

How a successor solves inherited problems

The rules for business and politics are quite different, despite superficial similarities



THE WISE LEADER

R GOPALAKRISHNAN

For a business CEO — to answer the question I have asked in the headline — it is, maybe, two-three years, which is a third of a tenure of seven-10 years, but the cleaning up of the past must be done in a congenial way. The rules for business and politics are quite different, despite superficial similarities.

In Indian politics, we are experiencing shambolic and vituperative public

utterances through which the present government places the blame for its five major problems on its predecessors — black money, employment, farmer issues, health and education. It is sobering to note that these same problems were identified when the Bombay Plan was written in 1944 by a group of eight businessmen, 75 years ago. Of course, they did not explicitly blame the colonial government. Blaming the predecessor occurs in the politics of other countries as well. During his first term as president, Barack Obama said at a fund raiser in Atlanta, "We got here after 10 years of an economic agenda in Washington that was straight forward. You cut taxes for millionaires, you cut rules for special interests, and you have cut working folks loose to fend for themselves. That was the philosophy of the last administration and their friends in Congress."

Business boards and investors act faster when they observe the blame game in business organisations. By experimenting within the 24 hour life cycle of a fruit fly, scientists are able to derive hypotheses for testing on longer living

animals. Analogous to life cycles, CEO tenure can be thought to have four phases: First, seizing the baton; second, dealing with issues firmly (very importantly, be perceived to be dealing); third, envisioning the future; and last, preparing the legacy that the CEO would like to leave.

Faced with increasing predecessor overhang, shareholder activism and technological disruption, CEOs get a short period to seize the baton and deal firmly with the issues on hand. In fact, John Flannery got punished within one year, before being eased out of GE as the successor to Jeff Immelt.

As CEO of Hewlett Packard about a decade ago, Meg Whitman made veiled excuses for four years of write downs, layoffs and revenue declines. She blamed the actions of her predecessors, Leo Apotheker and Mark Hurd. Last year, the Commonwealth Bank of Australia (CBA) CEO, Matt Comyn, laid the blame for wrongful selling consumer credit insurance at the door of his predecessor, Ian Narev. What do you think our bank chairmen would say about non-performing assets (NPAs)?

Or, for that matter, some of the private sector CEOs! All CEOs inherit the predecessor's 'karma' balance sheet of credits and debits — managing the debt is notes sensibly, and being seen to do so robustly are both important.

It is a delicate task and balancing act. Almost certainly, during this period, there would be actions that would suggest a criticism of the past, especially if the predecessor is around in any position of influence as chairman, advisor or board director. Shades of this were visible in the cases of Ramesh Sarin at Voltas, Vikram Pandit at Citi, and Carly Fiorina at HP. Jim Donald, a field-driven, operating man from the retail domain, was hired as CEO-designate of Starbucks in 2005. Within 18 months, Chairman Howard Schultz and the board decided that the 40 per cent slide in Starbucks stock prices between 2005 and 2007 warranted the exit of Jim Donald. Imagine the number of Indian CEOs who would be on the exit list if the stock price of their company became the yardstick for their staying on!

It is only after the first 2-3 years, that the CEO's bigger challenge arise: setting forth his or her own vision for the future and to deliver his or her future legacy. Managing the predecessor's debit notes without playing the blame game, and yet doing so robustly and visibly, is a complex twin challenge for any incoming CEO. Through examples, I have explored this subject while writing my recent book, titled *Crash: lessons from the rise and exit of CEOs*.

There is an old joke about the advice that a predecessor gave his successor. "I have left you three envelopes in the right drawer. Open them and follow my advice whenever you face a dilemma." When the successor opened the first one at a difficult moment, it read "Blame the predecessor". On the next occasion, the slip read, "Reorganise the company". On the third occasion, the envelope said, "It is time to prepare three envelopes for your successor".

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CHINESE WHISPERS

Action, reaction



A day after Samajwadi Party patriarch Mulayam Singh Yadav (pictured) praised Prime Minister Narendra Modi in Parliament, posters sprang up in Lucknow, thanking the former Uttar Pradesh chief minister. "Thank you Mulayam Singh Yadav, today you reiterated the wish of 125 crore Indians in the Lok Sabha," a poster read. The same day, former Bihar chief minister Rabri Devi, who is related to Yadav through marriage, expressed her dismay at the latter's statement. She remarked what Yadav said had no relevance in today's politics and that his memory was fading.

