May the best man win

Marquee local brands passing into foreign hands has stopped evoking *desi* rancour

ACROSS THE BOARD

SHAILESH DOBHAL

Time was when even fizzy drinks changing ownership from Indian to foreign hands was seen as a national sellout. Remember the hoopla around Ramesh Chauhan selling Parle brands like Thumbs Up and Limca to globe-trotting American transnational Coca-Cola in the early nineties? Or Kwality ice cream being acquired by the Indian subsidiary of Anglo-Dutch multinational, the then Hindustan Lever Limited. Or HLL again getting hold of Tata's Lakme and Hamam in mid nineties.

The debate then was how Indian firms and brands in the end were incapable of standing up to the might of the deep-pocketed foreign firms, and needed to be ring-fenced and/or protected from marauders from outside our shores. Such was the fear of the foreign firm that it did not matter even if it was owned by a non-resident, like Swraj Paul's famous aborted bid for Escorts and DCM in the early eighties.

Just scanning the headlines of newspapers over the last few months shows how much we have changed. The US-based Kellogg's is looking at acquiring the century-old sweetmeat-and-savoury brand Haldiram's in an over ₹21,000 crore bid, according to one newspaper. Interestingly, the debate on this potential takeover is not around desi versus videshi but how it's a difficult deal to execute given that the brand and the business rights are spilt geographically among three founder families.

Earlier, the country's biggest ecommerce firm Flipkart moved smoothly to American retailer Walmart without anyone battling a nationalist eyelid. Malaysian healthcare major IHH acquired debt-ridden hospital chain Fortis and American private equity firms Blackstone and TPG Capital are reportedly in the race for another homegrown hospital brand in Medanta.

Eveready, that battery brand of our childhood, may soon lighten up the stable of American Energizer or Duracell. Canadian investor Brookfield may check into Hotel Leela, one of the troika of oldest local hotel firms, the other two being Taj and Oberoi. And French dairy major, the euro 17 billion Lactalis is gulping down local businesses — like the ₹1,700-crore deal for Prabhat Dairy of late, and Hyderabad-based Tirumala Milk Products sometime back.

Why even in media, often billed as strategic, local entertainment-and-news television biggie Zee may soon count a foreigner, likely American, as a major owner according to chief executive and founder's son Punit Goenka. Though not exactly comparable to the then hostile bid by Swraj Paul, another non-resident owned foreign firm, ArcelorMittal, is close to acquiring a big industrial unit in Essar Steel.

According to a recent report on mergers and acquisitions by CII-PwC India, Value Creation: Laying the Foundation for Mergers and Acquisitions, an average of 600-700 Indian companies were acquired annually over the last decade. The share of inbound M&As to overall foreign direct investments into the country has hovered around a fourth in the last three years or so, pointing to a robust activity involving foreign firms.

Witness the near absence of any voice against the 'foreigner' gobbling away 'our' companies. One may argue that India, and India Inc., had got over its fear of the foreigner sometime back. And it is not that brands and businesses have not been sold to foreigners earlier. All true, but it is only now that the polity is truly shedding the last vestiges of the protected, pre-liberalised era that bred a feeling of inadequacy and inferiority that manifested in protectionism. Almost three decades of living and surviving in a near-open economy has given the confidence of being able to compete with the global best. The earlier rancour associated with "colour of money" — whether equity, investment or loan — is completely absent of late. And when selling out, the focus is to only look at the best buyer, and if it happens to be a foreigner so be it.

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CHINESE WHISPERS

Short-lived glee

When Congress president Rahul Gandhi picked Jyotiraditya Scindia to strengthen the party in western Uttar Pradesh and made him in-charge of party affairs in the region, some Madhya Pradesh Congress leaders had heaved a collective sigh of relief. They were happy in the thought that Scindia wouldn't have much time to devote to Madhya Pradesh and would have no say in the ticket distribution process before the Lok Sabha election. Their joy has proved short-lived. There are clear indications that not only will Scindia contest from his traditional Guna-Shivpuri seat, he is also demanding a few more seats in the Gwalior-Chambal region — where Congress registered a thumping victory in the recent Assembly polls — for some of his close aides.

