Waiting for Godot

With no knight in shining armour on the horizon, Jet Airways' days seem numbered

OUT OF THE BLUE

ANJULI BHARGAVA

Samuel Beckett would have been distressed to see his drama, *Waiting for Godot*, come alive here in India. The philosophical Vladimir and weary Estragon are waiting for Godot to arrive. Both ramble and bicker but to no avail. All manner of other characters come and go but the two lead characters remain unmoving till the end. Godot never shows up.

For readers unfamiliar, the play by Beckett is built around the human condition as it is, in all its mystery and absurdity, urging humans to bear it with dignity because there are no easy solutions to the mysteries of existence.

To me, the parallels with Jet's present situation are unmistakable. The airline is facing the crisis of its life. SBI chief Rajnish Kumar and Co. or some unnamed magical investors are supposed to rescue it. Etihad has threatened to leave but sees no real benefit of it either. It has no skin in the game anymore.

However, in this case, there is a twist in the tale. What Goyal and others don't realise is that even if Godot arrives, he's unlikely to offer any solutions. This ship is sinking regardless.

Let me elaborate. I no longer see any hope of recovery for Jet. Even as the banks have decided on an auction, the airline is merrily grounding its fleet and cancelling flights like there's no tomorrow. To give an idea of how grim things are, there is currently no direct Jet flight from Bengaluru to Delhi.

I have no idea why newspapers and the media are still claiming that Jet's dues are ₹8,000 crore or thereabouts but my sources tell me that the total outstanding is closer to ₹28,000 crore or US $4 billion. This includes ₹9,500 crore of debt with accumulated interest, ₹15,000 crore of outstanding dues to all vendors, suppliers, lessors, employees and the taxman and ₹3,500 crore for ticket refunds payable for all the cancellations.

In its best year, IndiGo made a profit of ₹2,100 crore (in 2016-17). Oil prices were low and conditions for airlines were generally favourable. Even if this kind of miracle was to happen for Jet Airways, how does one recover in today's aviation scenario after running up an outstanding of this magnitude?

Moreover, with Goyal no longer in charge and assuming he's the root of the problem, I don't see how a management with little or no previous experience is expected to perform better than one with years of cumulative domain expertise. Will just a change in management reverse the airline's fortunes ? I don't see how.

Jet's situation is far more alarming in other ways too. In 2014, when SpiceJet was going down, its Boeing fleet came down from 42 to 18. But most of these aircraft were returned to lessors and so the airline was no longer paying lease rentals or parking charges on these planes. Then, as soon as Ajay Singh took over, almost all expensive resources were laid off so the salary bill came down. Oil prices, too, were a good sport. In general, conditions for recovery were quite favourable.

In the case of Jet, almost 50 B737s are on the ground and lease rentals and parking charges are accumulating for the last few months. There have been very few top level exits so the salary dues and arrears are heading north. Oil prices, although not high, are volatile. So, most costs stay the same but the operation has shrunk. In other words, revenues will head downwards while costs stay stubbornly high. It can only mean a redder balance sheet.

Understandably, there is panic among the staff. Twenty six of the 400 senior first officers and commanders who applied to SpiceJet have been hired by the airline. IndiGo has hired an unconfirmed number as well and is paying for their type rating training to operate its Airbus fleet. IndiGo, where the relationship between pilots and management is at best fragile, has even had to issue a message to its own pilots to allay rumours of preferential treatment being given to the new Jet hires.

The bankers — pushed by the government — have committed another ₹1,500 crore to keep the airline afloat till the end of May, on account of the general elections. It's a small price to pay to keep the decibel levels on TV channels, and the negative sentiment as a consequence, in check. But it is essentially a write-off.

Needless to add, Godot remains as elusive as ever.

CHINESE WHISPERS

Going with the wind

Many say this Himachal family is a fairly reliable indicator of which way the wind might be blowing in the state. On Monday, state politician Sukh Ram (*pictured*) joined the Congress along with his grandson Ashray Sharma. Ram's son Anil Sharma had quit the Congress weeks before the Himachal Pradesh Assembly polls in 2017, following which a BJP government replaced the Congress one in the state. Congress sources said Ram's grandson could contest on the Congress ticket from the Mandi Lok Sabha seat. Ram is also known for the 1996 'telecom scam', after which he and his son were expelled from the party. There are indications Ram's son might also quit the BJP.

