempt from any intellectual influence, are usually the slaves of some defunct economist. Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back.” These lines from John Maynard Keynes come to mind when observing the recent performance of the Reserve Bank of India (RBI) with respect to the conduct of monetary policy. Strenuous effort has been made to lead the citizen to believe that one of the many significant actions of the government of the day is to have moved monetary policy in India onto a “modern” plane. The centrepiece of this claim is that the central bank will now be judged entirely in terms of its record on inflation. That is, the RBI has been reconfigured as an “inflation-targeting” central bank. As part of this arrangement, it has been set an inflation target of 4%. Then, somewhat counter-intuitively, it has been given leeway in the form of a band within which the inflation outcome may lie. This band is wide, ranging from 2% to 6%.

### Missing the point

Since the move to inflation targeting, naturally, the RBI has been watched. In the early days it appeared to be coming out with flying colours with inflation not only well within the band but also declining. However, that the growth in the segment of the economy most directly under the control of the RBI, namely manufacturing, has been declining too has been noticed



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less. Under the new arrangement, the RBI cannot be held responsible for what happens to growth as it is to be judged entirely by what happens to inflation. But since June there is disruption and not in terms of the new vocabulary. Consumer price inflation has now declined to 1.5% in June; though only 0.5% below its lower bound, this inflation rate is far below the targeted 4%. Surely this is a case of missing one's target by a long shot.

Rather than waste our time shaming the RBI, we should fruitfully engage with the idea of whether inflation targeting is the right way to tackle inflation in India. That central banks are unable to control the inflation rate is evident from the record of the Bank of England. One of the first central banks to shift to inflation targeting, and endowed with intellectual capital of the highest class, the ‘Old Lady of Threadneedle Street’ has a dismal record of achieving its inflation target. Why is this so? Is it that the bank was also trying to accommodate other economic variables such as employment or the exchange rate? While the latter is possible of course, it is highly unlikely, as no group of high-profile professionals would want to fail so publicly in their mandated task. The reason why they fail is because ‘inflation targeting’ is based on a poor

understanding of inflation.

### A flawed model

The model underlying inflation targeting is that inflation reflects output being greater than the economy's ‘potential’. The task now is to bring output back to its potential level via an interest rate hike. A problem with the model is that the potential level of output is unobservable. Moreover, the potential is believed to be subject to change by the proponents of the model themselves. To these infirmities, the response given is that it does not matter, as we need only observe inflation to conclude that there is an output gap. The problem with this form of reasoning is that it is self-referential. This may be demonstrated in the form of a conversation that proceeds as follows: “Why is the inflation rate rising?” “Because unemployment is below its natural rate.” “But how do you know?” “Because inflation is rising!” Here, ‘natural rate’ refers to the level of employment corresponding to potential output. It appears that under inflation targeting, the policymaker must proceed on faith. This is not a sound basis for governance.

Developing countries such as India have an economic structure different from the developed ones of the West for which inflation target-

ing was first devised. An aspect of this is that agricultural production is subject to fluctuation, and along with this the prices of agricultural goods. Now, when the relative price of agricultural goods rises due to slower growth of agriculture, the inflation rate rises. Such an inflation has nothing to do with an economy-wide imbalance gap as visualised in the ‘output gap model’ underlying inflation targeting. Under inflation targeting, the response to rising agricultural prices would be to raise the rate of interest. This may have some desirable impact on inflation but it can come only at the cost of output loss in the non-agricultural sector. The output loss can only be rationalised as necessary by holding on to the assertion that inflation reflects actual output being greater than potential. But note that the whole process has been set off by a slowing of agricultural output. Now, the only way the output gap model can retain some traction in the context is by asserting that along with the reduction in agricultural output growth, the potential output is growing at an even slower rate. This is completely *ad hoc* and without a scientific basis.

### Role of agriculture

The role of agricultural prices in driving inflation in India is evident presently. Though the overall consumer price index is rising at 1.5%, that for agricultural commodities is actually falling, reflecting the fall in the relative price of agricultural goods we have referred to. Thus the RBI may have just got lucky over the recent past that commodity prices, which include domestically produced agricultural goods and imported oil, have grown at a slower pace. So, it is not at all clear that even when the inflation rate was within the band, it was the RBI's handiwork rather than the hand of the weather gods in evidence. Champions of inflation targeting, observing the current de-

cline in the inflation rate in India, are quick to claim victory for the RBI in terms of having anchored inflationary expectations, a claim for which the slightest evidence is given. It is to be recognised that even though the RBI cannot directly move agricultural prices, its response to their movement matters. As agricultural price inflation continues to fall, driving down the overall inflation rate, the real rate of interest rises. If the central bank does not respond by lowering the policy rate the real rate of interest will continue to rise, with negative consequences for non-agricultural output. This is exactly what we observe happening of late. We want to avoid a deflationary spiral.