Barbs over dharna

Puducherry Lieutenant Governor Kiran Bedi (*pictured*) was ticked off on social media and by Opposition parties for ridiculing Chief Minister V Narayanasamy, who was on a symbolic dharna to "protest" Bedi's alleged interference in the governance of the state. "A member of the media asked me an interesting question. 'Is dharna also yoga?' I said, 'Yes it is. It depends on the purpose for which you sit... what kind of *asanas* you perform and the sound you create." Bedi tweeted in the afternoon with a picture of a crow and headlined *kauvva asana* (crow yoga). Congress leaders and social media users said the post was in poor taste; some users posted photographs of Bedi sitting on a dharna during the Anna Hazare-led anti-corruption movement in New Delhi in 2011.

Swadeshi offensive

The Swadeshi Jagran Manch, an affiliate of the Rashtriya Swayamsevak Sangh, has spearheaded a campaign against the use of Chinese goods over the past couple of years. On Monday, the Manch's convener, Ashwani Mahajan, wrote to the Prime Minister, welcoming the government's decision to withdraw the most favoured nation status to Pakistan in the wake of the Pulwama terror attack. Mahajan demanded the government create "similar hurdles for Chinese companies" because China has blocked India's efforts to get the United Nations to list Jaish-e-Mohammed chief Azhar Masood as a global terrorist. The Manch also demanded the government ask people to uninstall Chinese apps, like TikTok and Helo, which have been banned in countries like Indonesia, from their phones. It said the government should curtail the operations of Chinese telecom companies in India.

Cobalt puts the brakes on India's EV plans

Tumultuous Congo dominates global supply, which makes lithium-ion batteries too expensive for mass-market cars

KUNAL BOSE

In the absence of a policy, which is still in the drawing board, it is highly unlikely that the share of electric cars and two-wheelers here will rise to government's targeted 30 per cent of total vehicle sales in 2030 from less than 1 per cent now. As the Indian automobile industry waits for a roadmap for the transition from fossil fuel to electricity based road mobility and building a battery charging infrastructure across the country, China already has an electric vehicles (EV) market that is bigger than the combined sales in the US and Europe. Industry officials here attribute China's success in accounting for well over half the global sale of more than a million units for the first time in 2017 to a combination of generous subsidies and tight regulation of emissions that Beijing laid out.

In contrast, India, the world's fourth largest automaker, is taking an unconscionably long time to secure a foothold in the EV segment in spite of its close to 85 per cent import dependence on oil that impacts the country's balance of payments and has the transportation sector accounting for 11 per cent of total carbon emissions. Many other leading automobile making countries enjoying government support are making rapid strides in building EV capacity.

Based on this, consulting group McKinsey says the world will see EV production rising to 4.5 million units in 2020, which will constitute around 5 per cent of the global light vehicle market. More than 3 million battery-powered EV and plug-in hybrid vehicles were on world roads in 2017, a 54 per cent jump on 2016.

Interestingly, New Delhi's procrastinating on announcing an EV policy has not deterred Mahindra & Mahindra and Tata Motors from betting big on electric mobility. Convinced that the future of automobile is in EV, JSW Steel Chairman Sajjan Jindal has done considerable groundwork to make car making the next diversification for the group after power and cement.

He says cars have always "fascinated" him. He did look at China, which has moved into world leadership position in EV. But since he has come to the conclusion that it will not be easy to "sell" a Chinese car in India, Jindal has now decided to get the technology from either Germany or Austria.

Home-grown groups are going ahead with their EV programmes in full throttle even though India is yet to sound the death knell for internal combustion engine. A member of the Society of Indian Automobile Manufacturers (SIAM) says Indian groups have timed it right since globally EV is past the tipping point and it is no longer seen as a niche product fancied by a few. Their faith in an electric road mobility future ahead of the policy announcement is, therefore, hailed in all quarters. But their actual business success will largely depend on how quickly the lithium-ion batteries become more efficient, that is packing these with large quantities of juice for cars to run long distances on a single charge.

Equally importantly, a mass demand for EVs in India will have to await their prices dropping to petrol/diesel car levels or close to that. According to McKinsey, prices of lithium-ion packs for EVS have fallen by about 80 per cent since 2010.

Even now, batteries in particular make EVs too expensive for mass markets. The share of battery in the total cost of an EV, depending on its size should fall from over 40 per cent now to 19 per cent by 2030, according to the leading statistics portal Statista. The optimism ingrained in this statistic is based on evolving battery technology that is focussed on reducing the use of cobalt, which besides being in short supply and too expensive, has earned the moniker the "blood diamond of batteries."