Mix and match

Elections are a good time not only for turncoats but also for those from other fields wanting to enter the world of politics. On Monday, Rashtriya Janata Dal Jharkhand unit chief Annapurna Devi and Paralympic gold medalist Deepa Malik joined the BJP. The most curious case, however, is that of Danish Ali. Until recently with the Janata Dal (Secular), Ali joined the Bahujan Samaj Party as part of an understanding between the two parties and is now the candidate of the Mayawati-led party from Amroha, Uttar Pradesh. Interestingly, the Congress on Monday replaced its declared candidate from Amroha. It will now field Sachin Choudhary instead of Rashid Alvi, which should help Ali. BJP MP Meenakshi Lekhi is set to be denied the ticket from the New Delhi constituency and could contest against the UPA chairperson, Sonia Gandhi, from Rae Bareli. Cricketer Gautam Gambhir is likely to contest from Lekhi's seat.

Symbol of change

The Communist Party of India (CPI) on Monday wrote to the Election Commission (EC), urging it to improve the printing quality of its election symbol, corn and sickle, claiming that the poll panel was using "a hand-drawn image" since 1952. In the letter, the party's general secretary, S Sudhakar Reddy, said the CPI was the only party to have contested all elections since independence on the same symbol. Reddy suggested to the EC that new printing technologies should be adopted and symbols should be printed in colour so that they were more "photo realistic" and easier to recognise. He said this would address the repeated complaints of similarity of candidates' symbols. Since the CPI was a party representing the downtrodden and working class, it was essential that the symbol of corn and sickle be easy to recognise, he said.

Zee makes it on the internet

The broadcaster's fourth attempt at digital seems to be paying off, but it remains to be seen if it can turn it into a sustainable business

VANITA KOHLI-KHANDEKAR

TAKE TWO

Has Zee finally cracked the code for online success? Within a year of its launch, the broadcaster's streaming video app Zee5 hit a claimed 56 million monthly active users in December 2018. On a comScore listing by unique users, Zee5 is now the fifth largest streaming app after YouTube, Hotstar, MX Player and Voot. While the process of selling promoters' equity in the mother company Zee is going on, there is talk of hiving off Zee5 to drive valuation.

"In four to five years, digital should be 30 per cent of the top line," says Punit Goenka, managing director and CEO of the ₹7,126-crore Zee Entertainment Enterprises. "By March 2020, we should hit three digit numbers on monthly active users," adds Tarun Katial, CEO, Zee5. YouTube, the single largest OTT brand in India, is at over 256 million unique users and just about ₹2,000 crore in top line after more than a decade of being around. Zee5, then, is setting pretty ambitious targets for itself.

Some of it is the sheer buoyancy it has had on the back of Hindi shows such as *Karenjit Kaur* or *Rangbaaz*. Then, there is the huge flow coming in from other languages. For instance, *Sembaruthi*, a Tamil show on Zee5 "has bigger volumes than all Hindi shows," says Katial. It has since its launch in February 2018 commissioned more than 200 hours of original content each in eight of the 12 Indian languages it offers.

That is the first reason why Zee's fourth attempt at digital seems to be paying off. It has leveraged online the diversity that Zee offers on its linear broadcast business to go national in a way most OTTs haven't. Most start with film or drama in one language and then move to others. "We have tried to keep the platform as broad-based as possible," says Katial.

"What worked for us was coming late — therefore, you learn more. However, it makes it that much harder to get into the consideration set," he adds. He points out that when the first OTT rush began in 2014, connectivity and data were issues. This changed after Jio's launch in 2016, which helped accelerate the spread of the internet and broadband through tier II and III India. This, in turn, "led to the Indianisation and democratisation of the internet. Till then it was largely English consumers and audiences. There is an audience of 500 million for languages beyond Hindi. You don't have to be a particular psychographic or demographic to consume the internet," points out Katial.

