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## 1. What Trumponomics means for India, the world

### Introduction



The radical economic outlook presented by Donald Trump includes plans to impose a 20% tariff on all imports and more than 200% duty on cars; a proposal to deport millions of irregular immigrants; and to extend tax cuts at a time when the US budget deficit is at record high. Should he walk the talk after taking charge early next year, these proposals could present

some macroeconomic challenges.

The coming presidency is seen as a positive for American stocks and the Dollar, even as it raises some concerns for treasuries given the risk of fiscal profligacy. Trump 2.0 could also potentially throw up challenges for India's growth imperative amid possible disruptions in global supply chains, trade wars and tariff barriers, heightened forex volatility, and headwinds to global fund flows.

A possible dilution of the Federal Reserve's rate-cut agenda in the light of a changed macroeconomic situation in the US would also impact the trajectory of India's monetary policy — given that the RBI may first try to resolve the uncertainties before undertaking any significant rate-cut action.

Bitcoin surged to a record high of more than \$75,000 on Tuesday, as crypto investors celebrated the return of Trump, who has earlier pledged to make the US "the bitcoin superpower of the world".

### Inflation impact, Fed stance

Higher tariffs and a trade war would most certainly lead to higher inflation in the US. This, combined with runaway deficits and a possible dilution of institutional autonomy could lead to foreigners beginning to rethink if they should lend unlimited money to the US Treasury — which has been a given thus far.

Such a shift could mark a possible watershed moment — of the scale, perhaps, of the decision in early 2022 to freeze Russian foreign assets, which forced central banks around the world,

including RBI, to buy physical gold rather than derivatives or exchange-traded funds that track the yellow metal's price.

The Fed's decision to continue its rate-cut cycle depended strongly on the result of the presidential election — and experts believe that the full scale of the cycle may now be at risk. While Trump's promised tax cuts and tariff barriers could end up stimulating the American economy, at least in the short term, analysts predict they could eventually stoke inflation — and likely force the Fed to end its rate-cutting cycle sooner.

That could have implications for the monetary easing plans of other countries, including India. Such policies may pause the interest rate cycle globally, ICICI Securities said Wednesday, adding that it could "set in motion higher tariffs and tax cuts, usher in fiscal deficit pressure and become a vehicle for inflationary tendencies".

As a domino effect, the US dollar could weaken — like in Trump 1.0, "when the dollar index fell and fiscal deficit rose", the brokerage said in a report.

Rates and the forex market could be a casualty. "The spillover of bond and FX volatility via the global financial markets route would mean the aim of financial stability may precede inflation management and...central banks, including the RBI, would want to see these uncertainties resolved before acting. This makes the December rate cut call tricky and possibly a shallower rate-cut cycle, following the Fed," an analyst at Emkay Global said.

### **Green card, demand outlook**

While Trump's promise to curb both legal and illegal immigration could be inflationary in a full-employment situation, as the US has experienced in the past months, the President elect also proposed recently to "automatically" giving green cards to foreign nationals who graduate from an American college.

"...What I will do, is you graduate from a college, I think you should get automatically...a green card to be able to stay in this country," he had said on a podcast that aired on June 21. This could be a positive for Indian students in the US.

Domestic investment demand-related themes and financials could benefit from a weak US dollar on account of lower import costs and elevated interest rates respectively. In the near-term, however, the proposed reduction in the corporate tax rate (21% to 15%) could free up the budget for US-based end clients of India service providers, driving better demand. This is a possible reason why IT stocks rallied in Wednesday's trade in India.

### **Elon Musk's likely rise**

The possible induction of Elon Musk into the new administration could have repercussions for India. A proposal rushed through by New Delhi to accommodate Musk's demand to import Tesla cars at a lower duty earlier this year was not quite accepted by the President elect's billionaire supporter. There could be pressure now to sweeten the deal further.

The lobbying for Musk in other areas such as satellite spectrum allocation or space launches could also get more vocal across key global markets, including India.

## Fed meet, China stimulus

There are two external events to watch out for now. The first is the Fed's monetary policy meeting on November 6-7, where the Federal Open Market Committee — the bank's key rate-setting panel — is expected to share its renewed outlook on inflation.

The second is the ongoing meeting of the Standing Committee of the National People's Congress, the executive body of China's top legislature, which convened in Beijing for a five-day meeting on Monday. The committee is expected to sign off on a second economic stimulus package in a little over a month — which could direct more funds towards buying idle land and property, recapitalising banks, refinancing local government debt, and offering assistance to households.