This is because around 66 per cent of the global supply of cobalt comes from the disturbed Democratic Republic of Congo (DRC), where the country's constitutional court recently declared Felix Tshisekedi the next president though he polled only 19 per cent of the vote against 59 per cent by Martin Fayulu. Revenues from cobalt and also from nickel and copper from which the precious battery material is obtained as a by-product have funded armed clashes in DRC for decades. Human rights violations in DRC mines have caused such global infuriation that Tesla's Elon Musk declared last year that "we use less than 3 per cent cobalt in our batteries and will use none in next gen."

The SIAM member says that in the past six years Tesla has been able to bring down the average amount of cobalt used in its EV from 11 kg to 4.5 kg, the best in the industry. In the meantime, Panasonic, the world's largest producer of lithium-ion battery cells and exclusive supplier to Tesla, has announced that it is in the process of developing cobalt-free EV batteries. It will be a few years before this becomes a reality. At the same time, automakers are hopeful that the inventor of lithium-ion battery, John Goodenough of the Texas University, will come up trumps in giving the world a cobalt free EV battery defying his advanced age of 96.

SWITCHING FORTUNES

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ON THE JOB

More townies, please

MAHESH VYAS

Final estimates paint a slightly better picture than the one presented so far. The final unemployment rate in December 2018 turns out to be 7.02 per cent compared to the preliminary estimate of 7.38 per cent released earlier. The final November 2018 estimate turns out to be higher at 6.65 per cent compared to the preliminary estimate of 6.62 per cent. The October 2018 estimate has declined from 6.91 per cent to 6.83 per cent and the September 2018 estimate is revised from 6.61 per cent to 6.47 per cent.

The unemployment rate during the September-December 2018 period was 6.68 per cent. In comparison, the unemployment rate was 4.89 per cent during the same months of 2017. The unemployment rate has been rising steadily since the May-August 2017 Wave when it clocked a mere 3.9 per cent.

Our earlier estimate of 11 million jobs lost during 2018 stands revised to 10.1 million jobs lost. This is a point-to-point estimate between December 2017 and December 2018. A better measure of the job loss in 2018 is 9.5 million. This is based on the full Waves data. It shows that 4.8 million jobs were lost during January-April 2018, 3.5 million jobs were lost during May-August 2018 and another 1.2 million jobs were lost in September-December 2018.

Job losses were mostly concentrated in rural regions and in small towns. The losses were lower in the larger towns but, there are serious problems here and there are lessons to learn. We explore urban India using the unemployment and labour participation rates.

We consider four groups of towns — very large towns, large towns, medium-sized towns, and small towns — by the number of households in these as per the 2011 Census. Very large towns had more than 200,000 households in 2011; large towns had between 60,000 and 200,000 households; medium-sized towns had between 20,000 and 60,000 households and, Small towns had less than 20,000 households.

The unemployment rate is the highest in the large and medium towns, in that order. In comparison, small towns and very large towns faced lower unemployment rates.

Very large towns see the lowest unemployment rates. This is a very good sign because these towns provide the best quality jobs. In the September-December 2018 period, the unemployment rate in very large towns was 6.35 per cent. This was lower than not just all other town-size classes but also rural regions. It is a welcome sign that the lowest unemployment rate is in the region that provides the best quality jobs.

The low unemployment rate of small towns is likely a reflection of the fact that these towns share characteristics that are similar to those of rural India where unemployment is similarly low. The low unemployment in these towns is likely to reflect compulsions of relatively vulnerable sections of society that keep the unemployment rate low. Most small towns are Census towns. These were classified as towns only in 2011. Till then, these were classified as villages.

Like rural India, small towns suffer underemployment, low wages and poor quality jobs. It is important to lift these regions out of the equilibrium they seem to maintain at the low-levels of economic well-being that these characteristics imply.

The most worrisome part of India seems to be the large towns. These suffer the lowest labour participation rate and the highest unemployment rate.

During September-December 2018, they had a labour participation rate of just-under 41 per cent and an unemployment rate of 8.4 per cent.

Medium-sized towns are also quite stressed. These had an unemployment rate of 7.9 per cent. In the preceding three Waves (that is, for an entire year), these towns had witnessed the highest unemployment rate.

The most worrisome part of India seems to be the large towns. These suffer the lowest labour participation rate and the highest unemployment rate

If there is a political problem with respect to the rising unemployment rate, then it is likely to be concentrated in large and medium towns. These are towns where unemployment is high and it is also rising. If there is a fire there, then it must be doused. But that is not where the solution lies.