Zee5 came bang in the middle of this national spreading of the internet to do what it does best — lots of content in lots of Indian languages. The result is that today more than 60 per cent of its total reach is from non-Hindi languages and only 40 per cent comes from the top six metros. "Zee5 has a very strong regional reach, which is a strength for them," reckons Dinesh Menon, chief marketing officer for the State Bank of India. Roughly 3-4 per cent of its digital spends go to OTT platforms.

Zee5 came bang in the middle of this national spreading of the internet to do what it does best — lots of content in lots of Indian languages. The result is that today more than 60 per cent of its total reach is from non-Hindi languages

The second reason Zee5 seems to be working is more generic. "Every new platform in the last two to three years has had higher, faster acquisition numbers because the internet numbers are much higher," points out Kedar Gavane, vice president, sales and partners, comScore. India's 480 million broadband users watch an average of 50 minutes of video a day. This has translated into a ₹4,000-crore market in advertising and subscription revenues. It seems small compared to the ₹74,000-crore TV market, but India is one of the fastest growing online video markets in the world. That explains why 35 OTT apps — from broadcasters, telcos and tech majors — are fighting it out in India. Therefore unlike Zee's earlier digital attempts with Ditto TV or Ozee, the timing looks good.

What about monetisation, everyone's bugbear? For now, Zee is using a hybrid model, much like most broadcasters. Zee TV shows such as *Ishq Subhan Allah* or others are part of the advertising driving offering. Its originals such as *Rangbaaz* and films are behind a paywall. Katial reckons that these are different markets. "We use ad-funded content to funnel users. Right now we don't have enough content to put behind paywall. The way the OTT industry operates is that consumers are married to content not platforms. So, a consumer who wants to see *Rangbaaz* will pay for a month, see the show and go away. The key thing is that consumers are confident that Zee will put the content there," says Goenka.

The ad rates at the walk-in level, where free content sits, are growing. "The top show on Zee TV would get a CPM (cost per mille or cost per thousand) of ₹35, the top show on OTT will get ₹350. That is one extreme. On an average, OTT gives four to five times more in cost per thousand," says Goenka. The timing then works on the revenue side too. This then puts less pressure on Zee's rather profitable balance sheet. "The Zee5 financial leverage on our balance sheet is 5-6 per cent of our EBITDA (earnings before interest, taxes, depreciation and amortisation) and whatever revenue digital is generating," says Goenka.

These are early days of the jostling among 35 brands for a slice of the pie. Wait then for the dust to settle down to know where Zee5 stands.

ON THE JOB

Toothless *chowkidars*

MAHESH VYAS

It is somehow difficult to decipher what's trending on jobs. Like, are we serious about glorifying jobs of *pakora-wallahs* and *chowkidars*? Are we also serious about telling our young graduates to start a business and provide jobs to others rather than seek jobs for themselves? I hope we are not. I hope these are antics or *jumlas* just to provide some entertainment during election time and may be impress a few innocent ones into being carried away by the jest and jostle of the great Indian elections drama.

Frying *pakoras* or becoming *chowkidars* is nobody's life ambition. Similarly, when students graduate they look for jobs. They cannot provide jobs.

People who fry *pakoras* for a living or who stand guard as *chowkidars* to keep their body and soul together are also human beings like the rest of us. But, they are less fortunate than many others. If they like their occupation, it is most likely because they have accepted fate and decided to make the best of it. But, none of them would wish that their children also get to live a similar life — of a chowkidar — with no security, no skills and no licence.

Prime Minister Modi's initial remark of being a *chowkidar* was as a guardian of people's wealth. That was an appealing coinage — it was both humble and lofty. It sat comfortably with his modest background and his ambitious plans to cleanse public service of corruption, nepotism and crony capitalism. But, when the title was made more common, it lost its sheen — its special significance attached to the top chair, the top *sevak*.

Political sparrings in an intense electoral battle are not very damaging if their impact is limited to the battle. However, perhaps, the BJP needs to worry about the kinds of professions it has landed up glorifying — *chai* vendors, *pakora* vendors and now guards. These are not professions that any one of its voters would like to cherish.

We need to worry whether we are adoring or even celebrating these occupations to the point of motivating our youngsters to aspire for them? I am not a political analyst but I feel pretty strongly that this is unlikely to work politically. Whether it works politically or not, it certainly is not good socially, or in economics.

