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RBI policy: The MPC has done well to hold interest rates while being accommodative



The MPC has avoided the standard monetary policy error of exaggerating the inflation threat in a time of de-growth

The newly constituted Monetary Policy Committee (MPC) struck a refreshingly sanguine note in its policy statement on Friday, while deciding to keep the repo and reverse repo rates unchanged at 4 per cent and 3.35 per cent, respectively. The MPC's optimism is based on the uptick in a number of high frequency indicators. It has rightly chosen to "look through the current inflation hump as transient" — caused by Covid-induced "supply disruptions and associated margins/mark-ups". The MPC has retained its accommodative stance, signaling that it will do 'all it takes' to keep bond market yields in check. Inflation is expected to recede in Q3 and Q4, once the Covid scare peters out (with indications of the curve flattening) and spurs economic activity. In deciding to downplay inflation — despite its ruling above the upper bound of 6 per cent — "to address the more urgent need to revive growth and mitigate the impact of Covid-19", the MPC has displayed remarkable clarity of purpose. It has avoided the standard monetary policy error of exaggerating the inflation threat in a time of de-growth — despite being an inflation-targeting monetary body.

In view of the prevailing negative real interest rates, the MPC cannot afford to cut repo rates any further without hurting savers. However, the MPC has indicated that the Centre's borrowings will not deviate significantly from the weighted average cost of 5.8 per cent from the first half of this fiscal, while promising to open an OMO window for the States as well. A dip in inflation levels is expected to negate any impact of higher government borrowing on yields. Besides, there is no 'crowding out' effect in sight, given the feeble appetite among private investors. Household financial savings are unlikely to fall sharply.

The right balance: On Shaheen Bagh and the right to protest

Sudden, organic protests should not automatically invite the state's strong arm

Long after **Shaheen Bagh** became a potent symbol of democratic resistance against a discriminatory law, the **Supreme Court has ventured to hold that any such indefinite blockade of a public pathway is unacceptable**. And that the administration ought to take action to remove “encroachments and obstructions” placed during such protests. The Court’s assertion was made even while “appreciating the existence of the right to peaceful protest against a legislation”. On the face of it, the Court’s view arises from a straightforward balancing of two contrasting rights — the **right to protest** and the **right to free movement**. However, a moot question is whether the manner and content of a protest should always conform to forms deemed acceptable by the law. Protests, by their very nature, are not always rooted in legality, but rather derive legitimacy from the rightness of the underlying cause and the extent of public support. In many cases, they are against laws and regulations perceived as unjust. A flash strike, a spontaneous road block, a call for a complete shutdown, or a campaign to fill up jails by defying prohibitory orders — each of these is not, in a strict sense, legal; but, at the same time, it is an inevitable part of the culture of protest in a democracy. In this case, the Court rightly notes that the administration neither negotiated with the protesters in Shaheen Bagh nor tried to clear the scene.

Any finding that a peaceful protest had continued too long, or in a place deemed inconvenient to others, should not encourage the administration to seek early curbs on the freedom of assembly. After the pandemic led to the end of the protests, there was little left for adjudication, and the Court’s remarks might come across as a gratuitous offering to administrators looking to de-legitimise protests. Following the earlier judgment that any ‘bandh’ is illegal, courts routinely stayed sector-wide strikes. Another aspect of the present ruling is the assertion that protests should be confined to “designated places”. Such judicial certitude may end up undermining the larger democratic need for public expression of dissent in a manner and place that would be most effective. While notified demonstrations are subject to regulations regarding time and space, it may not be possible to extend the same to spontaneous, organic and leaderless protests driven by a cause. The ruling should not form the basis for suppression of such protests by the force of the state. Both principles — the need for balance between the right to protest and the right to free movement, and the rule that protests should take place at designated spots — are salutary from an administrative point of view. But these cannot become unquestionable axioms to the point of rendering any and all protests that cause inconvenience to others the target of the strong arm of the state.

Show of unity: On AIADMK affairs

The real test for the reunited AIADMK is in distribution of the party ticket for the election

By ending the rift over the **Chief Ministerial candidate for the 2021 Tamil Nadu Assembly election**, the leaders of the ruling AIADMK might have enthused the cadres, and also denied political rivals an opportunity to exploit the situation. But the real challenge is in winning on the plank of performance after two consecutive terms in power. In the absence of the party having a mass leader, both Chief Minister **Edappadi K. Palaniswami** and his deputy in government, O. Panneerselvam, appear to have clearly understood their respective political limitations and made compromises. Mr. Panneerselvam, who had held the post of Chief Minister thrice for short tenures, has agreed to let Mr. Palaniswami be the party's face in the election, perhaps realising that the latter has consolidated his hold among people who matter in the AIADMK. On his part, the Chief Minister shed his reluctance to constitute an **11-member steering committee**, a long-pending key demand of Mr. Panneerselvam, to avert any rebellion from him, irrespective of its political impact. Though shorn of strong and charismatic leaders such as M.G. Ramachandran and Jayalalithaa, the AIADMK leadership showed enough resolve to stick together. Besides, it looked as if there was no role for any outsider this time, unlike in August 2017 when the Palaniswami and Panneerselvam factions merged, as the latter claimed, on the advice of Prime Minister Narendra Modi. This seems an achievement in itself given the public spectacle of Ministers playing messengers between them on August 15 and the sharp exchange of words at a marathon meeting of the party executive on September 28.

The nomination of **Mr. Palaniswami, who became the Chief Minister** in February 2017 under dramatic circumstances, ensures continuity; he has over the last few years acquired the image of a doer with a business-like approach. However, conflicts could still arise over the functions and powers of the steering panel, which appears to be an overarching body but with the balance seemingly tilted in favour of Mr. Palaniswami, who has six nominees, all cabinet ministers. The equations between Mr. Palaniswami and Mr. Panneerselvam could be put to the test during the distribution of the party ticket to AIADMK aspirants. Electorally, the impact of the ruling party's latest decisions will depend upon multiple factors including a possible realignment of political forces and actor Rajinikanth launching his proposed party. Besides, a further churning within the AIADMK cannot be ruled out if V.K. Sasikala, Jayalalithaa's aide and the party's ousted interim general secretary, chooses a political role for herself **upon her release from jail in Bengaluru**. And the party will have to contend with the main opposition, the DMK, which, along with allies, made a near-sweep of the Lok Sabha election last year.