

Never waste a good crisis

The situation created by Ujit Patel's resignation should be used to push through much-needed reforms



RAGHUVIR SRINIVASAN

Among the quintessential traits of a central banker is to be unpredictable in action so that the markets can be kept guessing. Ujit Patel exhibited this quality in ample measure when he announced his decision to walk out of his job as Governor of the Reserve Bank of India (RBI) on Monday.

His resignation caught everyone by surprise, including the markets which had been lulled into believing that the spat between the central bank and the Centre had been amicably resolved. The rumours of him resigning, which were doing the rounds before the last meeting of the RBI central board three weeks ago, had died down. He had chaired the Monetary Policy Committee meeting just last week and also a meeting of the Board for Financial Supervision that discussed the issue of Prompt and Corrective Action on some banks.

Governance issue

So, what went wrong suddenly? Given that Dr. Patel has not offered any clues in his resignation letter, we can only speculate. The one important issue that remained on the table after the November board meeting was of the central bank's governance and autonomy. Interestingly, in the days following the meeting, there were reports of how the Centre was planning to push for board committees that would supervise specific areas of the central bank's operations. Such a move would have compromised the Governor's position and curtailed his operational freedom. Was this the proverbial last straw for Dr. Patel?

We'll never know unless he chooses to write about this in his memoirs. But it is disappointing that he chose the easier option of walking away over standing up and fighting for the institution. This is a battle between the government and the central bank, not between individuals representing the two sides. But sadly, Dr. Patel seems to have taken the Centre's push as a personal affront.



"It is disappointing that Ujit Patel chose the easier option of walking away over standing up and fighting for the institution." The former RBI Governor at the central bank's head office in Mumbai in June. *AFP

It is not as if RBI Governors have never had serious run-ins with the government before. But they were always handled quietly behind the scenes and the only way that the public ever got to know of these episodes was when RBI Governors wrote memoirs. This time was different though.

Ill-advised escalation

In late October, Deputy Governor Viral Acharya made an explosive speech, which, in retrospect, was a needless escalation. In that speech, Dr. Acharya cautioned that governments that disregard the autonomy of central banks risk incurring the wrath of the markets. There are those who believe that the RBI had no option left after the Centre began consultations under Section 7 of the RBI Act, which empowers the Centre to direct the RBI to act as per its instructions. Yet, all that the speech achieved was to harden the Centre's stance. It upset the delicate balance between the RBI and the Centre. Though, as the sovereign, it holds the ultimate authority, by convention the Centre has granted a certain autonomy to the RBI in its functioning.

The main point of friction between the two – on monetary policy – was also addressed through the introduction of the Monetary Policy

Committee two years ago by amending the RBI Act. In effect, an important thread in the relationship was institutionalised and the personal element was taken out, precisely to avoid situations such as the current one.

It is true that the Centre has been more assertive in its relationship with the RBI in recent times, but it has some genuine grievances such as on the issue of providing liquidity for non-banking finance companies and a less stringent capital norms regime for banks. As the political executive, the Centre obviously feels that it is responsible for ensuring that there is no freeze in the credit markets. The fact is that both sides were working with the right intentions and reasons, and given this, it should not have been impossible to find a middle road behind closed doors.

Added to this is the Centre's grouse that the RBI was found wanting in its supervision role. The Punjab National Bank fiasco and the IL&FS collapse both happened right under the nose of the RBI, which is

supposed to have conducted regular inspections of both entities. Neutral observers have also pointed to these lapses.

That said, the Centre deserves blame for pushing the Governor into a corner. It was probably too aggressive in pushing its ever-growing agenda. At last count, there were at least six issues that it had raised with the central bank for resolution, all of them profound. It may have pointed to the nuclear button of Section 7 but Dr. Patel has had the last laugh.

His resignation has queered the pitch for the Centre, which is now scrambling for non-existent defences. The outgoing Governor's resignation has trained the spotlight so sharply on the festering issues between the RBI and the Centre that it is extremely difficult for his successor, Shaktikanta Das, to act on any of them in favour of the latter, even if it is merited. Seen from this angle, the Centre has probably shot itself in its foot.

