



The big fight

For the AIADMK, the Assembly bypolls are more important than the Lok Sabha election

In Tamil Nadu, political alliances for the Lok Sabha election are falling into place as in a jigsaw. The real fight, as it has been over the last four decades, is between the two major regional parties, the AIADMK and the DMK; but the BJP and the Congress have ensured that they have skin in the game, giving the contest a national flavour. While the BJP virtually forced its way into the AIADMK camp, the Congress drove a hard bargain for seats in the DMK-led alliance. Through four elections from 1996 to 2004, the AIADMK had switched between the Congress and the BJP, before contesting 2009 and 2014 without either of them for company. In 2014, the go-it-alone strategy yielded rich dividends: the party won 37 of the 39 seats. For the party to now give away five seats to the BJP and another seven to the Pattali Makkal Katchi is therefore a climbdown. But the AIADMK is more interested in retaining power in the State. The party is running the government on a wafer-thin majority after a revolt by the faction led by T.T.V. Dhinakaran. Alongside the Lok Sabha election, by-elections to 21 Assembly constituencies are likely to be held. For Chief Minister Edappadi K. Palaniswami, winning these seats is more important than a few more Lok Sabha constituencies in Tamil Nadu. With the BJP on board, the AIADMK can hope to have a stake in a government at the Centre, but even more important for the party is the tie-up with the PMK. With its concentrated support base in the northern districts of the State, the PMK could be of immense help in at least eight seats where by-elections are due.

The alliance with the BJP and the PMK also helped the AIADMK win the battle of perceptions with Mr. Dhinakaran's Amma Makkal Munnetra Kazhagam. In the public eye, the AIADMK, as a sought-after ally, is now the bigger of the two parties. For the DMK, the tie-up with the Congress is part of its visualisation of a larger national canvas. In India's coalition era, the DMK has had an important role to play: the party was part of governments led by different combinations of parties. If indeed the AIADMK government lasts its full term until 2021, the DMK would very much like to have some levers of power at the Centre. The party was in power either at the Centre or in the State for most of the 15 years from 1996 till 2011, and it would like to avoid a second consecutive loss in the Lok Sabha election after two successive defeats in the Assembly elections. Moreover DMK president M.K. Stalin knows this is his first big test after the passing of his father and party patriarch M. Karunanidhi. For him, the stakes are just as high in the Lok Sabha election.

With reservations

It's not clear if the 103rd Amendment will protect the new quota for Gujjars in Rajasthan

With leaders of the Gujjar agitation for reservations calling off their stir, the Rajasthan government has averted what could have been a prolonged crisis. There is a sense of *déjà vu* amid all this. Gujjar leaders have held various rounds of protests over the last decade and a half, demanding reservations in educational institutions and employment in a separate backward category that is apart from the existing 21% set aside for Other Backward Classes in the State. Despite governments bringing in legislation towards this end, they have been struck down on the grounds that the additional quota would take the quantum of reservation above the 50% limit set by the Supreme Court in the *Indra Sawhney* judgment. On Wednesday, the Rajasthan State Assembly passed legislation providing 5% reservation to Gujjars and four other nomadic communities, classifying them as “extremely backward classes”. But this time, the circumstances have arguably changed with the passing of the 103rd Amendment to the Constitution that allows for a 10% quota for the economically backward among communities that do not enjoy any form of reservation. The State government has also added a line to the Bill explicitly referring to the amendment, which effectively breaches the 50% limit set for reservations by the Supreme Court. It remains to be seen how the judiciary will tackle this question in light of the 103rd amendment, the constitutionality of which is under challenge.