The best solutions for India's labour markets begin in very large towns. Raising labour participation and motivating private sector to provide jobs in these regions would provide the best results. The best jobs in recent memory were found in Bangalore, Gurugram, Pune, Hyderabad and even in Noida. These were provided by large private sector enterprises. We need many more similar large towns and even more large private enterprises set up by visionaries who can convert India's young working-age population into worthy townies.

The author is managing director and CEO, Centre for Monitoring Indian Economy P Ltd

LETTERS

Serves them right!

The government has done well to crack the whip on five top separatist leaders, including Mirwaiz Umar Farooq, by withdrawing the security and vehicles provided to them, for their alleged links to terror outfits and Pakistan's intelligence agency, the ISI. The move comes in the aftermath of the Pulwama terror attack where over 40 CRPF personnel were martyred. It has also been decided to scrap other facilities, if any, provided by the government to these leaders. The measures coming on the back of the cancellation of the most favoured nation status given to Pakistan must help to rein in the separatists, besides saving taxpayers money.

N J Ravi Chander Bengaluru

Don't act in haste

Your editorial (Responding to Pulwama, 18 February) is an excellent piece of advice to the government — and the people of India — for taking a "determined but cautious" response to the extremely tragic happening at Pulwama. National sentiment, against Pakistan, is right now at a high fever pitch — and rightly so — and the ground is ripe for a possible wrong initiative by the government, which the nation might regret later. Age-old wisdom dictates that decisions taken in anger are often wrong and irrational.

All the steps taken so far are correct. The withdrawal of the most favoured nation status, imposing penal import duties on Pakistani products, launching a strong diplomatic offensive to isolate the errant neighbour, announcing free hand to security forces, all-party consultation etc are all sound measures to assuage national anger and for getting all political parties on the same side. And yet rational calculation of the benefits of any response — defined in terms of changing the Pakistan military's support for terrorist groups or making them more costly is crucial; it is absolutely necessary before pressing the trigger.

Time is perhaps right to consider the old question of revoking Article 370. This single step has the potential of creating employment opportunities for the mostly idle Kashmiri youth who are vulnerable to the vile designs of terrorist outfits, mostly because they have nothing else to do and have been used to an easy idle life for too long. Over-pampering of the people in the valley — by way of highly subsidised food and facilities and preventing industry to set up manufacturing in the state — has actually had damaging effects. It has in effect stopped Kashmiris from integrating with the national mainstream; it has been responsible for not offering them jobs and vocations and left them free to think of mischief. The clichéd phrase — an idle mind is the devil's workshop — truly fits the state of affairs. Time to engage them in productive activities.

Krishan Kalra Gurugram

Want peace, not war

Thankfully, the government has acted in a measured and mature manner in the aftermath of the Pulwama attack. Despite intense anger and anguish among the people, it has not responded with a show of muscle power to give Pakistan a swift bloody nose.

There is no guarantee that military action will prove effective and not futile in curbing militant attacks. The sub-continent inhabited by a fifth of the world's population cannot be turned into a theatre of war. It is simplistic to see the vexed Kashmir question as a mere law and order problem. The intractable territorial dispute is not amenable to a military solution.

It is essentially a geopolitical problem involving religious and cultural identities and requires a political solution through dialogue. It must be conceded that militancy is rooted in political grievances of the disaffected and alienated Kashmiri people. Such is the environment in the Valley that local youth are easily radicalised and inducted into militant groups. The sad truth in the Valley is that common people lose their lives in the fight between security personnel and militants. Violence and counter-violence and killings and counter-killings get us nowhere. Statesmanship and sagacity, as against jingoism and bellicosity, are what is now needed from all sides to bring about a semblance of normality and peace in the Himalayan region of indescribable scenic beauty.

G David Milton Maruthancode

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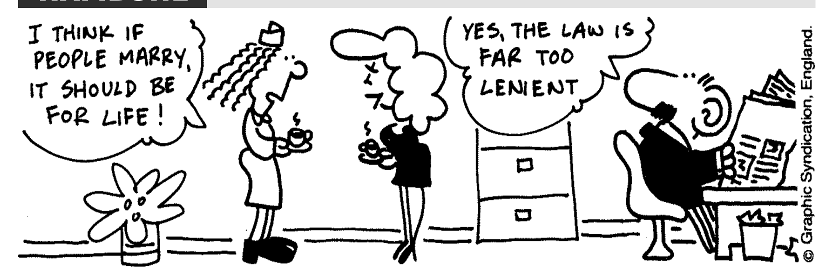
HAMBONE

