The Other Side July 07, 2016

Caught on the wrong foot?

While watching the current Wimbledon Tennis Championship on a recent evening, one parallel between the tactics in a tennis match and what happened in the BREXIT referendum struck me. The tennis tactic is to catch your opponent ‘on the wrong foot’: when (s)he is moving to the right expecting you to place the ball there, at the last moment you place it in the opposite corner; the opponent finds it very difficult to suddenly change direction to play the ball. Too many in the ruling elite in the UK seem to have been caught on the wrong foot by the referendum:

⇒ The Prime Minister and his Chancellor spent years denigrating the European Union, before suddenly becoming its supporters after the February agreement. The referendum may end their respective political careers;

⇒ The leader of the opposition, who supported the ‘Remain’ side, now finds ¾ of the MPs of his party wanting him to resign;

⇒ The leader of the winning ‘Leave’ side has withdrawn from the contest to succeed the Prime Minister, finding few supporters;

⇒ Post-referendum polls suggest that as many as 2.3 mn people who voted to ‘Leave’ have since changed their minds – and 4 mn want another referendum on the issue!;

⇒ After the referendum, some ‘Leave’ supporters called for the resignation of the Bank of England Governor who had earlier warned against the adverse economic repercussions of a ‘Leave’ vote. With the political vacuum in the UK which could well last for several months, the Governor now remains the sole macroeconomic policymaker of the UK.

Even George Soros was caught on the wrong foot. He had made $ 1 bn by betting against the pound back in 1992, forcing its withdrawal from the then Exchange Rate

Mechanism of the European Monetary System. This time he went long on the pound in the expectation that the referendum will vote in favour of ‘Remain’.

In a way, what is surprising is that neither the ‘Remain’ nor the ‘Leave’ leaders had any plans at all about what to do if the vote goes against the former, i.e. in favour of the latter! Now they are at a loss to know how to proceed. Technically, the result of the referendum does not automatically become government policy. The process of the divorce would begin with a notice by UK government under article 50 of the EU Treaty, and revised trade/economic/financial/immigration agreements would need to be negotiated over the following two years. Given the overall situation, it could well be the end of the year before the process begins.

In the extensive media coverage of BREXIT, few seem to have noticed two historical coincidences:

- ⇒ Last week was the 100th anniversary of the Battle of Somme, in which almost 20,000 British soldiers died on a single day in the First World War, the largest number ever in that nation’s history. The whole EU Project is aimed at avoiding another war amongst European nations;
- ⇒ As the Ottoman Empire collapsed in the First World War, the two leading imperial powers, Britain and France, divided the middle-east under their respective ‘spheres of influence’ (the famous Sykes-Picot Line). Will immigration from the middle-east trigger a break-up of today’s Europe?

The 1991 BoP crisis in India

Over the last couple of weeks, a number of articles have appeared about the economic reforms of 1991. Most of them have lauded the then Prime Minister Narasimha Rao and his Finance Minister Dr. Manmohan Singh for the changes made in economic policies and how they have benefited the nation. I found very little comment about which of the reforms were under the conditonalities of the IMF loan we were then forced to seek, and which were at the initiative of the Indian policymakers. After all, both Rao and Dr. Singh were policy-makers and implementers of the licence/permit *Raj* for decades before 1991. Interestingly, one feature of the political economy, namely a general distrust of and opposition to foreign direct investment by parties from the left to the *Swadeshi Jagran Manch* on the right, remains unchanged. (Only last week, the Congress Party criticised the recent FDI liberalisation in some sectors.) Hardly any of them, however, oppose foreign portfolio investment in the country. This seems strange: after all, FDI directly contributes to the productive capacity and job opportunities in the country and pays direct and indirect taxes, while the FPI only finances the external deficit, and can fly out when we can least afford it!

A.V.Rajwade (avrajwade@gmail.com)