## Politics and the police

The SC verdict reinstating a DGP limits the political executive's discretion in transfers

In 2006, the Supreme Court ruled in the Prakash Singh case that the chief of a State police force should have a fixed tenure of at least two years. Despite this, State governments have failed to protect Directors General of Police from arbitrary transfers. In the event of a regime change following an election, new political dispensations assume they have an unfettered right to reshuffle officers in the civil and police services. Rarely has this assumption been challenged. The Supreme Court's ruling reinstating T.P. Senkumar, who was replaced as head of the Kerala police soon after the Left Democratic Front assumed office last year, reinforces its 2006 judgment. It limits significantly the discretion enjoyed by the political executive in effecting transfers at whim. Expanding on the import of the *Prakash Singh* verdict, in which the court had given directions to insulate the police from external pressure and political influence, a two-judge Bench has delineated the limits of the State government's subjective satisfaction in removing the DGP. No longer is it valid for the government to justify a DGP's removal on the vague ground that it has reached a *prima facie* conclusion that the public is unhappy with the efficiency of the force. The government's 'subjective satisfaction' about the state of affairs must be based on "cogent and rational material", the court has ruled. On going through the record, the Bench found there was no material adverse to Mr. Senkumar, except some opinions and views.

The verdict is undoubtedly a political setback to Kerala's LDF government, which is already battling controversies caused by the words and deeds of a few ministers. The Pinarayi Vijayan government had defended its transfer of Mr. Senkumar by citing dissatisfaction among the public about the efficiency of the police following the Puttingal fireworks tragedy in Kollam and the murder of a Dalit woman named Jisha in April 2016. However, the court noted that these issues had "suddenly resurfaced" more than a month after the incidents – that is, after the present regime assumed office. In a telling indictment, the court has observed: "This might perhaps be a coincidence, but it might also be politically motivated..." The LDF government must immediately abide by the order to reinstate Mr. Senkumar, whose original two-year tenure was to have ended on May 21, 2017, and who is due to retire in June. However, the legal import of the verdict is not confined to Kerala. State governments would do well to implement the measures outlined in *Prakash Singh*, the message of which was that the police must be answerable to the rule of law and not to political masters. In particular, every State should set up a State Security Commission – Kerala has one – to both guide the police and decide on top police appointments and transfers.

## A stretched market

Investors stay put to drive a historic rally in the Indian bourses

The major Indian stock indices have rallied strongly despite lingering concerns over their historically rich valuations. Both the BSE Sensex and NSE Nifty reached all-time highs on Wednesday, up about 13% and 14%, respectively, since the beginning of 2017 and well above the performance of developed markets. The Sensex surpassed its previous high to end the day at 30,133 while the Nifty settled on a record closing high of 9,351. Investors have attributed the rally to the better-than-expected earnings results of blue-chip companies (like Reliance Industries Limited that posted record earnings this week), strong fund inflows from foreign institutional investors (FIIs) and the strengthening of the rupee. Waning concerns over the election results in France, U.S. President Donald Trump's anticipated tax reforms, and the allaying of concerns about the long-term impact of demonetisation may have also helped fuel the rally. FIIs have been at the centre of action over the past few months, turning into bullish buyers after the temporary slump in their investments after the demonetisation exercise. In the first three months of 2017, FIIs have poured $6.75 billion into equities, up from inflows of just $3.19 billion and $3.18 billion in 2015 and 2016, respectively. Adding strength to the rally, domestic investors have been net buyers of equities, investing almost ₹16,000 crore since the beginning of 2017.