The demand by Gujjars has a specific context. In Rajasthan, the community is currently eligible for reservations as an OBC community. They had in the mid- and late-2000s agitated for inclusion in the Scheduled Tribe category, in keeping with the way they are classified in Jammu and Kashmir and Himachal Pradesh. This demand was denied because tribal status, as defined in the Constitution's Fifth Schedule, involves identifiable characteristics such as lifestyle, culture, inaccessibility and backwardness, and not just economic underdevelopment. Since then, the largely pastoral community has pressed for reservations under a separate backward class category, arguing that inclusion of Jats in the OBC list has crowded Gujjars out of the benefits of reservations. Clearly, the decision to accommodate a demand from one politically dominant community (Jats) has come to haunt administrators in the State as this has fanned Gujjar agitations on and off. Multiple commissions appointed by State governments have recommended the implementation of the 5% quota on the basis of the community's “extreme” or “most” backward nature. But the lack of adequate data in the absence of a proper socio-economic caste census to prove this has led to the policy's undoing in judicial orders. More important, the repeated agitations are an indication of the shortfall in adequate, gainful and secure job opportunities in States such as Rajasthan.

The employment test

The labour force may have actually shrunk while the Modi government has been in office



PULAPRE BALAKRISHNAN

Attuned as we have become to political grandstanding on the purpose of democracy, we may not have imagined that something so prosaic as statistics can alter our perception of how it is actually working for us. The emergence over the past few months of data on employment, speaking precisely the lack of it, cannot but have an influence on our assessment. They paint a picture of an economy that is widely out of line with the government's pronouncements on its performance. These have generally avoided any reference to employment, except to say that there is a lack of reliable data on it, for the rectification of which the government itself has done very little.

Arun Jaitley, Finance Minister for the greater part of this government's tenure, has claimed that it has coincided with a degree of macroeconomic stability that has not been surpassed. Perhaps he had in mind the combination of falling inflation and declining Budget deficits since 2014. However, while this has indeed transpired, it is important to note that these trends had commenced even before. Moreover, after repeatedly expressing a commitment to fiscal consolidation, the government did not hesitate to swerve from the path of rectitude to finance an income support programme for farmers in an election year.

Silence on jobs

But of greater significance is the fact that neither he nor the Prime

Minister has had anything to say about employment. In this the BJP is not unique. Employment does not usually figure in the public discourse orchestrated by political parties, either at the Centre or in the States. This must change, for steady employment is the citizen's aspiration, to realise which she elects representatives. Governments in India must therefore be routinely subjected to an employment test which gauges their success in generating and sustaining high employment. In his election campaign in 2014 Narendra Modi had announced that he would generate jobs.

Employment data from government sources (Labour Bureau) for about half a decade up to 2015 and from the independent agency Centre for Monitoring Indian Economy (CMIE) for the period since give us a reasonably good idea of the progress made with respect to employment. When supplemented with other information, these sources also suggest to us the proximate factors responsible for that history. The evidence they provide tell two stories. First, the Modi government has had next to no success in generating employment, notwithstanding its promises at election time. A development that may require some effort to understand fully, but which nevertheless it is important for the citizen to do, is that the labour force may actually have shrunk while it has been in office. The labour force is the sum of the employed and those unemployed who are seeking employment. A shrinking of the labour force is most unusual in an economy with a growing population, and thus a growing working age cohort.

The demonetisation effect

While this decline had already emerged in 2015, it became pro-



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nounced after demonetisation in 2016. We owe to CMIE, a private Indian body, both this finding and the articulation of the precise mechanism at work. A section of those hitherto willing to work may have simply dropped out of an already challenged labour market. This possibility is recognised in macroeconomics as the “discouraged-worker effect” and has been observed in Western economies. The loss of skill that can accompany being unemployed even temporarily, and the consequent loss of long-run output for the economy, is the basis of the argument that public policy must respond with alacrity to growing unemployment. No such sensibility has infused the government, which appears not to have noticed the decline in the labour force itself, a development that occurred very early in its tenure. It has instead congratulated itself on having delivered macroeconomic stability. We are now able to see that whatever may have been the acclaimed beneficial impact of demonetisation in terms of raising direct tax compliance, it has caused demoralisation among a section of the already unemployed who may have given up all hope of finding employment.