False ceiling, real alarm



The court room number three in the Supreme Court premises saw some commotion on Wednesday after a lawyer pointed out that a false ceiling appeared to come apart. This stopped the hearing and the judges returned to their chambers. The lawyers and law interns present also scrambled out. Just a couple of minutes later, repairmen were seen rushing into the courtroom to check the cracks in the false ceiling.

Kishor spreads his wings

Prashant Kishor's Indian Political Action Committee (I-PAC) appears to be expanding its foothold in the field of political consultation across party lines at a rapid pace. While it has been reported that his team has already won the mandate to work with the Shiv Sena in Maharashtra and the Bharatiya Janata Party for various assembly elections, it is also learnt that I-PAC will be working on policy suggestion for the Captain Amarinder Singh-led Punjab government.

Cracking quid pro quo relationships

In the absence of appropriate regulations and sophisticated technology, Indian investigators have their work cut out

SUDIPTO DEY

The Central Bureau of Investigation (CBI) and the Enforcement Directorate (ED), the agencies investigating former ICICI Bank managing director and CEO Chanda Kochhar and her husband Deepak Kochhar and their business dealings with the promoters of the Videocoin group, have pressed charges centring on a quid pro quo relationship between them. The onus will now be on the investigators — and the regulators — to prove that the charges stick in the court of law. That, say forensic experts, would require investigators to establish that the quid pro quo relationship led to a trail of direct or indirect financial benefits for the parties involved. This becomes all the more challenging to establish in the absence of a trail of financial benefits, putting to test the tenacity and capacity of the investigators, they add.

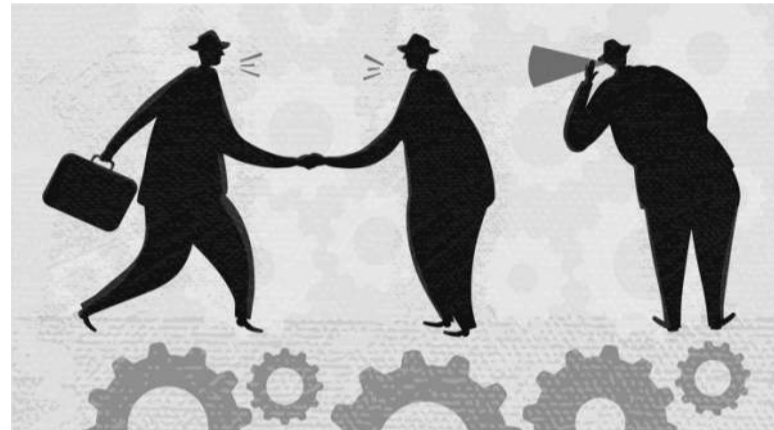
Legally speaking, there is a fine distinction between insider trading and a quid pro quo relationship. According to Arpinder Singh, who heads forensic and integrity services at EY, insider trading generally refers to a person taking unfair advantage of asymmetrical business information for

unfair gains. In a quid pro quo situation, there are two parties where one is reimbursed for something of value, he adds.

Forensic experts such as Reshmi Khurana, head of business intelligence and investigations at Kroll, points out that both could be part of the same problem. "When an insider uses non-public material information to trade on a stock (directly or via third parties who are acting on its behalf), it is assumed that he must have received some personal benefit in return (quid pro quo) which could be in the form of a kick back, benefit from a rising or falling stock price, or greater control over the entity," she says.

Typically, insider trading is tougher to prove as there may be difficulty in establishing how a person came to possess that piece of information and establishing that the transactions have been executed based on that. On the other hand, says EY's Singh, "It may be easier to establish a sequence of events and prove that a quid pro quo relationship exists," says Singh.

According to Samir Paranjpe, partner, Grant Thornton India, when the exchange of tips or confidential information is with a clear understanding of an extended benefit, pecuniary or otherwise, there lies a quid pro



quo arrangement. "Insider trading conceptually involves taking an unfair advantage of the access one has to confidential and unpublished information," he adds.

Globally, regulators and investigators around the world have access to sophisticated tools making it possible to detect insider trading proactively. These include data analytics programs, surveillance mechanisms, whistle-blower hotlines that help identify insider trading and provide the evidence needed to establish the practice. "That has proven to be a strong deterrent in developed markets. The implementation of the law and support from the police and other agencies is also critical for implementing it," says Khurana.

Regulations in many more mature markets are evolved also in terms of specialist discipline and practices around insider trading. "Whistle-blower mechanisms and other proactive measures, like insider trading audits, implementation of corporate governance best practices, health check reviews and proactive certifications around compliances help in evolution of regulations in these markets," says Kartik Radia, partner and head, business advisory services at BDO India.