Going forward, despite the willingness of foreign buyers to pay higher multiples, there remains the substantial risk of a downside attached to this rally. The market capitalisation of Indian stocks, according to a report by Motilal Oswal Securities published in March before the rally, rose 40% over the last year compared to a 21% increase in the overall world market cap. This increased India's share of world market cap to 2.5%, marginally above the historical average of 2.4%. Yet corporate earnings, which determine equity returns in the long run, have been lacklustre despite showing early signs of recovery from the demonetisation shock. While the current earnings season has been modestly positive, overall, reasons to justify the high multiples remain elusive. The implementation of the Goods and Services Tax is expected to dampen earnings in the near term, and the absence of recovery in capital expenditure by India Inc. offers little hope to expect an earnings boost. The impact of the strengthening rupee on corporate earnings is another concern. Investors, especially foreigners who benefit from an appreciating rupee, have taken the strong rupee as a vote of confidence in the economy. But its likely impact on the earnings remains ignored. According to UBS, a 1% appreciation in the rupee could reduce the Nifty's earnings by some 0.6%. All that said, the bears in the Indian markets have been proven wrong for long. It would not be surprising if investors stretch themselves further to support the rally.

# The world is still flat

The IMF's outlook for world economic growth exudes optimism, but it's too early to celebrate

T.T. RAM MOHAN

DEEPAK HARICHANDAN

Cheer up, prospects for the world economy have improved. This seems to be the headline message from the International Monetary Fund's (IMF) World Economic Outlook (April 2017). However, the caveats to the message – or "downside risks" as the IMF puts it – are so many that any celebration would be premature.

The IMF sees world economic growth accelerating from 3.1% in 2016 to 3.5% in 2017, and 3.6% in 2018. Both advanced and emerging economies are poised to do better. Growth in advanced economies is projected to rise from 1.7% in 2016 to 2% in 2017 and 2018. Emerging markets will grow at 4.5% in 2017, and 4.8% in 2018, compared with growth of 4.1% in 2016.

China will see growth decelerating from 6.7% in 2016 to 6.6% and 6.2% in 2017 and 2018, respectively. India's growth, in contrast, will accelerate from 6.8% in 2016 to 7.2% and 7.7% over the next two years.

### Years of secular stagnation

These are modest rates of growth compared to the record before the financial crisis of 2007. In 1999-2008, the world economy grew at 4.2%, with emerging markets firing away at 6.2%. But the IMF's projections do hold out the hope that the world economy may emerge from the prolonged slump it has seen consequent to the financial crisis of 2007.

This is a bit of a surprise considering that, until very recently, many economists had come to believe that the world economy was in the grip of 'secular stagnation', an expression coined by the economist Alvin Hansen in the 1930s. Hansen argued that where savings substantially exceed investment, the real interest rate tends to drop to a very low level.

Conventional monetary policy operates by reducing nominal interest rates in order to stimulate growth. Where the nominal interest rate is already close to zero, there isn't much scope for cutting interest rates. In conditions of 'secular stagnation', conventional monetary policy is doomed to be ineffective.

The burden of reviving growth in such a situation falls on fiscal policy. This means running up large government deficits and increasing public debt. But markets will finance government borrowings only up to a point, and there is also resistance among policymakers to increased government spending.

This seemed to be an accurate description of the world economy in recent years. Economists underlined that the real interest rate had indeed been falling for several years.

This was because savings were rising and investment was falling. Higher savings flowed from factors such as greater inequality (the rich can spend only so much), and greater life expectancy and reduced post-retirement benefits (which means people have to save more to provide for retirement). Investment had fallen because capital goods had become cheaper, the new economy did not require a great deal of capital and population growth had slowed (which meant lower demand for goods down the road). With decreased spending, inflation rates also fell in the advanced world.

### Winds of recovery?

But the situation has changed quite a bit in recent months. Inflation is trending upwards. The IMF expects the inflation rate in the U.S. to rise from 1.3% in 2016 to 2.7% in 2017. In the Euro area, it sees inflation rising from 0.2% to 1.7%. The spectre of a deflationary spiral has thus been dispelled.

Does the incipient revival of the world economy disprove the 'secular stagnation' hypothesis? It's too early to tell. We have not seen big increases in private or public investment in the advanced economies. Instead, the stock markets have soared consequent to the election of Donald Trump as U.S. President, and household debt is once again rising in the advanced world.