The second of the two histories referred to, seen in the reports of one of the government's agencies, is that of a rising unemployment rate from 2011 onwards. This point

has political significance as we stay poised for the general election. This is that while the Modi government may have run amok with the demonetisation, India's unemployment challenge predates this episode and evidently runs deeper. Labour Bureau data show that the unemployment rate almost doubled between 2011 and 2015. It is surprising that the government's own reports did not flag this. The economic, as opposed to the political, message is that the recent history of unemployment has been impervious to the political formation governing India.

If we are to more than just wring our hands at the existent unemployment, an understanding of what underlies it is necessary. Actually, no more than standard macroeconomic analysis is needed in this regard. Both output growth and employment are under normal circumstances associated with capital formation. Capital formation as a share of output has been declining since 2011-12. Unlike consumption expenditure, capital expenditure is unique in expanding both the supply and demand sides of the economy. Despite the declining capital formation, neither United Progressive Alliance (UPA) II nor National Democratic Alliance II considered it necessary to respond to it by stepping up public investment, the obvious thing to do in the prevailing circumstances.

The clue to this inertia may be found in the political economy. For UPA II the success of its first term in office must have looked like the perfect opportunity to expand its political base by legislating rights and reciting the mantra “inclusive growth”. Then came Narendra Modi, who somewhat incongruously for an avowedly nationalist politician, embraced the dogma of the Washington Consen-

sus. Popular in the 1990s after the collapse of the Soviet Union, it extolled small government and asserted the capacity of the market mechanism to deliver an optimal outcome. There was in this scheme of things no place for any involuntary unemployment. So, whatever may have been the calculation of the two political formations, employment generation just took a back seat in their respective programmes.

Cost of failure?

We have adopted representative democracy as our form of government because we cannot in isolation achieve the outcomes we desire even when they are exclusive to us. Employment is one example of this. Though it manifests itself as jobs for individuals, it is determined by macroeconomic factors which individuals cannot influence on their own. The Great Depression in the 20th century and the Great Recession in the 21st, both which have originated in the U.S. but quickly spread across the world, testify to this helplessness of individuals in the face of market forces. In a democracy, it is left to elected representatives whether to pursue macroeconomic policies conducive to the generation of employment. India's political parties have for close to a decade now failed to do, either willfully or out of neglect. However, when elected to govern, they are given a chance to create the conditions that enable Indians to lead flourishing lives, which includes being meaningfully employed during their working age. India's political parties must pass “the employment test”. When they fail they must vacate the stage.

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More symbolic than punitive

India's trade-related action will encourage informal trade and propel Pakistan to look for markets beyond South Asia



SEEMA BATHLA & ABHISHEK JHA

India's decision to withdraw the Most Favoured Nation (MFN) status to Pakistan means that India will not treat Pakistan on an equal footing in trade as is expected of fellow members of the World Trade Organisation. The move comes after the attack on a Central Reserve Police Force convoy in Pulwama, Jammu and Kashmir.

Just a dent

It does not strictly fall under the “beggar-thy-policy”, often used in international trade through which one country tries to resolve its economic problems by means that worsen the economic problems of its neighbours or trade partners. The moot point therefore is the sensitivity of the impact of the MFN status on Pakistan in terms of its trade with India. It can only be a pressure tactic and do little unless stringent actions are taken to stop informal trade that has been going on between the two countries for long.

Besides China, India and Pakistan are the two largest economies in the South Asian region. Being

dominant constituents of the South Asian Association for Regional Cooperation, both countries have immense potential for intra-regional trade. Trade now takes place using three channels: the official route; the illegal (informal) route, through smuggling along porous India-Pakistan land borders and also Afghanistan, which may not be accounted for in the national income; and lastly, through mainly Dubai and Singapore, which have free ports and accommodate legal agents of traders from India and Pakistan.