That is where Indian investigators and regulators have been found wanting. Insider trading cases have a low conviction rate largely because it is difficult to establish exchange of informa-

tion. "In many cases, regulators are increasingly moving to establish individual culpability so that management can be held accountable," says Singh.

The typical legal challenges, says experts, are the long-drawn legal processes involved in proving the existence of real personal benefit, working within an individual's rights on privacy and regulations around it.

Highlighting the limitations under which Indian investigators operate, Paranjpe points out that in the West, there have been several high-profile insider trading cases where convictions took place on the basis of evidence collected through wire taps/phone taps. "That's a route which is not formally available to Indian regulatory agencies," he says.

In emerging economies like India, white collar crimes, such as insider trading and transactions on account of quid pro quo relationships, are still not given the kind of importance that they should, experts point out. "Financial crimes, such as, insider trading need to be treated on par with other criminal activity," says Khurana. Accordingly, the regulatory framework as well as the compliance and detection mechanism at companies needs to evolve to meet this threat.

"Encouraging a strong and independent compliance function within organisations, responding with decisiveness and clarity when such issues are brought up or escalated within the organisation, should help tackle challenges related to these issues," says Singh. In Ms Kochher's case, the onus is on the investigators to live up to the challenge.



INSIGHT

Squandering India's demographic dividend

Looking at the nature of employment among the youth, we find that a disproportionately large share are self-employed



RADHICKA KAPOOR

India is facing a serious jobs crisis. The findings of the Periodic Labour Force Survey or PLFS (2017-18) recently reported by this newspaper, reaffirm the enormity of the crisis. For an economy that has typically been characterised by disguised unemployment and has witnessed open unemployment rates in the range of 2 to 3 per cent, an unemployment rate (UR) of 6 per cent is startling to say the least. What is particularly alarming is that the high UR is largely a consequence of unemployment among the youth (15-29 age bracket). The UR for the youth is reported at 17.4 per cent and 13.6 per cent for rural males and females respectively. The corresponding figures for urban males and females stand at 18.7 per cent and 27.2 per cent respectively. That Narendra Modi came to power backed by the support of the youth on his promise of providing them jobs makes his government's discomfort at acknowledging the recently released data palpable. But, this is not just an election issue. It is about India squandering its demographic dividend — a once in a lifetime opportunity for a country.

All countries have a demographic "window of opportunity" when the growth in the working-age population

UNEMPLOYMENT RATES (%)

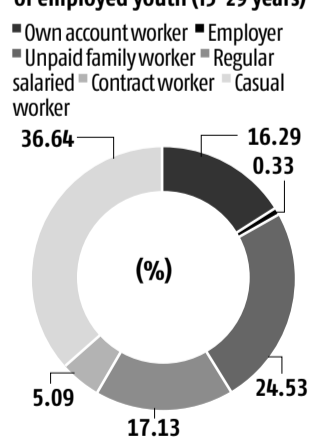
Age group	Rural			Urban			Total		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
15-29	8.4	12.1	9.4	10.7	25.6	14.0	8.9	14.5	10.3
30-59	0.5	1.8	0.9	0.6	4.7	1.3	0.6	2.3	1.0
Total (15+)	2.9	4.7	3.4	3.0	10.9	4.4	3.0	5.8	3.7

Table 2: Unemployment rate of youth (15-29 years) by educational qualifications

Educational qualification	UR (%)
Not literate	2.72
Literate: Below primary	3.07
Primary	4.06
Middle	4.42
Secondary	7.31
Higher secondary	12.54
Certificate course at undergraduate level	21.46
Diploma at undergraduate level	20.63
Graduate	29.84
Postgraduate and above	28.35
Total	10.33

Source: Labour Bureau, Annual Employment Unemployment Survey, 2015-16

Table 3: Activity wise distribution of employed youth (15-29 years)



is greater than the growth in the total population. The increase in the share of the working-age population is expected to generate more incomes, more savings, more capital per worker, and more growth leading to what is known as a "demographic dividend". At present, India has the largest young population in the world, with over 65 per cent of the population in the working age of 15-59 years. This share is expected to rise till 2035-40 giving India the longest window of opportunity compared to any other country to exploit its demographic dividend. If we have to seize this opportunity, we need to be able to provide the additional labour force with gainful jobs. With youth unemploy-

ment rates peaking, clearly we are doing miserably in terms of harnessing this dividend.