We cannot be certain, therefore, that the projected acceleration in growth in the medium term is based on a solid recovery. It could well be the result of speculative excess which cannot be sustained for long. The IMF warns that high income inequality is likely to persist. This means that an important cause of 'secular stagnation' will remain unaddressed.

### All eyes on the U.S.

Much of the boost to market sentiment has to do with expectations that the U.S. will see a strong fiscal stimulus through the combination of tax cuts and massive infrastructure spending that Mr. Trump promised during his election campaign. His flip-flops on foreign policy in the first 100 days, however, raise doubts over his ability to follow through on his campaign pledges.

The IMF suggests that the U.S. policy agenda could unfold in ways that could derail its forecasts. It factors in a widening of the fiscal deficit by 2 percentage points by 2019. This could have either of two outcomes. It could cause output to rise while leading to a moderate rise in interest rates. Or it could cause a sharp rise in interest rates without any significant increase in output. The world economy would benefit in the first scenario but not in the second.

The uncertainties in the U.S. policy agenda are not confined to fiscal policy. The Trump administration has promised to roll back financial regulation put in place after the financial crisis, saying these are coming in the way of efficiency and innovation in the financial sector. Such deregulation would lead to imitation elsewhere, jeopardising the hard-won gains in ensuring financial sector stability.

### Dip for emerging economies

The IMF warns that emerging markets, including India, will find the external conditions for growth less supportive than in the post-2000 period thus far. Slower growth in the developed world means lesser demand for emerging market goods and services. Tightening monetary conditions in the advanced world spell lower capital flows (although foreign investors will still be attracted to emerging markets with sound fundamentals). Subdued commodity prices mean that terms of trade improvements will be limited.

Emerging markets accounted for 70% of global growth in purchasing power parity terms in 2000-08, nearly double their contribution in the 1980s. Following the global economic crisis, as growth in advanced economies dipped sharply, the contribution of emerging markets rose even further to 80% in 2010-15. With external conditions now turning adverse, the IMF sees the contribution of emerging markets and developing economies (EMDEs) to global growth in 2016-21 falling. The fall is quite small but it may mark the reversal of a benign trend.

China faces the problem of a large expansion in credit which has sustained growth in recent years. The other big emerging market, India, too is wrestling with a huge debt overhang. So are large parts of Europe. Excessive debt in many parts of the world could undermine the IMF's upbeat forecasts.

The threat of protectionism and anti-globalisation sentiments in the U.S. and Europe pose bigger risks than many of the factors mentioned above, although it is not yet clear how these risks will play out. It is significant that at the IMF meeting this month, finance ministers and central bankers refrained from commitments to resist protectionism out of deference to America's preferences. They pledged instead to promote "a level playing field in international trade", a term that is open to multiple interpretations.

Finally, there are rising geopolitical tensions. U.S.-Russia relations have touched a new low. There is a real prospect of confrontation between the U.S. and Russia over the conflict in Syria. Tensions over North Korea have reached a flashpoint. The U.S. and China are at loggerheads over maritime rights in the South China Sea.

To believe that these add up to brighter economic prospects requires more than ordinary optimism. Do not be surprised if the IMF comes up with a 'downgrade' in the months ahead – it's happened before.

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# Navigating between friends

Any narrowing of the U.S.'s rhetoric-action deficit vis-à-vis Iran will impact India

ARVIND SIVARAMAKRISHNAN

Changes in the United States' attitude to Iran could be very serious for India; among the issues involved are India's access to Iranian oil supplies and other resources, the progressively more cordial relations between New Delhi and Washington, and India's deepening defence relationship with Israel.