BY MIKE FLANAGAN



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Winners take all

Indian regulators must deal with network externalities

As India's economy modernises, the tasks facing the country's regulators become ever more complex. More and more sectors are exhibiting a "winners take all" structure. In "normal" competitive markets, regulators have a straightforward set of objectives and tools. They intervene to make sure there is no cartelisation, that anti-competitive practices are not being used, and so on. Generally, the assumption in this case is that left to itself the market will take care of consumer welfare, and the regulator's job is merely to ensure that no participant is seeking to distort the functioning of the market.

However, in the modern economy many sectors demonstrate marked network externalities. In other words, companies become more profitable or efficient when they become large. This leads to the creation of natural monopolies. In the past, sectors such as utility or infrastructure would be subject to the build-up of such natural monopolies and thus had to be regulated differently. However, now network externalities are a feature of several leading sectors of the economy, including those dominated by the private sector. Consider, for example, the online space — dominated as it is by Alphabet, the parent company of Google. It is hard to believe a search engine emerging that could compete with Google. Thus, Alphabet does not have to behave in an obviously anti-competitive manner for competition to vanish in the sector.

In India, there are several such sectors which require attention. Telecommunications is one such. The arrival of Reliance Jio, with the deep pockets of Reliance Industries behind it, means that many of the other participants in the sector are eyeing the door. If an incumbent indulges in predatory pricing, regulators understand what they can do. But if it is an entrant that is offering lower prices and a better deal? At what point can and should regulators intervene? Nor is the problem limited to telecom. Consider also the civil aviation sector. An airline that is filling its flights can afford to sell its final seats cheaper since their marginal cost is near-zero. This means that there is a built-in advantage for the airline already doing well. In India, this means that IndiGo, for example, manages to dominate the market.

Other sectors may soon see the emergence of network effects. E-retail, for example, can become more effective when the user base it has to draw on is larger. Also, a network of offline retailers, or a logistics network that is already in place, can help give one company an efficiency edge that others will struggle to make up. How can regulators manage a sector in which some companies will genuinely be more efficient because of network externalities? Setting prices and quantities, such as economic theory might recommend for natural monopolies, does not appeal as a solution especially in the Indian context. There needs to be a more robust discussion in India about when it is appropriate for a regulator to intervene to prevent the building up of a monopoly in a winners-take-all sector. Waiting till a monopoly is established may be too late. It may be necessary to intervene early to prevent the exit of other competitors. A longer-term view of consumer welfare is required.

A self-goal

Persecuting Kashmiris plays into the hands of terrorists

In the immediate aftermath of the terror attack on a Central Reserve Police Force (CRPF) convoy in Pulwama, sporadic incidents of violence and alleged harassment of Kashmiri students have been reported in many parts of the country. The first reports came from Jammu, where dozens of vehicles were burnt, and the city was brought under curfew after mobs attacked Kashmiris in the area and destroyed their property. An enraged crowd demanded revenge for the death of the CRPF men and threw stones on the state secretariat building, despite police protection. The curfew is there even four days since the attack, and more than 120 people have been reportedly arrested for breaching the law. In many parts of the state, the authorities had to suspend mobile and internet facilities for multiple days.

But such incidents were not restricted to areas near the Valley. At least 40 Kashmiri shop-owners in Patna were threatened by a mob and asked to leave Bihar — a state they have been staying in for over 30 years. In another state capital, Dehradun in Uttarakhand, hundreds of Kashmiri students were forced to hide after an angry mob took to the streets, asking for "India's traitors" to be "shot". In fact, two educational institutes in Dehradun announced that no Kashmiri will get admission even as open threats were made to Kashmiri students to leave. A mob tried to occupy a Kashmiri girl students' hostel in Dehradun. Social media platforms such as Twitter have been carrying several other reports of intimidation and harassment of the Kashmiris in other parts of the country. The matter has taken a serious turn, prompting the Union home ministry to issue an advisory to all states to ensure safety and security of the students and people from Jammu and Kashmir living in their areas. Aligarh Muslim University had to issue an advisory to Kashmiri students, asking them "not to move out of campus" in the wake of protests.