Chowkidars and bottled water are in my eyes the most visible signs of the failure of the government. There are many others like lack of sufficient investments in primary education and health care or justice and enforcement of law etc. But, there is no failure greater than that encapsulated in the sight of *chowkidars* and bottled water that is more in the face everyday.

I grew up in Bandra, a suburb of Mumbai, drinking tap water and living in a neighbourhood with no *chowkidars* in at least a square mile. This was true through my entire schooling. To the best of my memory, this was true for all my school mates and other friends I can remember. The only *chowkidars* I remember from my childhood are from my school who essentially ensured that the little students did not stray unattended too far from the school compound. It was a safe suburb when I was a kid.

If we have so many *chowkidars* today it is because over the past several decades governments have failed to provide sufficient safety and sufficient decent jobs —and clean drinking water. Lest we forget the government is responsible to provide or enable their provision.

If living areas were largely safe, the few chowkidars remaining would be a mere decoration. Guards could be ceremonial to make the change of guard a spectacle as it is on the forecourt of Buckingham Palace everyday or every weekend at Rashtrapati Bhavan.

Unlike these who guard the establishment, *chowkidars* are mostly privately employed, underpaid, inadequately educated and ill-equipped guards.

Why do housing societies, family dining restaurants, public parks need private *chowkidars* — unless governments have failed to provide basic security and citizens feel hopelessly unsafe without guards — to save themselves from their fellow citizens?

Why do people take up jobs as private *chowkidars* without any licence or means or skills to defend even themselves? In fact, they cannot defend themselves even against the swarms of mosquitoes, sweltering heat or bitter cold they are exposed to. They are mostly risking their health if not their lives without any idea of the risks. They take up such jobs only because there are no decent jobs available.

Dipayan Baishya/ writes in a incisive piece in *Sunday Times* that there are an estimated seven million private security guards churning a billion dollar industry in the country. That is a lot of insecurity handled by a lot of insecure jobs.

The author is the MD & CEO of CMIE

LETTERS

Can films win elections?

This refers to "Bollywood's bet on political movies gets mixed response" (March 25). Ever since the film industry got the "industry" status and banks started giving our money to film makers, the number of films produced annually has gone up but the value and quality have taken a back seat. Films, based on reality or otherwise, require a good subject and cannot be made in a hurry and certainly not with the aim of cashing on at the time of elections. Filmmakers should also avoid attempts to target a particular family or party because it hardly pays off. Both *Indu Sarkar* and *The Accidental Prime Minister* had very few takers. Even the cast in the film did not resemble the real characters. Anupam Kher was aware that he did not resemble former prime minister Manmohan Singh but he accepted it mainly to help the ruling party and his wife Kirron Kher who hails from the same party.

It took many years for the great film maker Sir Richard Attenborough to make Gandhi which went on to win the Academy Awards. The film Uri: The Surgical Strike may have made good money at the box office but it had its own flaws which many reviewers got scared to highlight as they did not want to be painted anti-national and part of "tukday tukday gang". Now, the makers of the film PM Narendra Modi whose trailer was released recently prove that it is going to do nothing good for Prime Minister Modi whose real image would be much more useful than painting a reel image with dialogues unsuitable for a PM who is still holding the chair and will likely re-occupy it thanks to a divided, leaderless Opposition. As if this was not enough, someone else has circulated a film My name is RaGa whose release date is not yet announced. Whether the film on Congress President Rahul Gandhi is going to be a serious or a comedy film, one would get know only after its release. My question is why people like Modi and of course, Rahul Gandhi, allow people to make films on them? Do Modi and Gandhi need Bollywood to help them win elections?