### Upping the ante

The Trump administration is openly and consistently confrontational towards Iran, where President Donald Trump's predecessor Barack Obama was firm but constructive. On April 18, the U.S. Secretary of State Rex Tillerson wrote to Congress – in the quarterly review Congress requires of the July 2015 international nuclear deal – that Iran continues to comply with the deal, but in the same letter he called Iran "a leading state sponsor of terror". A day later, the Secretary of Defense, James Mattis, who has long been very hostile to Iran, accused it of attempting to "destabilise yet another country", meaning Yemen. Two months earlier, on February 4, Mr. Mattis had responded to Iran's late-January test of a ballistic missile by calling it the world's "single biggest state sponsor of terrorism". On April 12, the U.S. Permanent Representative to the United Nations, Nikki Haley, said in a Security Council briefing on Syria, "Iran is [Bashar al-]Assad's chief accomplice in the regime's horrific acts."

Second, Washington's major regional allies, Israel and Saudi Arabia, have been no less hostile. Israeli Prime Minister Benjamin Netanyahu has said Iran's "aggression must not go unanswered". Following exchanges with Riyadh, the White House has said the U.S. and Saudi Arabia have agreed to address what the U.S. Treasury's Office of Foreign Assets Control, in a statement imposing several sanctions on businesses and individuals for Iranian links, calls Iran's "destabilising activities" in the region.

Third, Mr. Trump's own statements that he could consider committing U.S. troops abroad have been accompanied by an unprecedented $54 billion increase in the defence budget, despite the President's frequent pre-election denunciations of what he called excessively high defence spending.

### India's Iran relationship

All this is highly significant for India. In October 2016, Iran was India's largest supplier of crude oil, with its exports to India exceeding the overall largest supplier Saudi Arabia's exports of 697,000 barrels per day (bpd) by over 10%. As the


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U.S. federal body Energy Information Administration notes, India is also funnelling Iranian oil into its expanding strategic petroleum reserves (SPR), with a view to holding 90 days' supply against contingencies. Crucially, Tehran has consistently offered New Delhi very favourable terms, including non-dollar oil sales and other commercial attractions.

Oil is of course only one commodity in a long-standing Indo-Iranian trade relationship; Iran buys basmati rice and sugar from India, as well as various agrochemicals and petroleum products. Substantial expansions in the volume of business are also likely, despite earlier tensions over delayed Indian payments for oil. The Indian government has, furthermore, taken steps to reassure Indian insurers in the public and private sectors, as well as banks, over the risks they might take in handling Iranian money while the U.S. sanctions regime remains in force.

In addition, India and Iran have reached agreement on the expansion of several industrial facilities at the port of Chabahar; the work is to be undertaken mainly by Indian entities. Another substantial deal is the one under preparation for India to have operating rights in the Farzad B gas field, which lies within Iranian waters in the Persian Gulf.

### Consequences

The prospect of a more aggressive U.S. attitude on Iran, if not stronger sanctions against Tehran, will almost certainly make the Government of India very uncomfortable, with the attitudes taken by Israel and Saudi Arabia no doubt exacerbating New Delhi's predicament. It may help India that within the U.S. and Israel, moderating factors – both commercial and military – obtain. In 2012, the then Chairman of the U.S. Joint Chiefs of Staff, General Martin Dempsey, stated that attacking Iran would only delay Iran's development of a nuclear weapon and not stop it. At that time too, the former head of Israel's intelligence service Mossad, Meir Dagan (now deceased), said that a pre-emptive attack on Iran was "the stupidest idea" he had ever heard.

Among the commercial agreements which have followed the Iran nuclear deal (the Joint Comprehensive Plan of Action between Iran, the five permanent members of the United Nations Security Council and the European Union), is a 10-year, $16.6-billion contract for the aerospace giant Boeing to supply Iran Air with 80 passenger aircraft. Quite apart from Boeing's competition with the EU manufacturer Airbus, any attack on Iran could put about 1,00,000 U.S. jobs at risk.