The road ahead

The damage is now done, but what's the road ahead? The crisis points to several reforms that are needed in the RBI and changes in its equation with the Centre. As former RBI Governor Raghuram Rajan points out in his book, we need a clearer enunciation of the central bank's responsibilities. The position of the RBI Governor in the government hierarchy is not defined clearly. "There is a danger in keeping the position ill-defined because the constant effort of the bureaucracy is to whittle down its power," argues Dr. Rajan.

Not just this, the personal element in decision-making in the RBI has to be taken out and replaced by an institutional mechanism, much like the MPC did in the case of monetary policy. The reference of the reserves sharing issue to a committee is one such idea where there will be little scope for the Governor to act on his own just as the government too cannot exert pressure on him.

Never waste a good crisis, said Rahm Emanuel, former White House Chief of Staff. After having created the crisis, the least that the Centre can now do is to use it to reform the system.

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Unstoppable in Telangana

K. Chandrasekhar Rao's welfare schemes helped the TRS surge ahead despite discontentment in some regions



AJAY GUDAVORTHY

The Telangana Rashtra Samithi (TRS), led by K. Chandrasekhar Rao, popularly known as KCR, has registered a huge win in the Assembly elections. This can be seen as a vote for welfare. The formation of a separate State was seen as a possible solution to a sustained agrarian crisis and massive jobless growth. KCR won his first term as Chief Minister in 2014 after leading an unprecedented mass mobilisation for a separate State. Telangana region moved overnight from a state of economic crisis to a State rich with resources, a surplus budget, and with a rising per capita income. The government did reasonably well in providing irrigation and power, and formulated welfare policies for occupational groups in rural areas. It managed to shift the surplus generated by the IT sector and other Hyderabad-based sources to the rural poor. The State remained relatively peaceful without incidents of street violence and other kinds of social strife.

Brewing discontent

This does not mean that there has been no discontent in Telangana over the last few years. Primary among worries has been the issue of jobless growth, and the only recruitments made by the TRS government were of police constables and school teachers. The aspirations of the youth remained unaddressed. KCR's leadership also disallowed dissent of any kind. Leaders of the Opposition, including the leader of the Telangana Jana Samithi, M. Kodandaram, were not allowed to hold meetings and rallies to elaborate on issues that the TRS government had failed to address. The ruling party managed to use money power to bring to its side various Opposition leaders. Further, the standard of public discourse was brought down by the repeated use of vulgar and abusive language against anyone who questioned KCR's governance. Telangana was transformed into a welfare State without democracy. The students of Osmania University, who played a pivotal role in the formation of the State, were the targets of an ill-directed repression – even funds to the university were cut when students protested against

the passage of the Telangana State Private Universities Bill. The leader of a mass movement demonstrated utter contempt for public spiritedness, dissent and dialogue.

The Opposition parties, led by the Congress, had the scope and responsibility to address this discontent. But the Congress failed to provide an alternative narrative. Instead of becoming representatives of the same public spiritedness that delivered the separate State of Telangana against all odds, the party was busy stitching up electoral alliances. The leadership of the Congress should have ideally connected with various social constituencies to make sense of the mood and understand the nature of their demands. Perhaps, a corporate model of growth leaves

very little to offer compared to what the TRS has delivered on the ground. Further, the Congress's alliance with the Telugu Desam Party and Andhra Pradesh Chief Minister Chandrababu Naidu's campaign looked more like an electoral calculation than an attempt to provide a suitable alternative. What Telangana was looking for included long-term solutions, not mere loan waivers for farmers, and full-time employment, not contractual and lower-end jobs. The Congress failed to convince voters that it would address these concerns. While Telangana was demanding more than what was delivered by the TRS, the Congress was promising more of the same. This left the electorate with little choice, and they decided to vote for what had already been delivered rather than demand more.