N Nagarajan Secunderabad

Procedural delay a bane

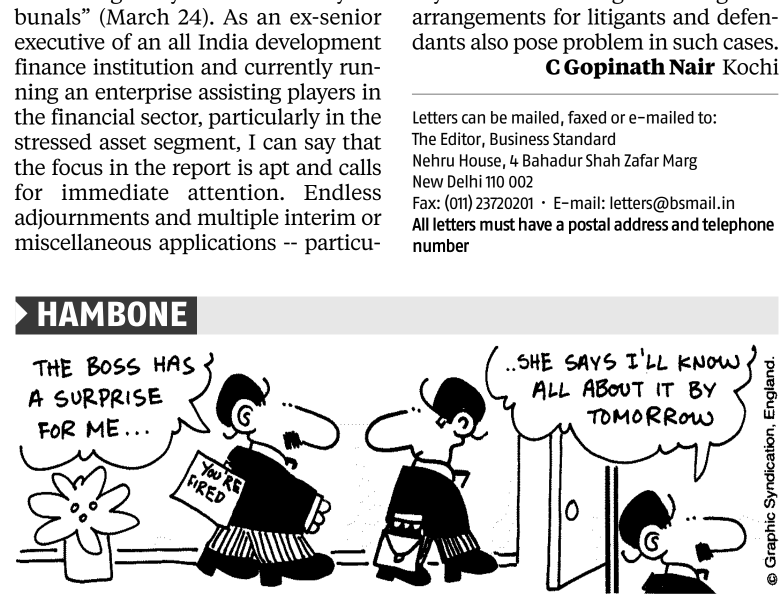
This refers to Abhijit Lele's report "Banks flag 'tardy' work at recovery tribunals" (March 24). As an ex-senior executive of an all India development finance institution and currently running an enterprise assisting players in the financial sector, particularly in the stressed asset segment, I can say that the focus in the report is apt and calls for immediate attention. Endless adjournments and multiple interim or miscellaneous applications -- particularly by recalcitrant borrowers -- prolonged the whole thing. Tribunals tend to follow Code of Civil Procedure, which are aimed at thwarting attempts at recovery. Unless are there strong legal grounds, the procedure should be curtailed and the main application must be given immediate attention.

Apart from creating proper infrastructure, the thrust should be on periodic monitoring of cases, age-wise, by an authority such as a retired High Court or Supreme Court judge and the copies of reports thus prepared should be marked to the Ministry of Finance and the Reserve Bank of India for further follow up. This will create pressure not only on tribunals (both original and appellate) but also on lenders and advocates dealing with the cases. Further, there is need to re-work jurisdiction and/or create more appellate tribunals. For example, Hyderabad and Visakhapatnam come under Kolkata appellate tribunal. It is not clear how Hyderabad is any closer to Kolkata than, say Chennai or Bengaluru. Logistics arrangements for litigants and defendants also pose problem in such cases.

C Gopinath Nair Kochi

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

HAMBONE



Business Standard
Volume XXIII Number 158
MUMBAI | TUESDAY, 26 MARCH 2019

On a wing and a prayer

Reviving Jet and then selling won't be easy for lenders

Naresh Goyal's departure from the Jet Airways board and the halving of his and partner Etihad Airway's shareholding to 25 per cent and 12 per cent, respectively, to make room for banks to take a controlling stake has only postponed the day of reckoning for this former market leader. Monday's announcement said lenders to the airline, led by State Bank of India, had agreed to take a little over 50 per cent stake in the airline. The stake issued to the banks will be valued at ₹1 on their books. Banks will also immediately pump in about ₹1,500 crore into the airline. A bidding process will be initiated by lenders for selling shares to a new investor, expected to be completed in the June quarter.

But this may be wishful thinking on the part of lenders. With a net debt of ₹7,300 crore at the end of December, ballooning other liabilities (suppliers' credit, salary and tax, refunds of cancellations and so on) and sustained losses over the past four quarters, it is clear that the airline is all but bankrupt. Given the fierce price competition in the market, and the grounding of its Boeing 737 MAX fleet, the airline is unlikely to earn the surpluses to repay all its liabilities anytime soon. In this background, it may be difficult to attract enough interested parties without offering them a significant haircut.

In such a situation, one solution would have been to take the airline through the insolvency and bankruptcy process. But this would be a time-consuming process and banks would not get anything much when an urgent solution is required. Plus, except for Jet's stake in Jet Privilege and over a dozen planes, there would be little else of value to sell, as landing rights do not belong to the airline. Thus, closing the airline and selling its assets would also not have been a financially smart option for banks.

