



Banking on mergers

The move to merge banks is understandable, but shareholders should have been consulted

Asking healthy banks to take over weak banks appears to be the strategy to handle the bad loans crisis. On Monday the Union government proposed the merger of three public sector banks – Bank of Baroda, Dena Bank and Vijaya Bank – to create an amalgamated entity that will become the country's third largest lender. The merger is part of the government's efforts to consolidate the banking industry with an eye on overcoming the bad loan crisis. After the announcement of the merger, shares of Bank of Baroda and Vijaya Bank shed a significant part of their value, while Dena Bank gained sharply to hit upper circuit on Tuesday. This is not surprising at all. Dena Bank is the bank in the worst financial situation among the three entities and is currently under the Reserve Bank of India's prompt corrective action framework. Unlike the other two banks, its shareholders are set to gain from being part of a new bank with greater financial strength. The current merger, it is worth noting, comes after the government let State Bank of India's associate banks merge with their parent last year and the Life Insurance Corporation of India take over the troubled IDBI Bank this year.

Forced mergers such as the current one make little business sense for the stronger banks as the weaker banks tend to be a drag on their operations. They are also unlikely to solve the bad loan crisis that has gripped the banking system as a whole. It is important to ensure that such mergers do not end up creating an entity that is weaker than the original pre-merger strong bank. That said, the fact is that mergers are one way of managing the problem and therefore cannot be discounted totally. However, the trick lies in ensuring that the merger fallout is managed prudently; identifying synergies and exploiting scale efficiencies will be crucial here. There is no denying the fact that there are too many public sector banks in India; given this, consolidation is a good idea in principle. But ideally, mergers ought to be between strong banks. Then again, these are not normal times and with many banks in a precarious situation, the immediate compulsions for merging the weak Dena Bank with the stronger Bank of Baroda and Vijaya Bank are clear. From a corporate governance perspective, however, the merger sends out rather poor signals. Here is a dominant shareholder in the form of the government that is dictating critical moves that impact the minority shareholders, who are left with no say in the matter. A merger as significant as this one ought to have been first discussed and approved in the board rooms of the banks concerned. If the shareholders of Bank of Baroda, whose share fell by 16% on Tuesday, feel unhappy, that is perfectly understandable.

Celestial misfit

We should accept Pluto as a dwarf planet, though an exceptional one

After years of arguing over whether Pluto is a planet, in 2006 the International Astronomical Union (IAU) voted to remove Pluto's planetary status. Now some researchers are challenging this decision, citing the manner in which scientific tradition has dealt with the taxonomy of planets. The IAU, in 2006, designated Pluto a 'dwarf planet' along with Ceres in the asteroid belt and Xena, an object in the Kuiper belt, which is an icy ring of frozen objects that circle the solar system beyond Neptune's orbit. It was a bid to overcome sentiment and go by scientific rationale. The meeting defined three conditions for a celestial object to be called a planet: one, it must orbit the Sun; two, it should be massive enough to acquire an approximately spherical shape; three, it has to 'clear its orbit', that is, be the object that exerts the maximum gravitational pull within its orbit. Owing to this third property, if an object ventures close to a planet's orbit, it will either collide with it and be accreted, or be ejected out. However, Pluto is affected by Neptune's gravity. It also shares its orbit with the frozen objects in the Kuiper belt. Based on this, the IAU deemed that Pluto did not 'clear its orbit'. Dwarf planets, on the other hand, need only satisfy the first two conditions.

This rationale has been questioned by Philip Metzger, a planetary physicist who has worked with the U.S. National Aeronautics and Space Administration, and others who have studied the history of classifying planets and come up with several exceptions to the third rule. In a paper published in the journal *Icarus*, they point out that the only work in history that used this rule to classify planets was an article by William Herschel in 1802. They also argue that this work was based on reasoning and observations that have since been disproved. However, the last argument does not build up a strong enough case to give up what is, in fact, a sensible rule. Physics has many examples where an idea was once discarded for being incorrect, and much later emerged in a different form and gained acceptance – the concept of photons, for instance. And then again, if Pluto were to be re-designated a planet, many more complications would arise. For one thing, Charon, Pluto's moon, is much too large to be called a satellite. Judging by this, the Charon-Pluto system should then rightly be called a binary planet system. This would then lead to classifying several other sets of bodies as binary planets. Recent research shows that both the Kuiper Belt and the Oort cloud, a shell of objects that surrounds the entire solar system far beyond the Kuiper belt, contain objects that can then be called planets, thereby complicating the issue. Denying planetary status to Pluto is then nothing less than a sweep of Occam's razor, and Pluto remains a dwarf planet, albeit an exceptional one.