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Implications for 2019

This result will have implications for the 2019 general election. KCR was uncertain of the results and called for an early poll. Now he needs the support of neither the BJP nor the All India Majlis-e-Ittehadul Muslimien. This will have an impact on the TRS's equation with the BJP. If KCR manages, as a result of the popular mandate, to walk over the BJP, the crisis of finding alliance partners for 2019 will only deepen for the BJP. This, however, does not make it easy for the TRS to join the mahagathbandhan, given that the Congress remains its primary rival in Telangana. Also, KCR is not known to be a champion of democracy and tackle the issue of failing institutions. It will be interesting to observe what path the TRS will chart for itself next year.

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SINGLE FILE

Providing health for all

Japan and India are exchanging ideas and expertise in many projects to promote universal health coverage

KENJI HIRAMATSU



Today, on Universal Health Coverage (UHC) Day, I wonder how many readers are aware of what UHC is. According to the World Health Organisation, UHC means "ensuring that everyone, everywhere can access essential quality health services without facing financial hardship". It sounds basic, yet the basics often pose a major challenge. Japan has been leading the international efforts towards UHC, including its inclusion in the sustainable development goals and G20 agenda under our chairmanship next year, because health is one of our fundamental rights.

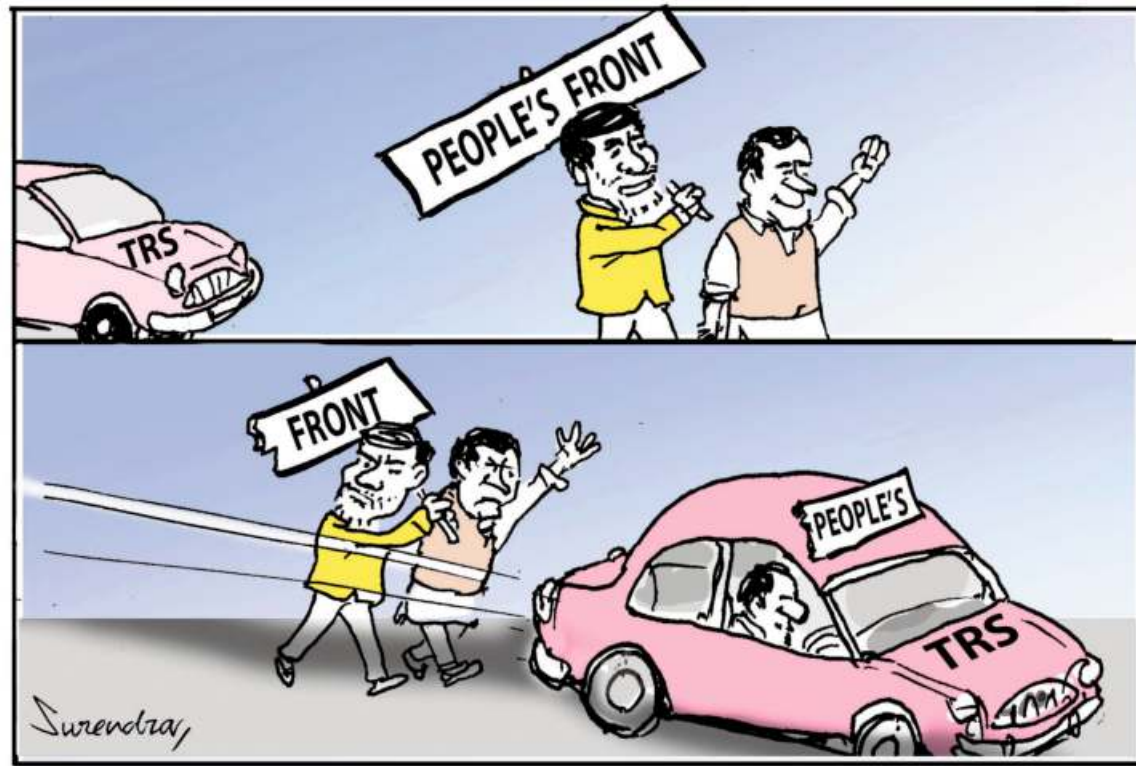
India has taken the vital first step towards UHC through Ayushman Bharat. This challenge is reminiscent of the path that Japan took more than half a century ago. Japan created national health insurance coverage in 1961, when it was yet to take off economically. A major political decision was required to expand national health insurance and establish medical schools all over Japan. The implementation of UHC could only have been possible through an early and vast national investment, and through a comprehensive government effort, with the Ministries of Health, Finance and Education, as well as local governments, working together.

