

Deal With Trump, Also With Congress

All the institutions of democracy matter

US President Donald Trump has made it clear that his administration is focused on putting America First. This is not a radical departure. President Trump's predecessors too put the interests of the United States at the heart of their engagement with the world. Keeping the interests of the country and its people front and centre is the compass that guides every democratically elected head of state and government.

Over the last few decades, successive administrations have built a strong and mutually beneficial relationship with the United States, irrespective of the party in power in Washington or New Delhi. The tempo of the relationship manifested through increased trade, strategic partnerships and bilateral cooperation needs to be sustained. New Delhi needs to analyse Trump and his domestic appeal to identify opportunities for India to partner with the US in a manner that is beneficial to both countries. The Trump administration is still feeling its way, and India needs to seize this opportunity to focus on the areas

where both countries can work together. Challenges like terrorism, globalisation and investments will require countries to work together, and New Delhi needs to ensure that its interests are protected as Trump seeks to define his administration's outlook on these issues. New Delhi must have the relationship with the Trump administration so that it can weigh in and put its point of view across, and negotiate with it when required.

Democracy is protected through its institutions, and the first four weeks of the Trump presidency have made it abundantly clear that institutions in the United States are alive to their responsibility. Countries like India that have been important partners and allies of the United States need to work with the newest occupant of 1600 Pennsylvania Avenue to ensure that mutual interest, benefit and progress continue to be the leitmotif of the bilateral relationship. That requires a thorough understanding of Donald Trump and the ethos of his administration, as well as engaging directly with other institutions, such as Congress.



Nilanjan Banik

A s economists, we are trained to assume every individual is rational (read: smart). He takes all available information into account to maximise his objectives. Objectives vary.

For a consumer, the objective is to maximise benefit from consuming goods and services, for business, it is to maximise profits, and for politicians, it is to win the election.

US President Donald Trump is no different. He won the presidential election on the back of his protectionist rhetoric. Would he change his strategy given the dynamics of world economic order?

Data suggest that the US economy faces four headwinds: demographics, education, debt and inequality. Trump chose protectionist strategies, taking them into account.

Consider demography. The high growth of US economy during 1970s and 1980s was due to a younger working-age population, and women entering the labour force. But now, with the retirement of baby boomers and fewer people in the working-age group, labour force participation has fallen. This means lower US real income, but more government spending on welfare activities. The elderly need protection in terms of social security, specifically lower medical costs, something that Trump promised.

The costs of US college education have surged, and there are more dropouts. College completion rate is around 15 percentage points lower than neighbouring Canada's. Higher education costs have pushed students to quit midway denting productivity.

The fall in labour productivity has led firms to hire fewer people. Recent data suggest a drop in hourly wage

rates of contractual factory workers. It is easier to convince unemployed Americans that their jobs have been taken away by outsiders, and it is time to bring those jobs back.

The promise of imposing 35% tax on products made by American firms outsourcing jobs or building factories outside the US signalled that Trump cares about unemployed Americans. By targeting China, Trump was able to woo voters from the Rust Belt states such as Michigan, Wisconsin and Iowa, who believed that cheaper Chinese imports and Mexican labour led to their job loss, and not a fall in labour productivity.

In reality, this fall in labour productivity and jobs losses are fuelled by paradigm shift in technology. Technological innovations are no longer inclusive. The innovations that happened during last 150 years were inclusive. For instance, in travel, the economy graduated from horse-driven buggy to Boeing. Electricity and ownership of motor vehicles rose to near 100% from zero.

Long in the Bluetooth

Mobile phones now have more computing power than the computer that launched the rocket to the moon. All this was instrumental in raising productivity, and real income growth in the US, in a way that no one has ever imagined before. But no longer.

In this age of data algorithm and tech startups, wealth is being cornered by a select few. US regulators have already approved smart pills that send highly accurate diagnostic information from inside patient's body to doctors via Bluetooth. Very soon, computing power of a mobile handset will equal that of the human brain. A significant societal dislocation is waiting to happen as machines and robots take jobs of humans.

In this lower-interest and highly automated manufacturing regime, firms and startup owners are likely to corner a larger share of wealth, but not low-skilled labourers. America has already transformed into a gig economy where the labour market is increasingly characterised by prevalen-

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Missing Pieces in Commodity Markets

Finance minister Arun Jaitley's Budget 2017 speech did mention that the commodities markets require reforms for the benefit of farmers. He also called for an operational and legal framework to integrate spot and derivatives markets for commodity trading, which is unexceptionable. The capital markets regulator, Sebi, faces legal difficulties in allowing options trading in commodities, and has reportedly decided to focus, for now, on attracting more institutional players to the commodity futures market. But such segmented approach in market design will not do.

The point is to have a sophisticated and well-developed financial system to better manage myriad risks across currencies, securities and derivative contracts. Options — which give the buyer the right but not the obligation to buy (or sell) a certain asset — in commodities would lead to much-needed flexibility in the futures market. Yet, we lack a firm legal framework for commodity options. The Forward Contracts (Regulation) Act (FCRA), 1952,

does have provisions that give rise to a measure of uncertainty in futures trading. While the FCRA is under the Union List, trades on the underlying commodities fall under the State List for agricultural commodities. There are various other stand-alone laws, such as the Warehousing Act, 2007, or the Food Safety Act, 2006, or the APMC Act that produce an incoherent ecosystem for commodity derivatives.

