

GUEST VIEW

MINT CURATOR

# An apocalyptic year that should give way to a wellspring of hope

Liberal democracy across the world was in crisis even before the pandemic but prospects of renewal beckon as the year ends



**ALOK SHEEL**  
is RBI chair professor of macroeconomics, ICRIER.

*They came riding from the night bringing woe,  
The four horsemen of the apocalypse,  
One horseman to each continent doth go,  
As the sun below the horizon dips.  
Hate they sow, tested institutions tear,  
Liberties they trample, the poor they tease,  
Mankind's darkest impulses they unbar,  
As enemies they find to break the peace.  
Seductive words from their mouths seem to spring,  
People they divide, and science they deride,  
Self-absorbed, no hopeful vision they bring,  
As the innocent have nowhere to hide.  
All arrayed against the enlightenment,  
Forces of counter revolution dark,  
On reversing human progress intent,  
As tentacles of misery spread their arc.  
Mounted on a white steed in garments red,  
He rides out with the flaming Sun at dawn  
With eyes on fire and crowns on his head,  
Truth, Justice, righteousness are soon reborn;  
Four continental horsemen fall apart,  
Freedom, love and reason also abide,  
Deep and eternal in the human heart,  
Men have been lost darkly before at night.*

The year 2020 was a long awaited marker of the 21st century. When it finally came, it saw the post-War order based on globalization, liberal democracy and multilateralism, which had paid rich dividends in peace and prosperity, falling prey to demagogues. It appeared that Plato's worst fears about how democracies end were coming true.

Worse was to follow. The world was hit by the most devastating pandemic since the Spanish Flu a century ago. Extreme policy reactions have meant the world is staring at the worst global recession since the Great Depression. The International Monetary Fund expects the global economy to shrink by 4.4% in 2020, compared to less than 1% during the global financial crisis of 2008-09. With the winter bringing a dreaded second wave of covid infections, recovery is by no means assured in 2021. Multilateral cooperation is in disarray in the face of competitive nationalism, and, unlike a decade ago, there is little expectation that member countries of the G20 will rescue the global economy this time around.

The New Year of 2021 will nevertheless open on a tone of renewed hope. The institutions of the world's oldest democracy, designed to keep Plato's demagogue at bay, have clawed back from the brink to bring down an apocalyptic horseman capable of the greatest damage. There is light at the end of the tunnel in the form of tested vaccines. An impressive lot of women leaders around the globe, good at what it takes to effectively handle the covid outbreak and ensuing crisis, seem to have broken a



REUTERS

glass ceiling to restore a sense of sanity amidst competitive populism and muscular nationalism.

There is little room for complacency, however, as the threat of dystopia is by no means vanquished.

First, while Joe Biden's victory in the US has raised hopes of a return to normalcy and the revival of multilateralism, the conditions that underlay Trumpism have not been attenuated. Liberal democracy in the West is yet to find a way out of low growth, rising inequality, stagnant real wages, rising youth unemployment and falling labour participation rates. The West's diminishing soft power is countervailed by illiberal China's growing lustre, as it is perceived to have managed both the economy and pandemic better. With this growing schism, the revival of multilateral cooperation continues to hang in the balance.

Second, Trump clones of illiberal democracy remain rampant on other continents. The five BRICS nations of Brazil, Russia, India, China and South Africa, in particular, all the rage at the start of this millennium, seem largely in disarray, with many of them afflicted by collapsing growth, authoritarian nationalism and growing bigotry.

Third, there are fears surrounding rapid mutations of the coronavirus and the efficacy and safety of covid vaccines.

India, till recently the world's fastest growing major economy, has had the steepest fall among large economies. Its national income at the end of 2021-22 is expected to be no higher than what it was in 2019-20, with the brunt of this suffering borne by informal workers, poor migrants, and small businesses. Unlike in rich countries, they have little income support to help them tide over the crisis.

Unlike the US, India's democratic institutions have also so far shown little resilience in the face of rising populism. Populist executives riding on their oratorical skills have been the bane of democratic societies since their very inception in classical antiquity. The founding fathers of America were more alert to securing democracy than to ensuring social justice. The concerns of our own founding fathers were possibly the obverse. Without effective checks and balances, it is possible to undermine democracy within an intended democratic constitutional framework.

Like America, India is in need of healing and unity of purpose and thought. As Abraham Lincoln remarked at the Illinois Republican State Convention in 1858, a house divided against itself cannot stand. It is incumbent upon us to resolve to stand up for the values on which our founding fathers constituted the Republic. Patriotism lies in the more privileged of civil society lending a helping hand to their struggling poor countrymen in this time of crisis, and not in needlessly muscular nationalism.