This investment has paid off. UHC has increased the number of healthy people and healthy workers in Japan. It has contributed to the economic miracle of Japan. Moreover, UHC has ensured social equity by functioning as a mechanism for redistribution of incomes. Even in the remotest of places in Japan, you do not have to worry about healthcare. The peace of mind which UHC ensures to the Japanese is an indispensable ingredient of our overall well-being.

We are also partnering with India in wide-ranging projects for better healthcare. Japan has previously worked with India to eradicate polio in India. Today, Japanese and Indian doctors are exchanging ideas and expertise at a research and control centre on diarrhoea established by Japan in Kolkata, and precious lives of newborns are being saved daily in a children's hospital constructed in Chennai. In 17 cities across Tamil Nadu, urban healthcare systems are being strengthened with our cooperation.

When Prime Minister Narendra Modi visited Japan at the end of October, India and Japan signed a new Memorandum of Cooperation on healthcare to pursue the synergies between Ayushman Bharat and Japan's Asia Health and Wellbeing Initiative. We aim to pursue our cooperation in various fields, such as honing skills of doctors in surgery of trauma as well as providing technical training for Indian nurses studying in Japanese caregiving facilities. We hope these efforts will lead to a better health ecosystem and the promotion of UHC in India. Japan is also willing to learn from India. For instance, Ayurveda can bring a new dimension to Japan's healthcare system. The path towards UHC is not short. But India has taken the first bold step, and Japan will march along with India on this path, sharing its lessons, as a friend.

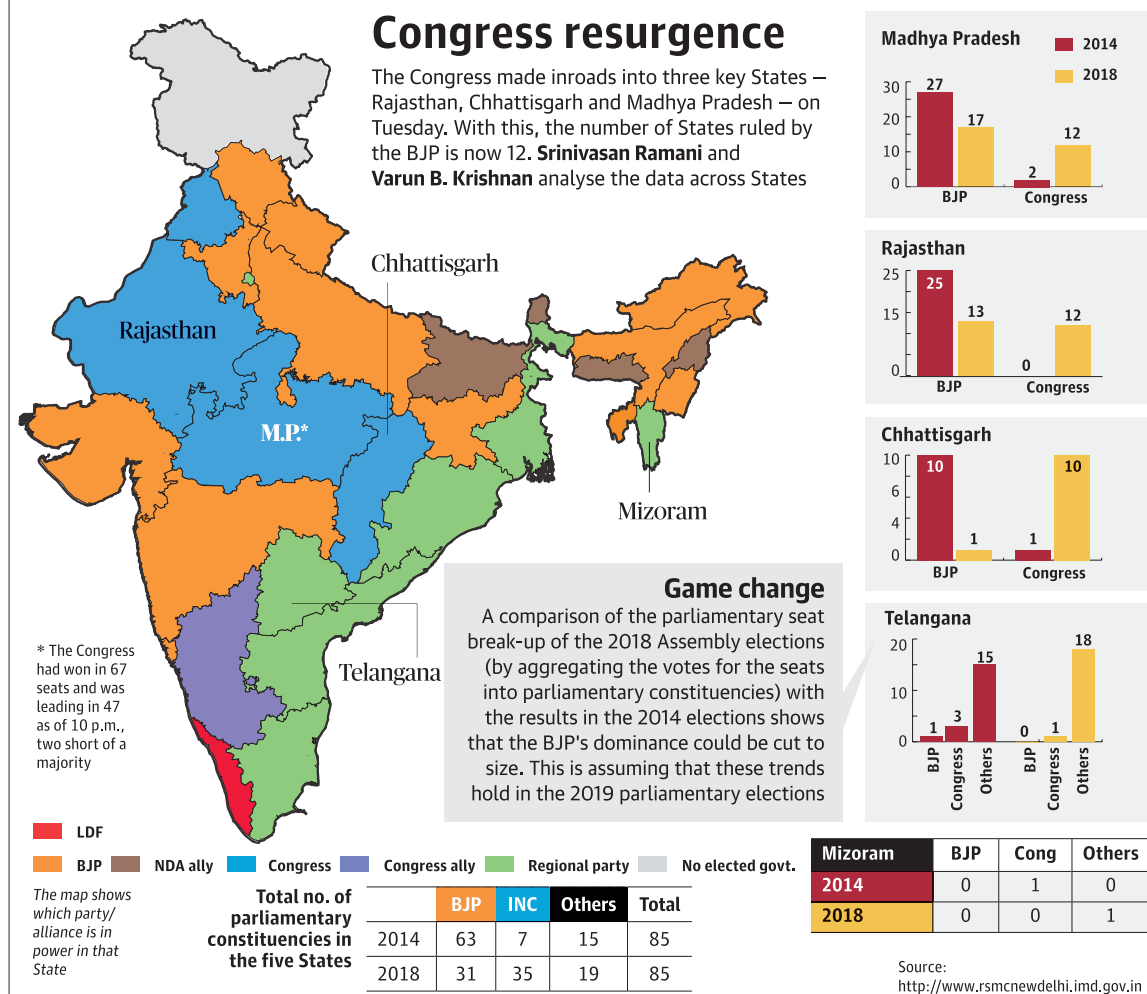
The writer is the Japanese Ambassador to India