It goes without saying that these incidents are utterly shameful and reflect poorly on India's credentials as an open, secular and democratic society. Also, persecuting Kashmiris because the Pulwama attack was carried out by a local youth plays into the hands of organisations such as the Jaish-e-Mohammad that intend to trigger civil strife in India by polarising society along communal lines. While the Kashmiri students should also desist from issuing provocative statements on social media, treating the entire population of a state with suspicion and targeting the whole community for the faults of a few will only deepen the sense of alienation. That will be a terrible self-goal, as this is exactly what a terrorist organisation would be hoping to achieve. It's true that the state has seen a dangerous drift that is not only fuelling the popular rage, but has also called into question the government's claims about dwindling support for militancy. The best way to fight this is to show solidarity not just with the armed forces but also with the majority of Kashmiris in whose name such dastardly acts are perpetrated. The government should also play its role by having a comprehensive programme for addressing youth radicalisation in Kashmir. That will be a more productive and sustainable strategy.

AJAY MOHANTY

Economic choices before metro rails

There are learnings from London and New York metro rails for Indian cities

INFRATALK
VINAYAK CHATTERJEE

Just a few weeks ago, the London Underground celebrated 156 years of operation. As one of the world's earliest urban rail systems, it has influenced the design of dozens of urban transport networks, right down to its iconic map. Even the Delhi Metro, with "mind the gap" announcements of its own (and a similar map design), reflects that influence, despite being several generations younger — just 16 years old, in fact.

But in the world of infrastructure, younger also often means better as later projects learn from the successes and the mistakes of those who debuted earlier. From larger and airier stations, more modern rail tracks and rolling stock, the Delhi Metro is technologically streets ahead of not just the London Underground, but many other earlier generations of metro systems such as the New York metro.

It is also catching up rapidly. The infrastructural statistics reflect this — the total track length of the Delhi Metro is now around 327 km, which compares very well with London's 402 km. London has 270 stations to Delhi's 236. Delhi is close to achieving, in less than 20 years, what it has taken London to do in 150.

Yet in other ways, the Delhi Metro still has a long way to go, compared with its older counterparts. The London Underground's ridership is 5 million per day, compared with 2.5 million for Delhi, despite the fact that London's population is just about half that of Delhi. The Delhi Metro's ridership, in fact, fell in 2017-18, compared with a year earlier.

That decline in ridership was attributed by many to two successive fare hikes. A subsequent report by the Centre for Science and Environment argued that Delhi was the second most expensive metro system in the world after Hanoi, Vietnam, in terms of the share of monthly income spent by a middle-income commuter on metro fares. This was hotly rebutted by the Delhi Metro itself, pointing out that fares had been increased after many years, even as average wages in the capital had increased, making the new fares affordable.

But ridership levels of the Delhi Metro are also just a third of that of Mumbai's suburban rail (in its own way, as iconic as the London Underground, which it predates by three years). As the Delhi network expands its reach, that gap will narrow, but it begs the question: What is the way to assess how "well" the Delhi Metro is doing? And what are the lessons to be learnt by the other new generation metro projects mushrooming across the country, many of them modelled along the lines of the Delhi Metro?

The world over, the key decision that urban metro systems have had to grapple with has been how to manage the trade-off between affordability and enabling access to all sections of the population, while managing to stay financially viable. In most European countries and in the United States, the farebox recovery ratio, or the fraction of operating costs met from passenger fares is well below one, necessitating subsidies or other measures to raise revenues. For the Delhi Metro, this measure rose sharply, as expected, after the fare hikes, making it less reliant on subsidies from the Delhi or the central government, its two major shareholders, to support its operations. It is close to 89 per cent, up from 60 per cent a year earlier.

Again, it is instructive to look at the case of New York and London. London's ability to recover costs from passengers is far superior to that of New York — it actually manages to make enough money from passengers to cover operating costs and some more. New York, by contrast, has a farebox ratio of less than 50.

This is due to the difference in fare structures. Metro systems like London and Delhi follow a distance- or a zone-based model, whereby the further a commuter travels, the higher the fare he/she pays. In cities like New York, commuters pay a flat fee, irrespective of distance. Poorer commuters, who cannot afford to live close to their place of work, are far better off under such a system.

It all comes down to the trade-off above. New York's metro system is far more affordable than that of London. However, that affordability comes at a cost. Lower fares, in the absence of subsidies that cover expenses, mean an inevitable decline in service standards over time. The quality and maintenance of rolling stock and tracks, and upgrade take a hit as well. And while non-core income like real estate development will partly make up the losses, this is not an option that many metro systems across the country will have.