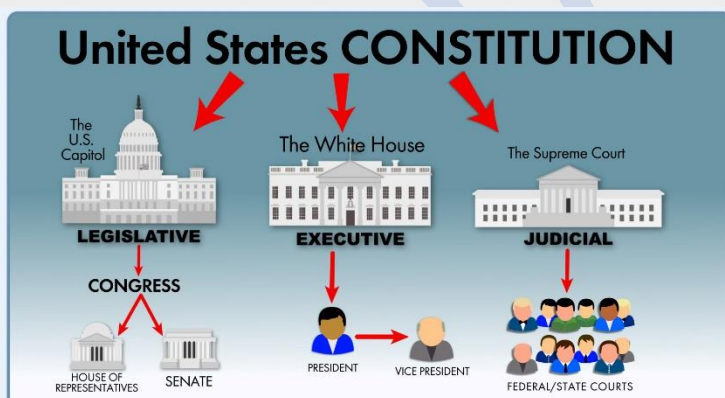
The high tariffs on Chinese goods promised by Trump could shave more than 2 percentage points off China's growth during the next year, according to analysts. Beijing could, therefore, push a bigger stimulus package. Nomura anticipates the eventual scale of China's fiscal stimulus package to reach 2-3% of GDP annually over the next several years. This could make other markets, including India, less appealing to FPIs and other key investors.

Relevance: GS Prelims & Mains Paper II; International Relations

Source: Indian Express

## 2. Republicans win Senate; race to control House continues: Everything you need to know about US Congress

### Introduction



Amid the fiery fight for the presidency between Democratic candidate Kamala Harris and Republican candidate Donald Trump — which the latter has won comfortably — there has not been much focus on the race to control Congress.

Congress is a crucial part of American politics as it is the

legislative branch of the US government. It comprises two parts: the US Senate and the US House of Representatives.

As of Wednesday evening, Republicans have won the Senate and the bid to control the House continues.

Here is a look at the two chambers of Congress, their functions, the status of the elections, and what winning control of Congress means for the president.

### What is the House of Representatives?

The House is the lower chamber of Congress which is composed of 435 elected members, divided among the 50 states in proportion to their total population. This means that states with large populations have more representatives than small states have. There are also six non-voting members who represent the District of Columbia, the Commonwealth of Puerto Rico, and four other territories of the US: American Samoa, Guam, the US Virgin Islands, and the Commonwealth of Northern Mariana Islands, according to the official website of the White House.

The House is headed by the Speaker of the House who is elected by representatives. Usually, whichever party has a majority in the House gets to choose the Speaker.

Each representative is elected to a two-year term. They must be at least 25 years old, a US citizen for at least seven years, and a resident of the state (but not necessarily the district) they represent.

### **What is the Senate?**

The Senate is the upper chamber of Congress which comprises 100 Senators — two for each state. Until the 17th Amendment to the US Constitution in 1913, Senators were elected by the state legislature and not through popular vote. However, after the amendment was enacted, Senators began to be elected to six-year terms by the people of each state. About one-third of the Senate goes for reelection every two years. A person needs to be at least 30 years old to become a Senator, and they must be a US citizen for at least nine years, and a resident of the state they represent.

The Vice President serves as President of the Senate and may cast the decisive vote in the event of a tie in the Senate.

### **What do the House and Senate do?**

The House and Senate together make and pass federal laws, introduce bills and resolutions, and enact amendments. The members of the two chambers also serve on different committees to develop specialised knowledge on the matters under that committee's jurisdiction, according to a report by The Policy Circle, a non-profit organisation based in the US.

There are, however, some differences in the powers of the two chambers. For instance, the House has the exclusive power to initiate revenue Bills, impeach federal officials, and elect the president in case of an Electoral tie.

The Senate, on the other hand, has the sole power to approve or reject treaties, and confirm or deny the President's appointments — such as that of Supreme Court justices — that require consent. There are two exceptions to this: the House must also approve appointments to the Vice Presidency and any treaty that involves foreign trade, the White House website said. The Senate also tries impeachment cases for federal officials referred to it by the House.

### **What is the status of the elections?**

On November 5, 34 seats in the Senate and the entirety of the House of Representatives were up for elections.

Republicans got back control of the Senate after four years by pushing their tally to 52 — a party requires 50 seats to get the majority. Before Wednesday, Democrats had a thin majority in the Senate. They had 48 Senators and the support of three independent senators who backed the party on important votes.

In the race for the House, Republicans are leading Democrats by around 20 seats as of Wednesday evening, according to The New York Times. While Republicans have 197 seats in their account, Democrats have 177 — the majority mark is 218. As the race is expected to be close, it could take days or even weeks to count enough votes to assess the final winner.

### **How does winning control of Congress help the president's agenda?**

With polarisation running deep in American politics, especially in recent years, it has become increasingly important for the president to have their party's control over both the Senate and House. A divided Congress could force the president to ignore some campaign promises and focus on bipartisan priorities, and enact desired legislation through executive actions.

Having control of the Senate is also crucial. For instance, it can allow the president to appoint judges in different courts, including the Supreme Court. Notably, during his first term, Trump was able to get 234 judges confirmed, including the three who now sit on the Supreme Court who proved integral to overturning *Roe v. Wade*, according to a report by Vox.