DATA POINT

Congress resurgence

The Congress made inroads into three key States – Rajasthan, Chhattisgarh and Madhya Pradesh – on Tuesday. With this, the number of States ruled by the BJP is now 12. Srinivasan Ramani and Varun B. Krishnan analyse the data across States



FROM The Hindu. ARCHIVES

FIFTY YEARS AGO DECEMBER 12, 1968

Malappuram district: Centre's fears

The internal affairs committee of the Cabinet to-day [December 11, New Delhi] discussed the political situation in Kerala, with Special reference to the proposed creation of Malappuram district having a Muslim majority. While recognising that the question fell within the State jurisdiction and the Centre could not direct the Nambudiripad Government, the committee was nevertheless greatly concerned about it. In view of the resentment expressed by the local population, it was felt that ultimately implementation of the proposal would aggravate communal passions and worsen the already bad law and order situation in the State. The Home Minister apprised the committee of the situation.

A HUNDRED YEARS AGO DECEMBER 12, 1918.

Air flight to India.

At exactly two minutes past two to-day [December 10] the 1st aeroplane to fly to India from Europe touched Indian soil (at Karachi) amid cheers and applause of a large crowd of spectators numbering well over ten thousand. The great Handley Page biplane was first sighted at 1.45 at a height of about 7,500 feet, approaching at a rate of about sixty miles an hour. A faultless landing was made; the huge machine was then taken along the ground close in front of the lines of spectators before turning to proceed in the direction of the tents where it came to rest. The crowd streamed across the ground to see General Salmond and General Barton as spick and span, as if they had merely travelled a few miles in a motor car, alight to be welcomed by Brigadier-General Fowler, Commanding Karachi Brigade. The Aeroplane left Charbar on the Mekran coast 490 miles away at 7.40 this morning, the night having been passed there, and travelled without incident to Karachi chiefly at a flying speed of 67 miles an hour and travelling over the sea along the coast.

CONCEPTUAL

Okun's law

ECONOMICS

This refers to an empirical relationship between an economy's growth rate and its unemployment rate. Okun's law states that when an economy grows at an annual rate of over 3%, its unemployment rate will fall at a rate that is equal to half the number of percentage points by which the growth rate exceeds 3%. For instance, if an economy grows by 5%, its unemployment rate will drop by 1%. By the same logic, the unemployment rate will rise proportionately if an economy's growth rate falls below the threshold of 3%. It is named after American economist Arthur Melvin Okun. The law has been criticised for its strict mathematical view of complex economies.

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