To end with some exegesis. So, who in the case of our ‘modern’ monetary policy might be the “defunct” economist of the quote we started out with? It is Milton Friedman who asserted – without argument, it may be noted – that inflation reflects an output gap. The idea itself he borrowed from the nineteenth century economist Knut Wicksell. Friedman had recommended money supply control, a policy aggressively adopted by Margaret Thatcher in England but also in most parts of the West. When this policy failed, it was replaced by ‘inflation targeting’. This choice of terminology was truly inspired, for its very use conveys the resolve of actually trying to do something about inflation. But it is also tendentious, bearing the suggestion that there is no other method of inflation control. Whatever you may say about Friedman, he was not a slouch when it came to inflation. Back in India, with the RBI off target by a wide margin, we can see that inflation targeting is not what it is cracked up to be. Inflation control here requires supply management. This is not rocket science.

Pulpapre Balakrishnan is an economist

## Don't shoot the messenger

Proposed amendments to the Whistle Blowers Act defeat the very purpose of the legislation



ANJALI BHARDWAJ & AMRITA JOHRI

More than 15 whistle-blowers have been murdered in India in the past three years. Parliament may have passed the Whistle Blowers Protection (WBP) Act in 2014, but this did not help save their lives as the government has doggedly refused to operationalise the law. The Act aims to protect people who bring to the notice of the authorities concerned allegations of corruption, wilful misuse of power or commission of a criminal offence against a public servant.

### A wider definition

Significantly, in defining who a whistle-blower is, the law goes beyond government officials who expose corruption they come across in the course of their work. It includes any other person or non-governmental organisation. The importance of such progressive expansion is underlined by the fact that in the last few years, more than 65 people have been killed for exposing corruption in the government on the basis of information they obtained under the Right to Information (RTI) Act. The RTI law

has empowered the common man to have access to information from public authorities – which only government officials were earlier privy to – making every citizen a potential whistle-blower.

The WBP law has provisions for concealing the identity of a whistle-blower, if so desired, following cases such as Satyendra K. Dubey's, whose murder in 2003 led to demand for such legislation. In a letter addressed to the Prime Minister, Dubey, a manager in the National Highways Authority of India (NHAI) posted at Gaya, had highlighted corrupt practices in the NHAI and specifically requested that his identity be kept secret. But the information was leaked, leading to his murder.

Most notably, the law affords protection against victimisation of the complainant or anyone who renders assistance in an inquiry. This is critical as whistle-blowers are routinely subjected to various forms of victimisation – suspensions, withholding of promotions, threats of violence and attacks. The law empowers the competent authorities to accord them protection, which includes police protection and penalising those who victimise them. Whistle-blowers Ram Thakur, Nandi Singh and Amit Jethwa were intimidated and sought police protection in vain, before they were murdered.

Instead of operationalising the WBP law, an amendment Bill, which fundamentally dilutes the



law, was introduced in Parliament in 2015 by the Bharatiya Janata Party-led government without public consultation.

### Shooting the messenger

The amendment Bill seeks to remove immunity provided to whistle-blowers from prosecution under the draconian Official Secrets Act (OSA) for disclosures made under the WBP law. Offences under the OSA are punishable by imprisonment of up to 14 years. Threat of such stringent penalties would deter even genuine whistle-blowers. The basic purpose of the WBP Act is to encourage people to report wrongdoing. If whistle-blowers are prosecuted for disclosing information as part of their complaints and not granted immunity from the OSA, the very purpose of the law would be defeated.

Further, to ostensibly bring the WBP Act in line with the RTI Act, the amendment Bill says that complaints by whistle-blowers containing information which would pre-

judicially affect the sovereignty, integrity, security or economic interests of the state shall not be inquired into. In addition, certain categories of information cannot form part of the disclosure made by a whistle-blower, unless the information has been obtained under the RTI Act. This includes what relates to commercial confidence, trade secrets which would harm the competitive position of a third party, and information held in a fiduciary capacity. These exemptions have been modelled on Section 8(I) of the RTI law which lists information which cannot be disclosed to citizens.

### Two laws, different objectives

The amendments ignore the fact that the two laws have completely different objectives. The RTI Act seeks to provide information to people, while the WBP Act provides a mechanism for disclosures to be made to competent authorities within the government to enable inquiry into allegations of corruption and provide protection to whistle-blowers.