The last officially released Employment Unemployment Household survey conducted by Labour Bureau in 2015-16 allows us to do a more disaggregated analysis and confirms the fact that joblessness among the youth has been festering for some time now. Whilst I would refrain from making comparisons between the PLFS (2017-18) and the Labour Bureau's Employment-Unemployment Survey or EUS (2015-16) since they differ in terms of criteria used for selection of households, trends from the latter also indicate the looming challenge of youth unem-

ployment. In the 2015-16 survey, the UR stood at 3.7 per cent (by the usual principal and subsidiary status) and the UR for those in the age of 15-29 years was considerably higher at 10.3 per cent. The data from EUS (2015-16) shows that [as shown in Table 1] the UR for the older workforce (that is, those in the age bracket of 30-59 years) stood at a mere 1 per cent.

A disaggregated analysis of URs of the youth by education levels in the Labour Bureau's 2015-16 survey is even more disturbing. The data from EUS (2015-16) shows that [as evident from Table 2] unemployment rates are increasing with education levels. The UR for those with graduate and post graduate degrees was close to 30 per cent and reflects the inability of educated jobseekers to find jobs that fully utilise their skills and abilities. On the other hand, those classified as "not literate" reported a UR of just 2.7 per cent. This low figure is not much of a reassurance. It is simply a consequence of the fact that uneducated youth often belong to low income households and cannot afford to remain unemployed for long.

Looking at the nature of employment among the youth, we find that a disproportionately large share are self-employed. Again, data (2015-16) shows that [as evident from Table 3] these are largely unpaid family workers (24.53 per cent) or own account workers (16.29 per cent), not employers who can be considered "job creators". The next highest share of employed are in the category of casual workers (36.64 per cent). The share of regular salaried workers is relatively smaller (just 17.13 per cent) pointing to the lack of decent productive jobs for the youth. Additionally, over 40 per cent of the youth were employed in the agricultural sector in 2015-16 and a paltry 13 per cent

were employed in manufacturing. That such a large number of youth continue to be employed in agriculture even as their education levels rise suggests that the non-agricultural sector has failed to generate enough employment opportunities for them. The inability of young adults to land good jobs at the cusp of their career can not only be demotivating and discouraging leading to what it referred to as a "scarring effect" in the literature but also lead to a higher likelihood of being unemployed later in life and a wage penalty.

There is no silver bullet to deal with youth unemployment. Many suggest reforming the education and skill development sector, increasing emphasis on entrepreneurship and taking steps to increase female labour force participation. But, for any of these recommendations to work, they must be implemented within the context of an overall economic development policy that puts maximisation of employment, and not just maximisation of GDP, centre stage. It is indeed puzzling that India is growing at 7 per cent per annum and yet not being able to generate good jobs for its educated young populace. Political spectacles are likely to unfold in the months to come, but it is imperative that the problem of youth unemployment is tackled head-on. It is not only the economic costs that matter. The social consequences of joblessness among the youth can be even worse. The Arab Spring of 2011 is a reminder of what the frustrations of disillusioned unemployed youth can lead to.

The writer is senior fellow, Indian Council for Research on International Economic Relations

LETTERS

Boosting MSME morale



The government's decision to extend CLCS (Credit Linked Capital Scheme) by another three years with an outlay of ₹2,900 crore is another olive branch offered to micro, small and medium enterprises (MSMEs). The scheme is expected to provide many benefits to the MSMEs. The most welcome feature of this scheme is the special provisions that have been made to promote entrepreneurship among SC/STs, women, the hill states of Jammu & Kashmir, Himachal Pradesh, Uttarakhand, island territories like Andaman, Nicobar, Lakshadweep, and the aspirational districts. In these cases, the subsidy is available even for investment in acquisition/replacement of plant and machinery and equipment and technology upgradation of any kind.

Of late, the government has been concentrating to provide necessary financial impetus to MSMEs to make them highly competitive and also accelerate employment generation. The objective to keep doubling the effort and make them self-reliant at various levels of their export production is also appreciable. The government should also look at providing necessary infrastructural facilities to these units to boost both domestic and overseas trade. Their potential in exports should be harnessed to achieve the desired results.

A Sathyarayanan New Delhi

Letters can be mailed, faxed or e-mailed to: The Editor, Business Standard, Nehru House, 4 Bahadur Shah Zafar Marg, New Delhi 110 002. Fax: (011) 23720201. E-mail: letters@bsmail.in. All letters must have a postal address and telephone number

Fix the pilot shortage

DGCA needs to streamline its regulations

Passengers have been inconvenienced by a series of flight cancellations in recent days and weeks, particularly by market leader IndiGo. The budget airline, which has more than 40 per cent of market share, has tried to get ahead of the last-minute cancellation problem by effectively shutting down about 30 flights a day, which, it says, represent only 2 per cent of its flights. On Wednesday, however, it had cancelled almost 50 flights. IndiGo has said that weather conditions and airport disruptions had required it to “re-roster” its crew, and insisted that its regular operations would be resumed by the end of March. However, the problem that IndiGo is facing is structural and not a cyclical one.