Ten years on, in uncharted waters

The crises in emerging economies show how vulnerable they remain to the vagaries of U.S. economic policy



T.T. RAM MOHAN

Economists thrive on crises. The East Asian crisis of 1997 caused a rethink on full capital account convertibility and fixed exchange rates. The Internet bubble and bust of the early 2000s led many to question the impact of new technology on long-term productivity growth. The scandals in the corporate world through the 2000s in the U.S. provided grist for a fresh debate on corporate governance.

None of these was any match for the opportunities for celebration created by the financial crisis of 2007. The crisis, which peaked in early September 2008, occasioned an enormous outpouring of scholarly papers, articles and books on the causes of the crisis and the lessons to be learnt. Have these made the world any safer? Unlikely, as we shall see later.

Centred in regulation failure
The crisis of 2007 had multiple causes. Global macroeconomic imbalances, a loose monetary policy in the U.S., the housing bubble in the U.S. again and elsewhere, a bloated financial sector, a flawed belief in efficient markets, greedy bankers, incompetent rating agencies – these and others have been identified as among the villains of the crisis. All of them undoubtedly contributed their part. But each has happened before without on its own bringing on a global economic crisis.

Most of the blame for the implosion of the financial sector in 2007-08 lies elsewhere – in a failure of regulation. This failure manifested itself in several ways. One, banks were allowed extraordinarily high

levels of debt in relation to equity capital. Two, banks in the advanced economies moved away from the business of making loans to investing their funds instead in complex assets called "securitised" assets. The securitised assets consisted of bundles of securities derived from sub-prime loans, that is, housing loans of relatively higher risk.

The switch from loans to securitised assets had enormous implications for banks. With a loan, losses are recognised over time. In contrast, investments are 'mark to market', that is, losses or gains on these have to be recorded instantly. As housing prices started falling and the securitised assets lost value, it translated into enormous losses for banks.

These losses eroded bank capital and created panic among those who had lent funds to banks. The lenders to banks, it turned out, were not primarily retail depositors but short-term lenders in the wholesale market. This was the third element in the failure of regulation, allowing banks excess dependence on short-term funds.

There were other failures of regulation. Banks had low standards for making housing loans. Bankers' pay was designed so that it allowed them to take excessive risk. The boards of banks did not exercise adequate oversight.

These failures were not confined to the U.S. They infected banks in Europe and some in Asia as well. These banks were not merely exposed to American assets. As economic historian Adam Tooze has pointed out in a recent book and in an article in *Foreign Affairs* (September/October 2018), they had financed these assets through large borrowings in the American wholesale market. The sub-prime problem was thus not just an American problem but a problem for large chunks of the global banking system.



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As wholesale markets dried up, the Fed provided dollar funds to central banks in Europe and in Asia. Governments everywhere rushed to save their financial institutions. Central banks provided liquidity support to banks. The failure of banks was sought to be counteracted by fiscal and monetary expansion. The loss of jobs and output has been enormous. Various political consequences have unfolded: the Eurozone crisis, Brexit, the rise of nationalism and anti-immigrant policies, the Trump phenomenon in the U.S. and the return of protectionism.

How did such a colossal failure of regulation occur? The problem was 'regulatory capture', the ability of financial institutions to influence policies of governments and regulators. Financial institutions are a big source of political funding. There is also the 'revolving door' syndrome. Bankers in the U.S. and Europe hop on to jobs in government and regulation. Government officials and regulators land lucrative jobs and assignments with banks.

No accountability
The 'revolving door' plays havoc with regulation. It must also explain the total lack of accountability of bankers for the havoc they created. No top banker has been prosecuted or jailed. Instead, banks have paid up hefty fines for assorted violations, the fines com-

ing from the pockets of shareholders.

India has not suffered much on account of the financial crisis. Growth has slowed down to 7% but that is in line with the trend rate over the past two decades. Several prudent policies have helped. India has not embraced full capital account convertibility. It has kept short-term foreign borrowings within stringent limits. India did not open up to foreign banks despite pressure from the U.S. and the international agencies. Foreign banks retreated from overseas markets following the crisis, causing a severe credit crunch in places such as Eastern Europe. India escaped this fate.

Is the world safer from a financial crisis today? The key reform measures have focussed on getting banks to have more equity capital and to reduce dependence on short-term borrowings. The design of executive pay has been changed so as to reduce incentives for taking excessive short-term risk. Some improvements in governance have been effected. These measures have made banks safer than before the crisis but still not safe enough.

Core issues
That is because three issues remain significantly unaddressed. First, the 'too big to fail problem' – some banks being so large that they cannot be allowed to fail. Some of the biggest banks in the world have grown even bigger after the crisis. Concentration in banking has increased.