Ultimately, governments will have to put their money where their mouth is, and subsidise the metro systems they so eagerly sought in the first place. Or, keep fares at a level that could well exclude poorer passengers, thus hurting that section of the population which benefits the most from a fast and efficient mode of public transport, as well as decongesting city roads of vehicular traffic.

The right choices will have to be made.

The writer is chairman, Feedback Infra

RBI's rate cut won't mean lower lending rates

FINGER ON THE PULSE
T T RAM MOHAN

The Reserve Bank of India (RBI) surprised analysts earlier this month by opting for a 25 basis points cut in the policy rate. Three points about the policy change are worth noting. First, the RBI's action is in line with the stances of central banks elsewhere. Global growth prospects are perceived to have weakened. As a result, central banks in the US, the UK and Australia have signalled a willingness to ease monetary policy. Indeed, governments in the US and Europe have moved towards a combination of fiscal as well as monetary loosening.

In his statement, the RBI governor indicated that slowing global growth was an important consideration underlying the decision to cut the policy rate. True, the RBI does not see growth in India slowing down, unlike in advanced economies and in some emerging economies. It expects India's growth rate to rise from 7.2 per cent in 2018-19 to 7.4 per cent in 2019-20. The case for a rate cut rests on the gap with respect to output potential being wider than projected earlier.

Second, it's becoming clear that the perception of upside risks to inflation in the RBI's earlier policy statements has turned out to be misplaced. Some of the reluctance to cut rates arose from the fact that core inflation — that is, headline inflation minus food and fuel price inflation — was above 5 per cent. Inflation data for January 2019 suggests a trending down of core inflation. There is every likelihood now that core inflation will stay below 5 per cent and headline inflation below 4 per cent in the coming year.

Third, the votes cast in the Monetary Policy Committee (MPC). When the MPC was constituted, it was assumed that the two internal members of the RBI would not go against the RBI governor. If the three outsiders were to differ from the three RBI members, there would be a tie. Hence, the RBI governor was given the casting vote. It is striking that the RBI deputy governor on the MPC has cast one of the two dissenting votes at the latest meeting (the other dissenter being an outsider). This is indeed a healthy development. One hopes that it will become part of the culture of the MPC in the years to come.

The RBI's rate cut will not translate into any immediate fall in borrowing costs. For two reasons. One, growth in deposits has lagged growth in credit in the system — the figures for the past year are 9.2 per cent and 11.1 per cent, respectively. Banks have been struggling to raise deposits and had to increase their deposit rates in order to do so. This has implications for monetary transmission.

Transmission in the period January 2015 to March 2018 was near-perfect: A drop in the policy rate of 200 bps translated into a drop in the weighted average lending rate for fresh loans of 205 bps. But this happened in a period when growth in credit was sluggish. It cannot be replicated in a period when credit growth has moved into double digits.

The big disappointment for the banking sector post-demonetisation is that, contrary to expectations, the share of deposits in disposable income fell by 1.7 percentage points between 2016 and 2018. This is almost matched by an increase in the share of the currency of 1.4 percentage points. How cuts in policy rates can be transmitted in a situation in which banks find it difficult to raise deposits is anybody's guess.

The other reason that lending rates, in general, will not come down is that risk premia have gone up consequent to the IL&FS debacle. A meltdown in the NBFC sector has been averted. However, banks apprehend that problems in non-banking financial companies (NBFCs) and the real estate sector are not over yet. They are braced for shocks arising from these (and other) sectors. Banks will not think it prudent to cut lending rates across the board and reduce their margins for now.

The one sector that can expect a reduction in lending rates is the NBFC sector. This follows from the announcement that risk-weights for NBFCs will be in accordance with their ratings. Banks will have to provide less capital for the better-rated NBFCs and hence can cut their lending rates to these. The announcement also frees capital at banks and will improve the capital adequacy ratio at banks. A fall in yields on government bonds will mean capital gains, which will boost capital at banks.

But the problem of recapitalising public sector banks does not go away. The expected increase in bank capital of around ₹50,000 crore promised for 2018-19 did not materialise in the recent budget. Nor has there been any allocation for 2019-20. No doubt, the government expects to be able to tap the RBI's excess reserves for the purpose.

On a broader note, tensions between the government and the RBI have eased. The RBI governor has provided a rate cut. He has indicated that he is open to paying an interim dividend to the government. Three banks are out of the Prompt Corrective Action framework. Small wonder that talk of governance reform at RBI seems to have receded into the background.