The important issue now is that banks, with their 50 per cent stake, valued at around ₹1,450 crore based on Monday's share prices, have to protect their downside on debt. Besides the equity stake, they have bet another ₹1,500 crore, which puts their existing exposure to further risk. However, Indian aviation is a hugely competitive industry and the new buyer is going to expect that banks take a haircut on their loans even as it pays for the equity stake. According to aviation consultant CAPA, passenger growth will be robust at 14-16 per cent in FY20. But this growth is principally on account of low average fares, which is causing airlines to bleed. Together with growing capacity additions (IndiGo alone has added nine planes a month for the past few months), yields are being severely dented. In FY19, says CAPA, the three major low-cost carriers are projected to register losses of \$200 million from profits of \$330 million in FY18, a swing of \$500 million for a full year. In FY20, CAPA predicts airlines' consolidated losses could rise to \$700 million, and more if oil prices rise sharply. All this will weigh on the buyer's mind before writing the cheque. If a deal fails to materialise, lenders could be stuck with both debt and equity in a business they do not understand. They would have then thrown good money after bad.

A weak defence

Rajat Gupta is desperate to portray himself as a fall guy

It takes extraordinary chutzpah for a man to refer to himself as a "convicted felon" in the preface to his new book, and then proceed to devote large parts of the book to dismissing the conviction process as a "miscarriage of justice". In a series of media interviews, Rajat Gupta, former global head of McKinsey and author of *Mind Without Fear*, has sought to give the impression that he is innocent of any securities fraud, despite having been convicted of illegally slipping hedge fund manager Raj Rajaratnam confidential information about Goldman Sachs. Proclaiming his innocence, Mr Gupta has portrayed himself as a fall guy of the US financial crisis whose travails distracted attention from the Wall Street figures who caused the meltdown and the prosecutors who failed to bring them to justice. Ruing his unpreparedness for the winner-takes-all realm of finance, he has also said that his only regret was that he was perhaps a "little too loose-lipped about corporate secrets".

Mr Gupta might think his only crime was being a little "loose-lipped", but the fact is that a federal jury in the US found him guilty of passing on tips about Berkshire Hathaway's \$5 billion investment in Goldman Sachs and the bank's financial results after prosecutors countered with evidence that he brazenly divulged confidential board discussions at both Goldman and Procter & Gamble. Prosecutors built their case around phone records, trading logs, instant messages and e-mails. The jury took only two days to reach a verdict, as it found the circumstantial evidence against him too overwhelming to ignore. The fact also is just months before the book came out, a US appeals court declined to throw out his 2012 insider-trading conviction. This was the second time that his case had been rejected.

The jury is out on whether he was subject to too harsh a treatment during his two-year jail term (he was handcuffed for over two weeks) and many of his influential friends have strenuously pointed out that the loss of his reputation was punishment enough and there was no need for his imprisonment. But that is specious logic. His exemplary professional track record cannot condone the preferential treatment he gave to Mr Rajaratnam, flouting business ethics in a most flagrant manner. Mr Gupta has sought to blame it all on prosecutors, who are "political animals" and rivals who resented his global network that was in many ways far greater than theirs. But this is either being too naïve or an attempt to divert attention from his spectacular fall from grace from being a role model for Indians and Indian-Americans to a convicted felon. Mr Gupta obviously has reasons to feel hurt, as McKinsey, a firm he led for decades, stripped him of the use of the company's email address, a privilege normally afforded to former managing directors. But in his bid to build a new innings at age 70, he is perhaps playing on a wrong pitch. The US Judge who sentenced him to prison had said, "He is a good man. However, the history of this country and the history of the world is full of examples of good men who did bad things." However much he tries, Mr Gupta would find it difficult to wish away the "bad things" he did.

ILLUSTRATION: AJAY MOHANTY

Jobs debate: Ingenuity or insinuation?

With the changing nature of labour market, we need to change the definition of employment in the NSSO survey

SOUMYA KANTI GHOSH & PULAK GHOSH

The recent jobs debate reminds us of the seminal essay by Isaiah Berlin in 1953 on classifying people into foxes and hedgehogs. In the essay, the fox chases many incoherent ideas in its pursuit of too many ends but the hedgehog has only one goal to pursue. We would like to put ourselves in the hedgehog category while decoding the jobs debate.