India has seen extremely quick growth in the aviation sector. It has been the fastest-growing domestic air travel markets for four years in succession; last calendar year, the number of passengers grew 18.6 per cent over 2017. Last October was the 50th consecutive month of double-digit growth. However, despite this firm growth in demand, supply has been constrained. It is not that there is a shortage of airline options, or that airlines have a shortage of aircraft. The problem is that qualified pilots, particularly those who have the credentials to sit in the commander’s seat on a passenger flight, are too thin on the ground. It is believed that about 100 new aircraft will be added to the Indian civil aviation fleet in the next year. Each aircraft should be associated with 10-12 pilots. India currently has fewer than 8,000 pilots. When the number of additional aircraft is seen together with the current deficit of pilots, it appears that there will be a need for over 1,500 pilots over the next year. Even fewer of these will qualify as commanders, given the more onerous requirements for that post. The number of commanders that were recruited in 2017-18 fell by 10 per cent.

This is clearly approaching a crisis. The Directorate General of Civil Aviation, or DGCA, had better consider what measures it could take to ease this sharp supply constraint. It will, at least in the short and medium terms, be necessary to recruit more qualified pilots from abroad — but, unfortunately, there is a tightness to this segment of the labour market worldwide. Even so, the DGCA’s regulations on foreign pilots will have to be relaxed — there are currently fewer than 350 such pilots in India. Bureaucratic delays are also a problem: The time taken to clear such a pilot by the DGCA can also be 40-60 days, which is too long. The DGCA insists on arcane host-country copies of documents, for example; and foreign pilots frequently have to be sent home to their countries to be re-verified by their local police. Meanwhile, the longer-term solution is to ensure that there are more and better flying schools in the country, and that education loans are more easily available for those who want to become qualified pilots. The requirements for flying instructor in India have been artificially enhanced by the DGCA and must be rationalised. If supply constraints continue in the civil aviation industry, the blame lies squarely at the regulator’s door.

Lessons not learnt

Annual fire safety audit must be made mandatory

At least 17 people lost their lives to a blaze that swept through the Hotel Arpit Palace, located in one of the most densely populated areas of Delhi in the early hours of Tuesday morning. The fire reportedly started on the first floor and engulfed the floors above. The cause of death was suffocation as most of the victims could not figure out a way to exit the hotel. There appears to have been wooden panelling in the corridors, because of which occupants couldn’t use them to evacuate. Two of the victims jumped from the window of the six-storeyed building to escape the inferno. Though the Delhi Hotel Association spokesperson claimed that all rules and fire safety norms were followed, preliminary investigations revealed this was hardly true. Stairs and corridors were too narrow, the emergency exit was blocked, and there was an illegal bar on the roof. The hotel staff were also reportedly not trained enough to handle such exigencies. The hotel reportedly had a “temporary” floor.

What this whole episode reiterates once again is that Indian cities, its residents and lawmakers continue to ignore the lessons of the past. Unsurprisingly then, such fires causing loss of human life happen with alarming regularity. The lax implementation of laws is not restricted to hotels alone. For instance, according to the Delhi Fire Services, at least 250 hotels in the capital continue to operate with fire safety “shortcomings”. Reports also suggest that most nursing homes operate in complete violation of fire norms. This is shocking, as New Delhi doesn’t seem to have changed its approach to fire safety even 22 years after the horrifying fire in the Uphaar cinema hall in 1997, killing 59 people and seriously injuring over 100.

This sorry state of affairs is not restricted to the capital alone. News of deaths because of violations of fire safety protocol is endemic. A little more than a year ago, 14 people died and more than 50 were injured when fire engulfed two restaurants in Mumbai. The fire escape of the restaurant complex was rendered dysfunctional by construction in defiance of safety regulations. Kolkata has seen at least two major fire-related incidents after the death of 73 people at the Amri Hospital in 2011. The list keeps growing every year, exposing the laxity with which building bylaws are enforced in India’s cities. The concern is while there is no dearth of norms for fire safety, what is lacking is efficient execution. For example, buildings that exceed 45 metres in height, or roughly 12 floors, are considered “high-risk” in Mumbai, and those who do not follow fire safety norms can be imprisoned for six months to three years and fined, but rules are violated with impunity, and punishments are rare. What is also required is a mandatory fire safety audit by independent agencies. Governments, both at the Centre and states, must have clear provisions in their safety legislation about the methodology and periodicity of such audits.