Informal trade generally takes place due to restrictions on import of specific items on grounds of health and religious beliefs; “high tariff barriers or transportation costs, making it cost effective to smuggle goods in the country; imposition of non-tariff measures (NTMs); weaknesses in the ‘rules of origin’ resulting in ‘trade routed through a third country; leakages in transit trade; and distortions in domestic policies such as the absence of or relatively low indirect taxes, creating an incentive to transport items illegally to neighbouring countries. Traders carry out informal trade between Pakistan and India through the exchange of goods at the border as well as through the personal baggage scheme” through “green channel” facilities at international airports or railway stations. “Infor-



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mal trade has also taken place through Afghanistan where goods are exported officially from India and later smuggled into Pakistan. Indian-made goods smuggled into Pakistan include cosmetics, liquor, stainless steel utensils, ayurvedic medicines, videotapes/CDs, confectionery/cashew nuts, tea, coffee, live animals and spices’.

Trade data

From 2011-12 to 2017-18, India's formal trade with Pakistan increased from \$1.94 billion to \$2.41 billion. Of this, the share of exports stands at almost 80% and has been fairly stable over the years (Ministry of Commerce and Industry, India). In 2012-13, informal trade between India and Pakistan – estimated in a study (ICRIER, N. Taneja and S. Bimal, 2016) – was \$4.71 billion, which was double when compared to formal trade. India's informal export share to Pakistan was again much higher at \$4 billion while its import share was low at \$0.71 billion.

After the Pulwama attack, the

follow-up measure to raise tariff duty on imports to 200% can again be trivial. So would be the NTMs, if increased, as India's imports from Pakistan are reasonably low at \$0.488 billion. Besides, imports from Pakistan grew at a lower rate (1.04%) compared to exports (1.32%) per annum from 2011-12 to 2017-18. Major exports from India that would hard hit would be cotton (not carded or combed) valued at \$0.273 billion, p-Xylene (\$0.082 billion), polypropylene (\$0.063 billion) and single yarn (\$0.088 billion). Pakistan's loss from major exports to India would be much less – from dates (\$0.113 billion), portland cement (\$0.078 billion), other petroleum oil (\$0.055 billion) and light oils and preparations (\$0.028 billion).

Thus Pakistan is an important export destination for India but not vice-versa. This is despite the fact that Pakistan imposes a large number of NTMs (143) on Indian exports, the major ones being export related measures (25.2%); technical barriers to trade (24.5%); and sanitary and phytosanitary measures (22.4%). These are ‘concentrated on agriculture, plants, and food-related products and operate as bans that shut competitors out of its market. Pakistan's NTMs are blunt instruments; it is difficult to use them to provide targeted protection to the strategic industries. In contrast, India's NTMs are

soft barriers which operate as delays or bureaucratic hurdles rather than bans. Pakistan's NTMs focus on general categories of goods whereas India's NTMs are on particular industries and trading partners. The widely used NTMs India uses include defence procurement procedure, preference to domestically manufactured electronic goods in government procurement’ and a ban on goods largely manufactured within the country.

The sense is that Pakistan may not face an exacerbating situation with India withdrawing the MFN status and raising the import duty. Informal trade may proliferate, which might not be in India's interest and an appropriate strategy is required to bring it to a halt. Also, under the South Asia Free Trade Area Agreement (SAFTA) 2004, Pakistan's share in external trade is less than 10%, while India's share is more than 70%. Such steps may propel Pakistan to look for new markets beyond SAFTA, corroborated by the recent meeting held with Saudi Arabia and growing prospects of trade through a third country, mainly via Dubai.

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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.

Electoral alliances

There cannot be a more opportunistic alliance than the one formed between the All India Anna Dravida Munnetra Kazhagam and the PMK (Page 1, “AIADMK signs pact with BJP, PMK, February 20). It was only recently that some in the PMK complained about the AIADMK's alleged corruption. One wonders what happened now. The PMK is too naive to take people for granted. One hopes that people recognise and reject the opportunistic politics behind such alliances.