A majority in the House helps advance the president's legislative agenda. For example, Republicans are eyeing to take control of the lower chamber to renew the tax cuts that they passed in 2017.

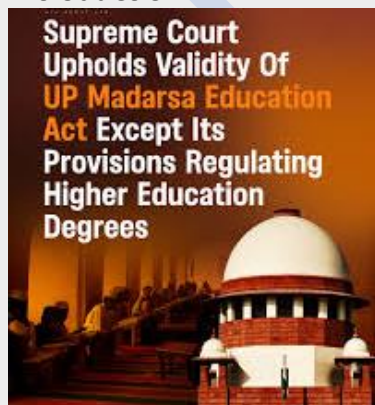
However, while presidents often first sweep into office with their party controlling both the House and Senate along with the executive branch, every president since 1980 has faced divided government.

Relevance: GS Prelims & Mains Paper II; International Relations

Source: Indian Express

## **3. Why the Supreme Court upheld constitutional validity of UP Madarsa Act, 2004**

### **Introduction**



The Supreme Court recently upheld the constitutional validity of the Uttar Pradesh Board of Madarsa Education Act, 2004 (Madarsa Act), barring the provisions relating to higher education.

In doing so, it overruled the Allahabad High Court's earlier ruling which struck down the entire Act for violating the principle of secularism.

### **What is the Madarsa Act?**



Madarasas provide both religious education in Islamic tenets and practices as well as mainstream secular education. Most madarasas follow the National Council of Educational Research and Training (NCERT) curriculum.

The Madarsa Act provides a legal framework for these institutions in UP. It has established the Uttar Pradesh Board of Madarsa Education (the Board), which prepares and prescribes course material, and conducts exams for all courses. The Act also gives power to the state government to create rules to regulate madarsa education.

### **Why did Allahabad HC quash the Act?**

On March 22, the Allahabad HC struck down the Act in its entirety, saying it violated the basic structure of the Constitution as the law flouted the principles of secularism. In *Kesavananda Bharati v State of Kerala* (1973), the SC had held that Parliament cannot alter the Constitution's basic structure, and in *S R Bommai v Union of India* (1994) had ruled that secularism is part of the basic structure.

The HC said the Act made it compulsory for students to study Islam and more modern subjects were made optional. It held that the state cannot "discriminate" by providing education based on religion.

The HC also stated that the Act violated the right to free and compulsory education under Article 21A of the Constitution by denying "quality" education in modern subjects.

It said the Board's powers to grant higher education degrees such as Fazil and Kamil — equivalent to a bachelor's and a postgraduate degree respectively — under the Act conflicted with the University Grants Commission Act, 1956 (UGC Act), a central law that takes precedence in matters related to education.

### **Why did SC uphold the Act?**

The SC set aside the HC's verdict on three main grounds:

**BASIC STRUCTURE TEST NOT NEEDED:** Constitutional amendments are tested against the basic structure doctrine, not an ordinary legislation.

In its ruling, the SC underlined this, citing its decision in *Indira Gandhi v Raj Narain* (1975), which pertained to an amendment to the Representation of the People Act, 1951, that was enacted to reverse the Allahabad HC's ruling to disqualify Indira from participating in elections. The amendment was challenged for violating the Constitution's basic structure. However, the SC held that the argument that the amendment violates the basic structure was too "vague and indefinite" to determine the validity of an ordinary law.

In the Madarsa Act case, the SC said for a law to be struck down for violating the principle of secularism, it must be "traced to express provisions [Articles] of the Constitution".

**STATE CAN REGULATE MADARSAS:** The SC said so long as the regulation is "reasonable and rational", states can regulate aspects of education in minority institutions without violating

their rights to handle the administration. The Madarsa Act does this “without depriving the educational institutions of their minority character,” the SC ruled.

The court also referred to Entry 25 of the Concurrent list in the Constitution which allows both states and the Centre to enact laws on the subject of “Education”. It said this must be given the “broadest meaning” and includes institutions that provide religious education.

**RIGHT TO EDUCATION & MINORITY INSTITUTIONS:** In 2014, the SC heard a challenge to the constitutionality of Article 21A. The court held that the Right of Children to Free and Compulsory Education Act, 2006 (RTE Act) must not apply to minority institutions as it may destroy their minority character.

The SC in the Madarsa Act case referred to this decision and held that the HC had erred by striking down the law for violating the right to education. The court also stated that minority institutions such as madaras have a right to provide religious education and handle their own administration under Article 30.

**Why did SC strike down higher education provisions of the Act?**

The SC ruled that a part of the Madarsa Act’s Section 9 — which allows the Board to prescribe coursework, conduct exams, and grant degrees to those who have finished Kamil and Fazil courses — is contrary to the UGC Act. Under Section 22 of the UGC Act, only universities which have been established under a central or state Act or have been “deemed” to be universities by the UGC can grant degrees. Therefore, the SC struck down a part of the Section 9.

Relevance: GS Prelims & Mains Paper II; Governance

Source: Indian Express