‘Rowlatt Acts’ India gifted itself

Detention without charge or trial is rampant today, but our legislators no longer seem to care about oppression by the state

Next month it will be a century since the law known as the Rowlatt Act was enforced on 10 March, 2019. Mahatma Gandhi, only four years after his return from South Africa led an all-India strike against the Act on April 6. One week later, April 13, a large crowd gathered in Amritsar to join the protest at Jallianwala Bagh. The Punjab administration under Governor Sir Michael O’Dwyer claimed that British rule was under threat and responded with violence, unleashing the Gurkha and Baloch Regiments on the civilians, killing over 300. All of us are taught this in school.

The government passed the Rowlatt Act in the face of opposition from all of the Indian members of the Imperial Legislative Council. The British Raj claimed that the law would affect very few Indians. However, Gandhi made it his cause celebre. He called it an “affront to the nation” and was successfully able to mobilise the whole country. He moved on to the Non-Cooperation Movement and it made him a national leader that we see him as today.

So what was so offensive about the Rowlatt Act (more properly, the Anarchical and Revolutionary Crimes Act, 1919)? Why were Indians so angered by it that they were holding public demonstrations and opposing it in the Council?

The Act did away with fundamental principles of the rule of law. It could detain people without charge or trial and it did away with jury trials, in favour of in-camera trials by judges. This is called administrative detention, meaning the jailing of someone without a crime having been committed, merely on the suspicion that they will commit a crime in future.

Now let us have a look at the India of today, when we are a free people. In 2015, over 3,200 people were held in ‘administrative detention’ in India. Gujarat has the Prevention of Anti-Social Activities Act of 1984. It allows for detention without charge or trial for a year. Uttar Pradesh has the National Security Act allowing detention without charge or trial for a year to “prevent a person from acting in any manner prejudicial to the defence of India, the relations of India with foreign powers, or the security of India” or “from acting in any manner prejudicial to the security of the State, or from acting in any manner prejudicial to the maintenance of public order, or from acting in any manner prejudicial to the maintenance of supplies and services essential to the community”.

Recently, this law has been used to jail Muslims accused of cattle smuggling and slaughter in Madhya Pradesh. Tamil Nadu has the Prevention of Dangerous Activities of Bootleggers, Drug-offenders,



REPLY TO ALL

AAKAR PATEL

How can we tax footloose MNCs?

In the last few years, globalisation has come under renewed attack. Some of the criticisms may be misplaced, but one is spot on: Globalisation has enabled large multinationals, like Apple, Google, and Starbucks, to avoid paying tax.

Apple has become the poster child for corporate tax avoidance, with its legal claim that a few hundred people working in Ireland were the real source of its profits, and then striking a deal with that country’s government that resulted in its paying a tax amounting to 0.005 per cent of its profit. Apple, Google, Starbucks, and companies like them all claim to be socially responsible, but the first element of social responsibility should be paying your fair share of tax. If everyone avoided and evaded taxes like these companies, society could not function, much less make the public investments that led to the Internet, on which Apple and Google depend.

For years, multinational corporations have encouraged a race to the bottom, telling each country that it must lower its taxes below that of its competitors. US President Donald Trump’s 2017 tax cut culminated that race. A year later, we can see the results: The sugar high it brought to the US economy is quickly fading, leaving behind a mountain of debt (which increased by more than \$1 trillion dollars last year).

Spurred on by the threat that the digital economy will deprive governments of the revenues to fund function (as well as distorting the economy away from traditional ways of selling), the international community is at long last recognising that something is wrong. But the flaws in the current framework of multinational taxation — based on so-called transfer pricing — have long been known.

Transfer pricing relies on the well-accepted principle that taxes should reflect where an economic activity occurs. But how is that determined? In a globalised economy, products move repeatedly across borders, typically in an unfinished state: A shirt without buttons, a car without a transmission, a wafer without a chip. The transfer price system assumes that we can establish arms-length values for each stage of production, and thereby assess the value added within a country. But we can’t.

The growing role of intellectual property and intangibles makes matters even worse, because ownership claims can easily be moved around the world. That’s why the United States long ago abandoned using the transfer price system within the US, in favour of a formula that attributes companies’ total profits to each state in proportion to the share of sales, employment, and capital there. We need to move toward such a system at the global level.