The World Bank (WB) estimates that the total labour force in the country (the percentage of both employed and unemployed population as of September 2018) was 527.5 million. With an unemployment rate of 3.5 per cent, this translates into an employed workforce of 509 million. Contrast this with CMIE estimates of 397 million workforce employed in December 2018. On a 7 per cent unemployment rate, this implies 426.1 million is the total stock of labour force (as against 424.5 million the World Bank estimates).

Against this total stock, what could be the minimum number of jobs that India could create in the non-farm sector (industry & services) on a yearly basis? Netting out the share of agriculture at 43 per cent (WB estimates) and taking a minimal 2 per cent as the flow from the stock of labour force (China at 2 per cent flow on a 686 million base is growing at 6 per cent per annum and producing 15 million jobs in a year, whereas the US at 1.5 per cent flow on a 163 million base is growing at 2.6 per cent and producing 2.5 million jobs in a year) even the CMIE estimates at 426 million gives us a number of at least 5.3 million (as per WB this is at 6.6 million). Clearly, with an economy that is growing at 7 per cent on a yearly basis even on the least favourable base, India is creating no less than 5 million jobs a year. And please note, these are jobs that could be counted.

Now, let us address the current controversy regarding the leaked PLFS-NSSO survey. It may be noted that to overcome issues of existing EUS-NSSO surveys like representation, periodicity and timeliness, the Ministry of Statistics and Programme Implementation (MoSPI) decided to undertake the Periodic Labour Force Surveys (PLFS) from 2017-18. According to this leaked report, the unemployment rate in the country was 6.1 per cent in 2017-18, at its highest level since 1972-73. The report also provides unemployment rates for rural and urban areas with male and female categories in the age group of 15-29 years, which are almost two to three times more than the 2011-12 rates (based on EUS survey)

We believe the survey results must be released in the public domain without immediate delay for a fair and just debate about the numbers. Irrespective of when these are released, we would however want to raise the following points about the survey.

THE EMPLOYMENT NUMBERS

	World Bank Sep'18	CMIE Dec'18
Labour Force (mn)	**527.4**	**424.5**
Labour Force Participation rate(%)	*56.10*	*42.70*
Unemployment rate (mn)	**18**	**28**
Unemployment rate(%)	*3.5*	*7.02*

Memoranda: For India, growing at 7% and a minimal 2% flow on a conservative base yield, at least 5.3 mn jobs per annum are created

First, the methodology adopted for the PLFS. It is a two-year pilot started in July 2017 based on education level of households where larger weights are assigned to households having higher number of 10th pass members above 15 years, whereas the EUS is based on expenditure (urban) or livelihood (rural) of households. Thus, PLFS and EUS are not strictly comparable.

Second, publishing the results for the age group of 15-29 years might result in erroneous unemployment numbers bucket-wise. Take this example: A typical urban youth reaches the age of 21/22 years at the time of graduation and 23/24 years at post-graduation. If he/she pursues further studies, add two to four extra years. Thus, computing the unemployment rate for the age group of 15-29 will give erroneous results as many are likely to remain unemployed till the age of 22/23. It will be, therefore, interesting to see the unemployment rates in differing age buckets between 15 and 29 years. We believe that there might be a significant decline in unemployment rates as the age band increases beyond, say 30, reflecting the aspiration of today's youth.

Third, the meaning of employment is changing fast. We are in a gig economy where jobs and earning are no longer same — at least to the millennials. This change of perception in earnings and job is critical and any survey needs to reflect this new phenomenon. Hence, if a surveyor simply asks "are you employed", the immediate answer will be an emphatic "no", since employment means permanent salary every month. If one asks the same person, if his/her income is "zero", again the answer will be an emphatic "no", implying he/she has income. This is the real fallacy of any employment survey and hence the need to move to payroll rather than employment survey (like the latest CII payroll survey). Ideally, such payroll survey and the payroll reporting of formal jobs through EPFO need to talk to each other to develop the methodology and survey questions. For example, payroll reporting from EPFO gives insight on which sector is creating the maximum or minimum jobs. Payroll survey should focus on these sectors when they do the stratified sampling and give weightage accordingly.

With the changing nature of labour market and need for specialised skilled people, we need to change the very definition of employment in the NSSO survey to reflect the reality.