Second, the size of debt in various forms in the world economy. A crucial aspect of the financial crisis was the build-up of private debt, that is, the debt of households and non-financial firms. Two Chicago economists, Atif Mian and Amir Sufi, argued in a well-received book, *House of Debt*, that the expression 'financial cri-

sis' was something of a misnomer. The key driver of the recession in the U.S. was the rise in household debt and the consequent drop in household consumption. This does not negate the view that regulatory failure was the principal cause. It only means that regulation must address growth in credit as well as the flow of credit into sectors such as real estate.

In the years following the crisis, private debt has fallen but government debt and corporate debt have risen. The former head of the U.K.'s Financial Services Authority, Adair Turner, says that total debt – government, corporate, and household – as a percentage of GDP is higher than ever before (*Financial Times*, September 11). For the global economy as a whole, the overhang of debt poses serious challenges.

Third, financial globalisation makes the world vulnerable to U.S. monetary and fiscal policy. From time to time, the U.S. unleashes a flood of dollars at low rates. The world laps up the cheap finance. Then, the U.S. raises interest rates. Other economies find themselves staring at huge debt repayments. Further, the dollar remains the reserve currency of the world. The U.S. can borrow to the hilt but the dollar will not depreciate, it may even appreciate!

The present crisis in emerging economies highlights how vulnerable emerging markets are to the vagaries of American economic policy. The world needs to be weaned away from its dependence on the dollar. Alas, an alternative global financial architecture is nowhere in sight. Economists are free to draw their lessons from financial crises but the world is ultimately shaped by political and business interests, not by economists.

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The pointlessness of hashtags

Twitter wars over the label 'urban Naxal' do nothing to address the deprivation of marginalised groups



VASUNDHARA SIRNATE DRENNAN

One of the main things that the 21st century will be known for is the formation of what Bruns and Burgess call "ad hoc issue publics" or the formation of selective channels centred on a particular topic. For keyboard knights of every ideological persuasion, hashtags have become a popular, swift and efficient way of marshalling and deploying public opinion. Recently, two hashtags became popular in India – UrbanNaxal and MeTooUrbanNaxal.

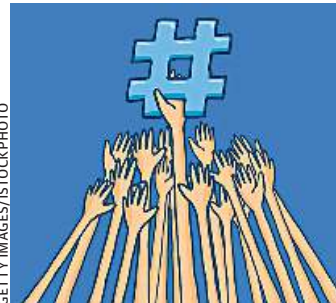
About a phrase

For the uninitiated, an "urban Naxal" is apparently a member of the bourgeoisie that sympathises with pro-poor and pro-tribal causes and does so from the relative comfort of middle-class and rich homes and offices. A film-maker, Vivek Agnihotri, used the term in a book titled *Urban Naxals: The Making of Buddha in a Traffic Jam*, and it has since achieved prominence. In the wake of the detention of five prominent activists and rights workers last month, Mr. Agnihotri asked for people on Twitter to

identify urban Naxals. Given that the term was used by the Maharashtra police to detain activists, the term has come to assume automatic criminality if one is identified as an urban Naxal. In response to this, many began using a counter-hashtag, "MeTooUrbanNaxal", to express solidarity with those charged with being Naxal sympathisers.

This hashtag war begs many questions. First, why are people who work to advance the rights of underprivileged persons (tribal and Dalit) now being identified as dissenters, traitors and criminals? Second, how legitimate are these hashtags, i.e., do both hashtags actually map on to reality? Third, if they don't map on to reality (as I will argue), then what is their applicability to public debate? Fourth, are these merely wars of idle rhetoric?

My point of intervention in this debate is to identify the pointlessness of wars of rhetoric, especially when the wars are spearheaded by people with an inadequate and casual understanding of ground realities. Both tags, "UrbanNaxal" and "MeTooUrbanNaxal", are dissociated from facts. Not everyone that leans left, or veers towards liberalism, supports the Communist Party of India (Maoist), although they may definitely care about the poor and the underprivileged. Similarly, not everyone



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who is a tribal person and hails from Chhattisgarh is automatically a member of the CPI (Maoist). Further, it is highly unlikely that most of those who use either of these hashtags really understand the meaning of the term "Naxal".

The aim

The ultimate goal of the CPI (Maoist) is state takeover. The Maoists are not secessionist in the traditional sense of the term, that they want their own piece of territory independent of the control of the Indian state (like the Kashmiri insurgents do, or the NSCN-IM once did). The Indian Maoists are secessionist in philosophy but their goal is to re-make the existing Indian state as a communist state. A high-ranking Border Security Force officer stationed in Durg Bhalai once told me during an interview that the "final target of the Maoists is the politician". I strongly doubt whether most of the bourgeois merrily identifying with Nax-

alism on Twitter would be comfortable with this ultimate goal if they really knew what it was, and that they were precisely one of the targets of the CPI (Maoist). To be a committed Naxal is to have the wherewithal to battle the state not ideologically but also physically. I again strongly doubt whether those tweeting urban Naxal or MeTooUrbanNaxal would survive a week in the forests of Chhattisgarh, where access to Twitter may be deeply problematic.