How that is actually done, however, makes a great deal of difference. If the formula is based largely on final sales, which occur disproportionately in developed countries, developing countries will be deprived of needed revenues, which will be increasingly missed as fiscal constraints diminish aid flows. Final sales may be appropriate for taxation of digital transactions, but not for manufacturing or other sectors, where it is vital to include employment as well.

Some worry that including employment might exacerbate tax competition, as governments seek to encourage multinationals to create jobs in their jurisdictions. The appropriate response to this concern is to impose a global minimum corporate-income tax. The US and the European Union could

Forest offenders, Goondas, Immoral Traffic Offenders, Sand-offenders, Sexual Offenders, Slum-grabbers and Video Pirates Act, 1982. It allows the state to jail without trial or charge “any bootlegger or drug offender or forest offender or goonda or immoral traffic offender or sand offender or slum-grabber or video pirate...to prevent him from acting in any manner prejudicial to the maintenance of public order”.

Karnataka has the Prevention of Dangerous Activities of Acid Attackers, Bootleggers, Depredator of Environment, Digital Offenders, Drug Offenders, Gamblers, Goondas, Immoral Traffic Offenders, Land Grabbers, Money Launderers, Sexual Predators and Video or Audio pirates Act, 1985.

It allows for detention without charge or trial of up to 12 months of “any acid attacker or bootlegger or depredator of environment or digital offender or drug offender or gambler or goonda or immoral traffic offender or land-grabber or money launderer or sexual predator or video or audio pirate...to prevent him from acting in any manner prejudicial to the maintenance of public order”.

Some states have less ornate and more direct phrasing. Assam has the Preventive Detention Act, 1980. It can jail individual for two years, without charge or trial.

Bihar has the Conservation of Foreign Exchange and Prevention of Smuggling Act, 1984. It allows for “detention without charge or trial for up to two years to prevent a person from i) smuggling goods, or (ii) abetting the smuggling of goods, or (iii) engaging in transporting or concealing or keeping smuggled goods, or (iv) dealing in, smuggled goods otherwise than by engaging in transporting or concealing or keeping smuggled goods, or (v) harbouring persons engaged in smuggling goods or in abetting the smuggling of goods.”

Jammu & Kashmir has three laws, one allowing detention without charge or trial for six months, another for a year and third for two years. West Bengal has the Prevention of Violent Activities Act of 1970.

Journalists in Chhattisgarh are regularly jailed under the NSA and kept in prison for a year for their reporting.

As we can see from the dates, none of these are so-called colonial laws. These are laws we have gifted ourselves. Every state uses them liberally and there is no resistance from the judiciary. These days we have classified sections of the Indian people as the enemy through the use of the phrase anti-national.

The Rowlatt Act was never implemented nationwide. But our Rowlatt Acts are used against Indians in every state. Why do we not have Jallianwala Bagh-type gatherings today? Why do our legislators not resist the oppression by the state of its citizens as did those of the Imperial Legislative Council? Is it that we no longer care about tyranny and due process and individual rights? Or is that it has become fine because it’s not foreigners doing it?



JOSEPH E. STIGLITZ

— and should — do this on their own. If they did, others would follow, preventing a race in which only the multinationals win.

Since its inception, the OECD/G20 Base Erosion and Profit Shifting Project has made an important contribution to rethinking the taxation of multinationals by advancing understanding of some of the fundamental issues. For example, if there is true value in multinationals, the whole is greater than the sum of the parts. Standard tax principles of simplicity, efficiency, and equity should guide our thinking in allocating the “residual value,” as the Independent Commission for the Reform of International Corporate Taxation (of which I am a member) advocates. But these principles are inconsistent either with retaining the transfer price system or with basing taxes primarily on sales.

Politics matters: The multinationals’ objective is to gain support for reforms that continue the race to the bottom and maintain opportunities for tax avoidance. Governments in some advanced countries where these companies have significant political influence will support these efforts — even if doing so disadvantages the rest of the country. Other advanced countries, focusing on their own budgets, will simply see this as another opportunity to benefit at the expense of developing countries.

The OECD/G20 initiative refers to its efforts as providing an “Inclusive Framework.” Such a framework must be guided by principles, not just politics. If the goal is genuine inclusiveness, the top priority must be the wellbeing of the more than six billion people living in developing countries and emerging markets.