The reported Sebi game plan is to let private equity funds and venture funds into commodity futures, to be followed by mutual funds. And, in the next phase, insurers and other financial institutions would gain entry. But artificially compartmentalised, isolated financial markets would be wholly suboptimal and avoidable. Better market design, please.

Given UAE's fast growth, it could build the first city on Mars too

From Earthlings to Martians

Conventional wisdom suggests that no earthling actually wants to be called a Martian, but then times and mores change. Not all earthlings have the same idea about the red planet either. Many earthlings, however, do have a yen to be first. That's why competitions of all kinds have abounded on this planet since time immemorial. And now that the universe is our oyster, a race to be first in that arena too was inevitable. So, is it not surprising that the United Arab Emirates has announced that it will complete the first city on Mars exactly a century from now: 2117. The 100-year time frame appears to be almost unnecessarily generous considering how fast the seven Gulf emirates have developed since oil was discovered just five decades ago.

The UAE's unbeatable list of recent construction-related firsts — from the tallest man-made structure on land and the largest mall to the world's fastest rollercoaster and largest automated parking facility — emphasise its immense capacity to pull off large projects. Add to that Dubai's announcement last year of building the world's first "Happiness City" complete with a "reinvented urban ecosystem" to follow up on Abu Dhabi's first zero-carbon and zero-waste initiative called Masdar City, Emirati earthlings certainly appear to be a shoo-in to become the first Martians too.

GROWTH BLUEPRINT

Only Positive Entries in IIM Bill



Ashish Nanda

I respect Prof. Samir K Barua. He was my professor when I was a student at the Indian Institute of Management, Ahmedabad (IIM-A), over three decades ago. He was my predecessor as director at IIM-A. So, I pay attention to his views. Reading his recent piece, 'Autonomy for IIMs: Government must make accountability a key condition' (<https://goo.gl/BC9fhh>), I noticed several inaccuracies and would like to address some of them.

First, to characterise the recent IIM Bill as an extrapolation of IIM-A's Memorandum of Association (MoA) of 2011-12 is a reductionist reinterpretation of history that underestimates the efforts of several individuals and institutions to arrive at the current juncture. I acknowledge particularly the current HRD minister Prakash Javadekar; officials in the PM's secretariat; and past MHRD officials at additional secretary, joint secretary and director levels, who worked tirelessly through several rounds of consultations as the proposed Bill went through multiple iterations.

I applaud the forthrightness and efforts of the then-chair of IIM-A Mr Naik, IIM-Bangalore chair Ms Shaw, IIM-Lucknow chair Mr Irani, the then-director of IIM-Bangalore Prof. Vachani, IIM-Indore director Prof. Krishnan, and the numerous alumni of all IIMs, particularly IIM-A, who raised a strong voice in public dis-

course when the proposed Bill took a terribly wrong turn towards significantly curbing IIMs' autonomy. A lot of effort and energy have gone into developing the current draft of the Bill. To describe it as simply a rewording of a 2012 MoA is wrong. A detailed comparison of the two documents bears this out.

Second, characterising expansion by IIMs as indiscriminate and hurtful to national purpose or academic quality is erroneous. The problem with established IIMs in the years past has not been growth, but rather unwillingness to grow in the face of urgent and pressing demand for quality management education in the nation. In recent years, Indian students have been going abroad in record numbers and paying exorbitant fees, owing to the absence of academic opportunities at high-quality Indian institutions.

The size of established IIMs (in student and faculty strength) is roughly



Hey, check again, he said he'll lay golden eggs...

of short-term contracts or freelance work as opposed to permanent jobs. This will hasten income inequality.

With monetary policy increasingly becoming ineffective in reducing income inequality, Trump promised to create jobs through active fiscal intervention. Poor and jobless gain less from a booming stock market than from government spending money to build roads and bridges. He also promised to lower corporate tax rates from 15% to 35%. The Americans believed that Trump will bring back good times.

Can Trump increase US growth, particularly with a lower labour productivity? In fact, increase in government spending with lower tax collections from corporations means a higher fiscal deficit. Tax collection has fallen due to technological nature of business with companies such as Google, Facebook and Netflix paying lower tax compared to manufacturing firms. Federal government debt as a share of GDP has grown rapidly: from \$5 trillion in 2001 to around \$20 trillion now.

Alarming, federal budget allocated for non-transfer payments-type spending (primarily geared towards productive R&D-type investments) are down from 11.5% of GDP in 1966 to 6.5% in 2016. Debt in private sector is also increasing. The promise of a lower tax regime and, hence, future potential profits have led many fund managers to start buying US junk bonds. In a longer-time horizon, without

inclusive innovation, rising fiscal deficit cannot be sustained.

What about trade? US export basket is dominated by aircraft, automobiles, pharmaceutical and food items — predominantly high-skilled manufacturing items. To an extent, this was possible due to US open arms policy, welcoming global talent. Clamping down on skilled labour immigration may dent productivity.