Conflating the two laws is inappropriate and would preclude genuine whistle-blowing in several scenarios. For instance, what about government officials who come across evidence of wrongdoing in the normal course of their work and do not need the RTI Act to access relevant information? Again, should complaints exposing corruption in nuclear facilities or

sensitive army posts not be inquired into just because they contain information relating to national security? Surely the country would benefit if such wrongdoing is exposed so that appropriate action can be taken.

If the intention was to ensure that sensitive information pertaining to national security and integrity is not compromised, instead of carving out blanket exemptions the government could have proposed additional safeguards for such disclosures such as requiring complaints to be filed using sealed envelopes to the competent authorities.

Concerns about these regressive amendments were brushed aside and the Bill pushed through the Lok Sabha in haste. The amendment Bill is listed for discussion and passage in the Rajya Sabha in the current session. To reconsider amendments that would fundamentally dilute the law, and provide an opportunity for public consultation, it is imperative that the Bill be referred to a select committee of the Upper House.

There is no justification for not operationalising the WBP Act. It is the moral obligation of the government to immediately promulgate the rules and implement the law to offer protection to those who, at great peril, expose wrongdoing.

Anjali Bhardwaj and Amrita Johri are members of the National Campaign for Peoples' Right to Information (NCPRI)

## 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.

### Lost opportunity

A.P.J. Abdul Kalam rose to become a beloved first citizen after achieving several milestones in the field of science and technology. His statue at his memorial that depicts him as a veena player along with the Bhagavad Gita has created needless and politically-tinged controversy (“Row over holy books near Kalam statue”, July 31). It might also give the wrong impression about the “Missile Man” as it has removed the “concrete science” out of him. Instead, it would have been apt to have had a replica of a rocket near the statue along with a series of science books by renowned scientists.

The image should be such that it is striking and inspires children, whom he loved the most, to develop a scientific temper as a way of

life as envisaged in the Constitution.  
VICTOR FRANK A.,  
Chennai

■ The former President of India was an apolitical personality who was chosen for the top post by virtue of his simplicity and greatness. He was not only a great man but also a rocket man, and his religion was science and technology. Instead of having a veena, a model of a rocket next to him would have been most appropriate. It is unfortunate that religion is involved in almost everything. One of his great passions was tree planting. Perhaps those involved with conceptualising the memorial could have announced an annual tree planting programme across India on his anniversary. An opportunity seems to have been lost to perpetuate his

memory in a great way.

K. JAYANTHI,  
Chennai

### Promoting hate

News of yet another political murder in Kerala is quite disheartening. Kerala has always been considered to be a progressive and developed State, and its people known to be open-minded, unorthodox and cosmopolitan in outlook. But the recent spate of violence has shown that Kerala is obviously no better than other States when it comes to hate and revenge killings.

Be it in the name of cow or political ideologies, the nation is slowly getting engulfed by a sense of insecurity; an ugly situation where religious and political ideologies triumph over the value of human life. The interest the Central government is taking towards matters in Kerala

while turning a blind eye to hate killings in other States is equally surprising. The Kerala incident shows that it is not the lack of literacy; rather, it is the lack of sensibility and sensitivity which is the root cause for such hate crimes (“Rajinath calls up Pinarayi over violence”, July 31).

JOSEPH PAUL,  
New Delhi

### 'Dr' here too

In India, a significant percentage of the population depends on traditional systems of medicine and homoeopathy. In India, a NEET examination is the entry point for all systems of medicines. Apart from basic subjects, every system of traditional medicine and homoeopathy has its own subjects. Irrespective of the system of medicine they practise, all medical graduates have an equal

right to be called a doctor. Instead of splitting hairs, the authorities should be looking at those who obtain their medical degrees from Russia, China and other countries where the standards of medical education in allopathy are suspect.

In the report, the sentence “MBBS doctors grumbling about traditional medicine practitioners and homoeopaths calling themselves ‘doctors’” was uncalled for. I am sure a prestigious newspaper such as *The Hindu* does not intend to be the mouthpiece of “some grumblers” (“The ‘Dr’ is in (or is it?)”, July 28).

DR. BEENA AMAR BODHI,  
New Delhi

### CORRECTIONS & CLARIFICATIONS:

The news report, “U.S. prods India on Pyongyang” (The Hindu, 2017), erroneously stated that a stepbrother of North Korean leader Kim Jong-un was assassinated in Jakarta. It should have been Kuala Lumpur.

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