The writer is the winner of the 2001 Nobel Memorial Prize in Economic Sciences. His most recent book is Globalization and its Discontents Revisited: Anti-Globalization in the Era of Trump. © Project Syndicate, 2019

The perfect spy



BOOK REVIEW

KANIKA DATTA

Last year’s sensational headlines about the attempted murder of former Soviet spy Sergei Skripal and his daughter Yulia added a twist to the tumultuous post-Cold War relations between Europe and Russia. Mr Skripal, who inadvertently inhaled near lethal quantities of a nerve agent called Novichok planted in his home by Russian agents, had been a Russian military intelligence officer who had

spied for the British intelligence services in the nineties. Arrested in Russia, he was given asylum in the UK following a spy swap in the 2010.

In the murk of Russian interference in the US elections, and much else, Vladimir Putin’s motives for this act remain unclear. Mr Skripal, who blew the cover of several hundred Russian agents during his career, apparently lived in blameless retirement. If anything, Russia’s dirty tricks brigade appeared to have focused on a far smaller fish than a former agent who lives under 24X7 surveillance under an assumed name in a nondescript suburban street. This is Oleg Gordievsky, the protagonist of Ben Macintyre’s marvellous new book *The Spy and the Traitor: The Greatest Espionage Story of the Cold War*.

Mr Gordievsky was a KGB star who spied

for Britain between 1974 and 1985, passing on invaluable secrets about the Soviet Union’s nuclear arsenal and its decaying leadership before making an astonishing escape to the West after his cover was blown. But “Putin and his people have not forgotten,” Mr Macintyre comments wryly. In 2018, a former KGB bodyguard accused of murdering the defector Alexander Litvinenko in 2006 by poisoning his tea with the radioactive Polonium 210, offered what Macintyre describes as an “intriguing response” when asked about the Skripal poisoning. “If we had to kill anyone, Gordievsky was the one. He was smuggled out of the country, and sentenced here [in Russia] to death in *absentia*,” he said.

Gordievsky, in fact, remains a legend. As Mr Macintyre writes, “For Western intelligence services, the Gordievsky case became a textbook example of how to recruit and run a spy...and how, in the most dramatic circumstances, a spy in peril could be saved.” Unlike others, including Aldrich Ames, the American

double agent who unmasked him to the Soviets (to cover the costs of a young and expensive wife), Mr Gordievsky was not in it for the money. His motives were grounded in a slow disenchantment with Communist ideology.

Ironically, Mr Gordievsky came from a model Soviet family. His father, Anton, was an officer in the NKVD (the KGB precursor), who unquestioningly implemented Josef Stalin’s murderous dekulakization and deportation policies in Kazakhstan in the 1930s, a process that killed some 1.3 million people. He enjoyed the fruits of his position as an establishment stalwart with a comfortable apartment, and access to adequate food and consumer goods that few in Soviet Russia could take for granted.

The younger Gordievsky’s faith was first joggled when he witnessed the Berlin Wall go up but he remained *Homo Sovieticus* for all that. Having gained admission to the elite Institute of International Affairs, he was talent spotted for the KGB, which he joined in 1963,

training at the Red Banner Academy outside Moscow (which included lectures by the legendary Kim Philby on spycraft). His older brother, Vasily, had joined the KGB as an “illegal,” operating undercover in Western Europe and Africa, a job sufficiently stressful to drive him to drink and death at age 39. Oleg worked in the same directorate, preparing documentation for other illegals — “creating people who did not exist” — but was not permitted to follow in his brother’s footsteps on grounds that having two family members overseas might encourage them to defect.

The world beyond the Iron Curtain beckoned but the KGB preferred to post married agents overseas. Mr Gordievsky obligingly found a wife, a German-language expert who shared his ambition to travel abroad. The marriage of convenience proved handy when a slot opened for a posting running illegals in Denmark. That first exposure to life in the West altered Gordievsky’s outlook. The story of how he became a British spy has a Keystone Cops aura about it. The Prague Spring of 1968

was his epiphany. To try and attract the attention of the western intelligence services, he indiscreetly criticised the Soviet actions on an open line to his wife at home, hoping that the eavesdroppers would pick up on his dissatisfaction. Nothing happened. In fact, it was almost five years before the British identified and approached him as a possible asset.

Mr Macintyre, author of such classics of intelligence history as *Operation Mincemeat*, *Double Cross* and *Agent ZigZag*, recreates the story of Oleg Gordievsky’s career with his customary flair. To relate the details of Mr Gordievsky’s recruitment and defection would be to give away the plot of a gripping book.

THE SPY AND THE TRAITOR: The Greatest Espionage Story of the Cold War
Ben Macintyre
Viking, 368 pages, ₹899