That different religious and social groups need to live with each other on the basis of equality is manifest. That the unity of a diverse country like India is contingent on accepting diversity was clear from the very beginning. While different groups may harbour a sense of historical wrong, raking up the past to poison the present is not the way forward. This is the enduring lesson from the life and times of Nelson Mandela. The past may have led to the present. But the path to the future lies through the present, not the past.

May this festive season bring joy and the New Year renewed hope for a better world.

QUICK READ

Plato's worst fears of how democracies end seemed upon us when the year opened, with the post-War order based on globalization, liberal democracy and multilateralism at threat.

While the pandemic worsened the gloom in multiple ways, we're now set to enter 2021 on a note of cautious optimism that the world is far more resilient than we had given it credit for.

THEIR VIEW

# Adopt an offensive strategy for key economic decisions

PRADEEP S. MEHTA



is secretary general, CUTS International.

As the world awaits with bated breath for a successful covid vaccine, it is apt to remember Waldemar Haffkine, a zoologist (not a doctor), who developed world's first vaccines for cholera and plague, and saved millions of Indian lives more than a century ago. Despite his stellar contribution to the medical field, Haffkine faced scepticism and resistance from the medical establishment most of his life. Solutions to problems can emerge from anywhere, and thus those in power need to be open to new ideas. Unfortunately, this is easier said than done. Our doctors' lobby is opposing the ability of Ayush practitioners to provide medical services though we are short of medical personnel in our country.

Richard Thaler, the Nobel laureate credited with making economics more human, has shown that decisions are susceptible to biases. Anchoring, selection and confirmation biases keep decision-makers from considering new perspectives, engaging with diverse stakeholders, and acting against pre-

conceived notions. Good policymakers are aware of such limitations and often build processes to work around them. Barack Obama, writing of the virtue of soliciting views from a large group in his recent memoir, *A Promised Land*, points out that in this approach, a current of thinking can quickly take shape and move everybody in the same direction. Thus, he used to have at least one contrarian in the room, other than him, which pushed everyone to think harder and allowed a freer airing of opinions.

Closer home, N.K. Singh, in his autobiography *Portraits of Power*, notes the evolution undergone over the years by the Prime Minister's Secretariat. He points to the crucial role it played during the economic reforms years in managing complex dynamics, coordinating with the cabinet office, acting as a bridge between key government departments, and ensuring indepth consultations with various stakeholder groups.

Singh's observations have been validated by Montek Singh Ahluwalia in his book *Backstage*. He points out that our reforms of the 1990s were homegrown, presumably done through consultations and the use of evidence, and were not thrust upon a reluctant India by the International Monetary Fund. The M Document, as described in his

book, was the first integrated approach taken by the government to accelerate the growth of our economy.

It's not that these proposals were not resisted by prospective losers, but a clear offensive strategy was deployed by Indian reformers to ensure India would benefit from integration with rest of the world, and this was conveyed to the public via robust consultation mechanisms that eventually convinced naysayers and status quoists.

However, such mechanisms have hitherto been informal in nature, making them subject to manipulation, and appear to have disintegrated over time. That Ahluwalia himself has acknowledged the need to build institutions that would promote good governance, and foster a second generation of reforms, has escaped sufficient attention.

Perhaps we have been unable to convince people in general and critical stakeholders in particular that a defensive strat-

egy of continuing with our old ways of doing business will only benefit incumbents.

This is evident in India's recent rejection of an offer to participate in a free-trade arrangement that covers most of Asia, and the country's imposition of higher import tariffs in the name of supporting domestic industry, for which a scheme was created to incentivize large enterprises while paying lip service to the interests of small and medium enterprises. The rest of the world, meanwhile, has falsely been portrayed as wanting Indian market access without any reciprocal measures, and the keenness of foreign investors to invest in India has been exaggerated. A recent Global Competitiveness Report provides a sobering reality check; it ranks India below the global average on the indicators of skilling, social protection, research and development.

Unfortunately, there are signs of an echo chamber being created

wherein voices of only the big and powerful are heard. Economic policymakers seem to be getting more susceptible to their biases. A problem with crafting an offensive strategy is that the likely gains from reforms are typically based on assumptions of future outcomes, while their likely beneficiaries are unable to invest enough time and resources to engage in policy discussions. There are always vested interests that oppose reforms. India and South Africa recently failed to get an intellectual-property waiver for covid-related medicines at the relevant World Trade Organization council, though a precedent for it exists on AIDS-related treatment.