T. ANAND RAJ,
Chennai

■ The PMK allying with the AIADMK is an unanticipated move given that that party has been critical of the AIADMK administration ever since Jayalitha was in power in Tamil Nadu. The BJP joining hands with the

AIADMK is another game of opportunism.
N. VISVESWARAN,
Chennai

■ Politics makes strange bedfellows and the seat-sharing accord reached between the AIADMK, the BJP and the PMK is proof that parties with disparate ideologies that have been spewing venom at each another can come together to fight elections by swallowing the insults. What is really puzzling though is the PMK hitching its wagon to the AIADMK star. There are numerous instances of the top leadership in the PMK highlighting the “misdeeds” of the Dravidian party and even accusing it of being indifferent towards the people (“Trolls have a field day on social media”, February 20).

C.V. ARAVIND,
Bengaluru

Pakistan's response

Pakistan Prime Minister Imran Khan may have broken his silence after the Pulwama attack, and he has only shocked us (Page 1, “Pakistan will hit back if India strikes, says Imran”, February 20). He has just repeated the usual statement one gets out of Pakistan, which is nothing but an evasive tactic. What more proof does he require? It is amusing that the Pakistan government, which is unable to control terror activities on its soil, is now talking about retaliation.

D. SETHURAMAN,
Chennai

■ The Pakistan Prime Minister should realise that he sounds silly and ridiculous. The world knows he is a puppet in the hands of his military masters. He has the audacity to say this when Pakistan is the ‘poster boy’ of terrorism. Mr. Khan is

not only a neophyte in politics but also equally untrustworthy.
DEEPAK SINGHAL,
Noida

■ Mr. Khan's response is hardly surprising. With Pakistan already bleeding financially, India's pressure could weaken it further. India appears to be adopting a clever strategy of not letting anyone know what its next move could be. Wearing down the enemy silently is a tactic with potential.

R. SIVAKUMAR,
Chennai

No to torture

A civilised nation can ill-afford to continue the inhuman ‘third degree treatment’ that convicts are often subject to in custody (Editorial page, “The importance of being humane”, February 20). Custodial torture is brutal and denouncing. It is time

this abhorrent practice is wiped out through suitable enactment of anti-torture laws.
B. GURUMURTHY,
Madurai

■ Punishments are meant to infuse fear in the person who commits a crime with the expectation that it will act as a deterrent. But one needs to draw the line as far as having severe custodial punishment is concerned. The reasons

and the circumstances under which a person may commit a crime have to be well-studied, and in this science and psychology play a key role. Individuals identified as a risk must be helped and their rehabilitation must be thought of. Deficiencies in the justice system must also be overcome.
VINOD SANTHANAM,
Tysons, Virginia, U.S.

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CORRECTIONS & CLARIFICATIONS:

In the Life page report on Hyperloop (Feb. 20, 2019, early editions), the second deck heading erroneously said the proposed system would cut travel time by one fifth to 30 minutes. Actually the travel time is going to be cut to 30 minutes - that is one-fifth the current duration of travel. The error was corrected in the later editions.

The picture caption in the story titled “Ever ready to deliver fitting response to the enemy: IAF chief” (Feb. 17, 2019) said it was a *Mirage 2000* firing missiles during a fire power demonstration in Rajasthan. Actually, the picture showed a MiG-27 aircraft.

It is the policy of The Hindu to correct significant errors as soon as possible. Please specify the edition (place of publication), date and page. The Readers' Editor's office can be contacted by Telephone: +91-44-28418297/28576300 (11 a.m. to 5 p.m., Monday to Friday); Fax: +91-44-28552963; E-mail: readerseditor@thehindu.co.in; Mail: Readers' Editor, The Hindu, Kasturi Buildings, 855 & 860 Anna Salai, Chennai 600 002, India. All communications must carry the full postal address and telephone number. No personal visits. The Terms of Reference for the Readers' Editor are on www.thehindu.com