Perhaps as a result, the Trump administration, despite its bellicose rhetoric, is showing some signs of moderation in all this. For example, the sanctions announced since the recent Iranian missile test amount to no more than the implementation of measures already prepared by the Obama White House. It is, nevertheless, virtually certain that Tel Aviv and Riyadh will maintain what pressure they can on Washington by continuing to be vituperatively anti-Iranian, at least in public. Whether or not the U.S. allows the exchange of rhetoric to escalate may well depend on whose advice is decisive, even though on the evidence Iran is not a clear and present threat.

For India, a further point is that while previous U.S. administrations exempted India from certain sanctions over India's continuing oil deal with Iran, the Trump administration may see the matter differently. One saving grace may be that no matter what Mr. Trump's main regional allies tell him or want him to do, they cannot predict what he will actually do.

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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.

### Easy target

The repeated attacks on CRPF personnel by Maoists are a result of a lack of proper leadership in this force. The lapses seem to be many, such as poor intelligence-gathering, improper battle drills while moving in insurgency-affected areas, a lack of use of technology such as unmanned aerial vehicles with thermal imagery cameras and so on. As a force, the CRPF needs a relook at its organisational-level management and training in general. The induction of serving Indian Army officers on deputation or retired short service commission officers on permanent absorption may help the situation.

S. SANKARANARAYANAN,
Chennai

### Dhinakaran's arrest

The arrest of All India Anna Dravida Munnetra Kazhagam (Amma) deputy general secretary T.T.V. Dhinakaran is one of many episodes exposing the deep rot that has affected Indian politics ("T.T.V. Dhinakaran arrested for bid to bribe poll panel", April 26). It is tragic that politicians and their aides think they can manipulate the system to suit their whims and fancies. There is an urgent need for political reforms and regulation. Political parties and politicians, just like bureaucrats, must also be held accountable through RTI, CAG and other vigilance measures, especially as their decisions impact our lives. There must also be a separate regulator to look into the affairs of all political parties in terms of funding and operations.

AJAY ASHOK,
New Delhi

### Liquor ban

The rights of people who do drink responsibly versus the social evils of drunk driving, alcoholism, domestic violence and poverty is a never-ending debate. And most of the existing solutions create more problems. A person drinking alcohol might claim that he is exercising his individual right and any attempt to prevent or restrict him could be construed as moral policing. But it is an undeniable fact that he does create potential risks and liabilities towards innocent third parties. The way we have been trying to regulate this has been quite impractical. My suggestion would be to issue smart card licences to drinkers (only Indian citizens), the way we issue a driving licence. All liquor shops and bars can be mandated to verify the drinking licence (or the foreign passport) of an individual before selling or serving and do so only to licence holders who present themselves at the counter. People caught for drunk driving, if found to have no drinking licence, can be severely punished with a jail term. A licence holder's drinking licence can be sequestered for 6 months if he or she is found to be driving after drinking. Bars and liquor shops can use simple smart card readers and a PC/mobile/tablet-based software to validate the licence of a patron. The licensing authority's server can flag licences that have been temporarily suspended or withdrawn (similar to credit cards). This approach will bring down the social evils of drinking without affecting the rights of those who drink responsibly.

RAMKUMAR R.S.,
Chennai

### 'Promotion' of Hindi

Hindi is undoubtedly a beautiful language; it is the language of the vast majority. C. Rajagopalachari once wrote in *Swarajya*: "While I strongly protest against making Hindi the official language of India, I equally strongly recommend the inclusion of it in the school curriculum everywhere. English is compulsory in many European states on account of its importance. So also must Hindi be studied by people of all parts of India on account of its importance... But this does not mean that the great injustice should be perpetrated of imposing Hindi as official language of the administration of India." It should be left to one's wish to learn a particular language. As long as people in the South are not comfortable with Hindi, there is no point in making learning it compulsory. It would be better to leave the matter as it stands today instead of kindling a simmering fire.

S. RAGHAVAN,
Secunderabad

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