Right now, India seems unable to design a clear narrative around farm reforms by engaging stakeholders and following time-tested constitutional processes. Regrettable misconceptions persist. It is thus important for the government to adopt an offensive and inclusive strategy for economic decisions. This must involve institutionalizing processes to engage those with divergent points of view, without prejudice and on the basis of evidence. This will help India take and implement informed and timely decisions with wide support, and emerge ahead.

Anmol Kulkarni of CUTS contributed to this article.

# Mark Zuckerberg has another response to Bitcoin's success

His Diem has addressed regulatory concerns but not satisfactorily



**LIONEL LAURENT**  
is a Bloomberg Opinion columnist covering the European Union and France.



Facebook's chief is trying to relaunch Libra with some concessions

Last year's backlash against Facebook Inc.'s planned digital currency Libra would have been most chief executive officers' worst nightmare.

Governments and regulators linked arms to repel a perceived threat to monetary sovereignty, financial stability and data privacy. The more Mark Zuckerberg tried to reassure politicians by talking up financial inclusion and innovation, the more he came across like a tobacco boss denying that cigarettes are addictive. He even acknowledged the problem: "I get that I'm not the ideal messenger for this."

That hasn't deterred him. Given Zuckerberg's tendency to issue half-hearted apologies before going back to breaking things, it's not surprising that he's gearing up for a second attempt to launch Libra next year.

There have been a few changes: Libra is now called Diem—as in Carpe—and its membership council is headed by Stuart Levey, whose stints at the US Treasury and HSBC Holdings Plc make him a blend of Beltway and banking. There's no more talk of rewards for members in the form of "investment tokens."

Technically, Facebook is only one of Diem's 27 members, and Diem says it's an independent organization—Facebook will be providing an electronic wallet alongside it. But this project was created and funded by Zuckerberg's company, and the association's board includes David Marcus, head of Facebook's cryptocurrency efforts.

The biggest new concession to regulators is that Facebook will no longer create a single global currency. Rather than craft a synthetic Libra out of a basket of euros, dollars and yen—much like the International Monetary Fund's Special Drawing Rights—Diem will be made up of multiple single-currency stablecoins, pegged to each one. Converting a dollar or euro into a digital Diem would be a one-to-one transaction, with little chance of wild Bitcoin-level volatility or an overnight disruption of fiat currencies. Facebook is even proposing that central banks one day use the Diem blockchain to issue digital currencies, similar to China's testing of a digital yuan.

This plea for legitimacy suggests Facebook is leaning more toward the kind of electronic cash offered by PayPal Holdings Inc. or Alibaba Group Holding Ltd., than the revolutionary crypto dreams of Bitcoiners. A digital dollar that's transferable anywhere and at any time could in theory be a draw for consumers. Teunis Broens, a senior economist at ING, reckons Diem may end up like a plain-vanilla "e-money" wallet. Blockchain expert David Gerard has

called it "Paypal-but-it's-Facebook."

It's the "it's-Facebook" part that should keep governments on their guard. E-money firms are often start-ups with Visa cards. Facebook, together with its WhatsApp and Instagram platforms, boasts 3 billion monthly users. If they each generate \$6 in sales, Diem would represent an \$18 billion revenue stream overnight.

After US regulators this month accused Facebook of unfairly abusing its market power to monopolize social media, will it compete fairly in this new arena or squash the competition? Imagine if Facebook's sad contracts were one day tied to Diem, or if it abused its access to customers' financial data. Trustbusters will be glad Libra didn't lift off earlier.

It's likely more regulation is needed. As German finance minister Olaf Scholz put it, referring to Libra's name change, "a wolf in sheep's clothing is still a wolf."

The noose is already tightening around such stablecoins with Europe imposing more bank-like capital requirements, says Simon Polrot, head of crypto-development non-profit ADAN. If it takes off, regulators might also want an inside peek into how Diem manages its cash reserves. As for money-laundering risks, Zuckerberg will no doubt sign up to "know your customer" rules, but how effective will Facebook be in tackling bad actors? And will it enforce the US's extra-territorial sanctions?

Lawmakers may wonder whether Facebook needs a banking licence, something it really doesn't want. Zuckerberg will no doubt argue that Diem is an association, independent of his empire. But it resembles a Potemkin village populated by payments firms, non-profits and venture capital funds. There are no banks, and none of the other FAANGs. Those who left Libra, such as PayPal, haven't returned.

No one should underestimate Zuckerberg's determination to launch this product. In the face of widespread criticism, he is coming back for more and Marcus, his top financial-services executive, is asking for "the benefit of the doubt" from regulators. That line would not work in a car repair shop, let alone a bank. Still, Facebook deserves a fair hearing, given Zuckerberg has changed Libra's message. If it falls on deaf ears, maybe the problem is the messenger.

©BLOOMBERG