The Great Wall Mart

Trump has a point when he asked Jack Ma, Alibaba co-founder and chairman, to create jobs in the US. Part of the reason for factories shutting down in the Rust Belt region has to do with Wal-Mart stores housing all cheaper Chinese consumer items. Trump does not have much problem with other largest trading partners of the US, such as Canada, Germany and Japan. For these countries and the US, the nature of trade is more intra-industry type: buying and selling of similar high-technology-intensive goods. But then, US cannot make everything that it needs.

Instead, it make sense to focus on items that it can produce more efficiently such as high-technology-intensive items, manufacturing that requires innovation and not protectionism. In the worst-case scenario, if protectionist policy fails to lift the US economy, Trump may have to engage militarily to regain America's lost pride.

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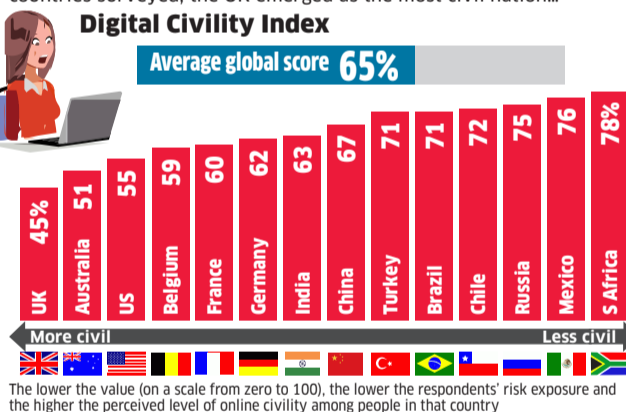
WIT & WISDOM

"Nature does not hurry, yet everything is accomplished."

Lao Tzu
Philosopher

Online Civility

How civil are people when they go online? Microsoft has launched an index to measure this. Dubbed Digital Civility Index, it looks at online behaviour across several categories: safety; risks such as unwanted contact/sexts, trolling and harassment; and seeking help. Of the 14 countries surveyed, the UK emerged as the most civil nation...



CAMERADERIE



Um, didi, so then have we already won UP?



Vision of the Cosmic Form

GAUTAM JAIN

The battlefield at Kurukshetra is symbolic of the world, with the numerous challenges it presents. Arjuna, a prince and decorated warrior, is riddled with doubt as to whether he should fight. Despite being proficient in our respective fields of activity, we succumb eventually to the stress and strain of life.

In the Gita, the cosmic form is presented before Arjuna as a gigantic figure of Krishna, the form that is symbolic of the underlying reality that supports the manifested universe. Krishna explains to Arjuna that he ought to understand that Reality and not get carried away by the passing phenomenon of names and forms that he perceives in the everyday world.

This universe is governed by an essential Law that holds its functioning together. Without knowledge of these fundamental issues, we become confused and deluded in life. And then we succumb to the pressures of various challenges. Krishna explains to Arjuna the functioning of the cosmos and his role in it. As a Kshatriya, his duty is to fight with a higher vision. In the process, he should not worry about the results that would accrue to him.

Armed with this knowledge, Arjuna cast aside his mental weakness and emerged with a firm vision of his duty in life. He was able to overcome his enemies and emerge successful.

We too can be successful, armed with this knowledge, in gaining the vision of life's mission, and acquire the mental stamina necessary to discharge our duties and responsibilities in life. We can then live fulfilling, meaningful lives.

Citings

Energetic Change

JONATHAN WOETZEL ET AL

The world of commodities over the last 15 years has been rolled by a 'supercycle' that first sent prices for oil, gas and metals soaring, only for them to come crashing back down. Now, as resource companies and exporting countries pick up the pieces, they face a new disruptive era.

Technological innovation — including the adoption of robotics, artificial intelligence, Internet of Things technology and data analytics — along with macroeconomic trends and changing consumer behaviour are transforming the way resources are consumed and produced.

Consumption of energy is becoming less intense and more efficient as people use less energy to live their lives and as energy-efficient technologies become more integrated in homes, businesses and transportation. In addition, technological advances are helping to bring down the cost of renewable energies, such as solar and wind energy...

Resource producers are increasingly able to deploy a range of technologies in their operations, raising the efficiency of extraction techniques and shifting to predictive maintenance. Policy-makers could capture the productivity benefits of this resource revolution by embracing technological change and allowing energy mix to shift freely, even as they address the disruptive effects of the transition on employment and demand.

From "How Technology is Reshaping Supply and Demand for Natural Resources"

Chat Room

A State of Kowtowing

Tamil Nadu politics continues to be dominated by loyalty kowtowing and megalomania. It is a sad commentary that such a progressive state has degenerated into one of expressing histrionics rather than genuine democratic functioning. Pampering of voters with lots of freebies made them lethargic, and the middle-class taxpayer bore the brunt of these mindless sops. The real result: the ruling party always gains and the officials in the supply chain make a killing. Time for the enlightened state to be wary of such tendencies and reject politics of deception, intrigue and personality cult. Let a cleaner government be in place.

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Hyderabad



Strengthening overarching principles

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