Sure, the strength of the Naxals and their commitment to poor tribal groups evokes a romantic ideal of bold and brave soldiers fighting for a just cause. And there is no doubt in my mind that the Maoist movement in India is a product of India's imbalanced development policies that have heightened exploitation and deprivation of the most vulnerable groups by big capital, and sheer political and economic neglect of the marginalised. However, the Maoist insurgency and the state's counterinsurgent violence in Chhattisgarh have both been bloody and brutal. In short, while one can understand the reasons why the poor take up arms against the state, and, one can rationalise why the state thinks it should respond with disproportionate force, none of this makes either the Maoists' violence or the state's violence in the

region morally defensible.

Both hashtags promote a useless debate where not everyone is arguing about the same facts or they are not arguing about facts at all. There are repercussions for replacing meaningful debate with a war of inelegant rhetoric. Twitter, like every other social media platform, encourages the extension of one's personal ego. It is a platform where people think what they say is valuable even though the thought itself may not possess logic and is not undergirded by fact. Yet the thought acquires legitimacy because it is enslaved as a hashtag and deployed in the service of ideologies and counter-ideologies. In doing so, something that is unreasonable and not factual acquires "truthiness" (to borrow from American television host Stephen Colbert) and becomes a new narrative displacing real fact.

Both sides of this facetious debate do grave injustice to a severe and violent issue that has its roots in systemic deprivation of marginalised groups. Mr. Agnihotri's call to identify urban Naxals is nothing short of a stupid witch-hunt, but the response to him has been equally dull-witted because it has ended up propping up the very term it was meant to destroy.

Vasundhara Sirnate Drennan, Co-founder of and Director of Research at The Polis Project Inc., is based in Northern Ireland

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.

Drift in ties

Nepal, which has traditionally sided with India due to a shared culture and heritage, appears to be showing signs of weariness as a result of India's Big Brother syndrome. While India's assertiveness over Nepal can be viewed as benign *vis-à-vis* China's debt trap diplomacy, New Delhi should be considerate of the sovereignty and independent foreign policy of smaller countries. The recent electoral setback to

Sewer deaths

It is not the fault of those in the lowest strata of society who are often forced to do manual scavenging for a livelihood. It is the fault of the people who engage them forgetting that this strata of society also has the equal right to vote and send representatives to Municipal Councils, Assemblies, and ultimately to Parliament. Representatives of the area concerned should be held responsible. They must ensure that science and technology are utilised so

both parties. There also needs to be a relationship which is able to absorb any changes in the ruling dispensation (Editorial, "Himalayan divide", September 18).
KOUJI KOUNDINYA,
Hyderabad

Dirty rivers

Now that there is more evidence of fresh water scarcity fast becoming a reality, we can't afford to mismanage our water resources. There needs to be political commitment to free our rivers from being choked with sewage/industrial wastes. Urban

local bodies must be supported to put in place infrastructure for waste treatment (Editorial "Saving rivers", September 18).
KEERTHANA S.,
Cumbum, Theni, Tamil Nadu

Clean energy

The participation of communities at ground zero is pivotal for curbing pollution. There also needs to be a monitoring system for polluted rivers which could relay data to the authorities concerned. Municipal bodies must team up with NGOs and publish weekly reports of improvements/actions.
AVIK SETHI,
Mohali, Punjab

that manual scavenging is eliminated. Talk of *suo motu* cognisance of this issue by the judiciary is not the solution as there are adequate provisions in the law to address the issue. Municipal Councillors, MLAs and MPs should be held responsible as they are the representatives of zones in independent India (Editorial – "Lethal filth", September 17).
P. PARAMASIVAN,
Chennai

Ideologies and vision

It was a treat to read about the meeting between Periyar and Moonje in 1944 (OpEd page, "When Dravidianism and Hindutva met", September 18). That two

leaders who were poles apart ideologically would consider having a friendly chat was surprising. Periyar and Anna were tall leaders who were steadfast in their beliefs and ideals. To expect present leaders to mirror this is difficult as they worry only about the next election and not the next generation. Hindutva is growing while Dravidianism is a diluted version of what it was.

Corrections & Clarifications

The Sports page box item, "A brave act by Tamim!" (Sept. 17, 2018), the writer said that Anil Kumble bowled with a broken jaw in a Test match in Antigua in 2006. Actually, this happened in the 2002 Test at Antigua.

The report, "Germany rolls out world's first hydrogen train" ('Life' page, September 18), signals a breakthrough in tapping an alternative source of energy. The development is bound to encourage the green industry and one hopes that it inspires developing nations too.
P.K.P. SWAMI,
Coimbatore

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