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Tech giants are watching you

BOOK REVIEW
AJIT BALAKRISHNAN

The internet and the World Wide Web, and its key players are sliding into an era in which governments and policy wonks everywhere view them not with the adulation they received in the 2000-2010 period but with suspicion. Internet players are no longer seen as those wunderkinder who made it possible for me to e-mail or chat with my friends worldwide for free and to discover books and such stuff at far lower prices than in stores. The internet is presented now as a dark jungle inhabited with heartless forhire geeks out to embezzle money from financial institutions, stoke communal frenzy or misuse personal information that trusting users gave them. Shoshana Zuboff, a professor emeritus at the Harvard Business School, raises all these frightful issues in *The Age of Surveillance Capitalism*, analyses how this state of affairs came about and emphasises why we have to deal with these issues with a sense of urgency.

Perhaps the core of the issue is that internet industry players — search engines, social networking sites, online shopping sites or plain news sites — rely on advertising revenues for profits. The paradox of this has not been studied enough. For example, in the earlier era tech companies, such as Microsoft, wanted you to pay a monthly subscription and, therefore, had no need for advertising. The story of how the software companies of the Microsoft era relied on customers paying subscriptions and why the internet companies of the Google era came to rely on advertising revenue has not been fully told or understood. Shoshana Zuboff devotes 100 or more pages of her nearly 700-page book to decode this advertising dependence but she attributes this to more insidious issues.

She believes that internet companies (she explicitly names the US tech giants) find it much more profitable to sell data and their predictions about their customers' behaviour to willing buyers (i.e, advertisers) than to provide some useful services. She says the "means of production" for these tech giants are things like artificial intelligence and machine learning techniques. She calls the profits made from this kind of activity "surveillance profits", i.e. money made out of surveillance of users who visit their sites. She says there is a huge international market that trades in such information and predictions about users' behaviour, which she calls the "behavioral futures market".

All this sent me into a deep reverie. When your business is critically dependant on advertising revenues, you do best by matching your offers to customer needs, which in turn means that you try to get as much data as you can about your prospective customer. This practice and all the mathematics about how to do this better than others was the stuff business schools have taught from the 1950s onward as "database marketing". But in Ms Zuboff's view, this amounts to "Surveillance Capitalism".

At one level, it is only the basic techniques of direct marketing of the 1960s that are being used by internet companies. What frightens many people is that the extent of customer data is both wider and deeper and, worse, is gathered without the user being aware of the data collection because the web servers maintain a log of every action a user takes on a website. Europe has been at the forefront of legislation to ensure that non-European tech giants do not take data about Euro-zone citizens and store it outside Europe. India has also passed a series of government directives to preserve data about Indian citizens in the country.

All this talk about surveillance capitalism brings to mind George Orwell's novel *1984* in which a character, Big Brother, is the ruler of Oceania, a totalitarian state where every citizen is under continuous surveillance: "Big Brother is watching you" has since become a metaphor for abuse of government power, particularly in respect to civil liberties. This anxiety in an era where the tech industry players loudly boast of the power of artificial intelligence, driverless cars and so on is understandable. But Ms Zuboff has a more frightening analysis.

She says citizens in western democracies are in a state of despondency and feel that "my children will not see the life I have lived". She quotes the results of a 38-nation study in 2017 where 49 per cent say "rule by experts is good" (as opposed to by democratically elected leaders), 26 per cent endorse "rule by a strong leader" and 24 per cent prefer "rule by the military". She also believes that the intellectual proselytisation of Friedrich Hayek (Nobel winner 1974) and Milton Friedman (Nobel winner 1976) has made "shareholder value maximisation" the supreme societal economic goal, and this gives Silicon Valley the licence to do what it wants with citizens' rights so long as their market capitalisation continues to soar.

She believes that the time has come for all common people to stand up to the surveillance capitalism of internet companies and say "No More!"

Every technological era has had its signature book. Charles Dickens' 1854 novel *Hard Times* drew attention to awful working conditions, particularly for child labour during the Industrial Revolution in England; Rachel Carson's *Silent Spring* drew our attention to the harm to the natural environment from synthetic chemical products such as pesticides. Is Ms Zuboff's book attempting to do this for the information age, the era we are living through?

THE AGE OF SURVEILLANCE CAPITALISM
The Fight for the Future at the New Frontier of Power
Shoshanna Zuboff
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