The writers are Group Chief Economic Advisor, State Bank of India and Professor, IIMB. Views are personal

Green to great industrial policy

INFLEXION POINTS

ARUNABHA GHOSH

As the world takes incremental steps towards sustainable development and a lower-carbon economy, should India place bets on manufacturing solar panels? Or electric vehicles? How about batteries for stationary and mobile applications? Or superefficient appliances, such as refrigerators and air conditioners? It could support research and development for ultra-low carbon steel, or find ways to make its small and medium enterprises more energy-efficient. There is nothing wrong if India manufactured some or all these products, or their components, by becoming more innovative and competitive. How can India carve room for itself in the green industries of the future while avoiding the pitfalls of cherry-picking winners?

In major economies, there is renewed interest in industrial, particularly green industrial policy, namely measures to align economic structure with sustainable development, supporting clean tech or helping industries clean up their act.

The rationale rests on combating market failures. There is underinvestment in clean tech because their positive impacts are not fully accounted and the negative impacts of environmental externalities (air, water and land pollution, biodiversity loss, climate change) are not correctly priced.

Advanced and emerging economies (including Brazil, China, France, Germany, India, Japan, the Netherlands, the UK and the US) have employed an array of support measures. Germany has given billions of euros for R&D on wind, solar photovoltaic, solar thermal, geothermal and renewable energy integration technologies. After the 2008 financial crisis, the US gave \$20 billion for research and investment in green technologies. Germany offered low-interest loans for renewables, and set up dedicated funds to support energy efficiency, energy storage, e-mobility and refrigeration, or for bilateral cooperation to export German technology. China allocated tens of billions of dollars in low-interest loans for its domestic RE industry, in addition to offering tax holidays and rebates and cheap energy infrastructure. It has spent \$59 billion to subsidise electric vehicles, becoming a world leader in EV manufacturing.

There are other motivations. There is growing mercantilism to protect domestic firms and capture market share rather than create long global supply chains in clean tech. There is some merit in supporting green technologies to get the first-mover advantage and shift rents to local firms. In 2002, Japan dominated solar PV manufacturing; by 2012, seven Chinese firms were among the top 10 manufacturers. China also rapidly established itself in pole position in high-speed railways, building the largest network in the world and now out-competes traditional industry leaders like Germany and Japan in export markets.

Such motivations come with the risk of regulatory capture and policy distortion. India used local content requirements (LCR) and safeguard duties to promote solar PV manufacturing. But LCR policy was distorted (resulting in overuse of thin-film technology) and manufacturers found that tariffs on imported inputs exceeded tariffs on final products. Consequently, Indian solar PV manufacturing continues to remain under stress.

The temptation to follow China's model should be tempered by understanding what worked under which special conditions. China's entry into the World Trade Organization coincided with its decision to build a domestic solar industry, giving its manufacturers access to markets in Europe and North America. However, in the past decade, rising WTO disputes over clean energy mean that new entrants in green technology cannot take market access for granted.

Also, Germany spent billions to support solar via feed-in tariffs (FiT), which subsidised consumers and, in turn, Chinese exports of solar PV. Wind energy got a smaller share of FiTs, so support measures went more directly to German wind component manufacturers, which have managed to remain competitive.

What can India learn from these experiences? First, clearly define the objective of green industrial policy. Combining other goals (say, protecting jobs) with environmental goals has generally hampered discipline and accountability. Second, when designing challenge prizes, it is better to establish stringent technical and performance standards rather than favour specific technologies. This would be particularly applicable in nascent industries, such as EVs and energy storage.

Third, "horizontal industrial policies" that apply across sectors are less susceptible to capture. The Council on Energy, Environment and Water identifies nanotechnology, industrial biotechnology and advanced materials among key enabling technologies that could have maximum impact on industrial value addition in many sectors.

Fourth, India must leverage the size of its domestic market. In China, university research on renewables did not quickly impact RE manufacturing. China benefited more from knowledge transfers via turnkey projects and foreign technical experts. India, too, must create incentives for tech collaborations with other countries, with provisions for knowledge transfer embedded in them.

Fifth, without greater R&D spending, technological leadership is unlikely. Indirect measures such as subsidising consumers or giving tax breaks to project developers have had less impact on clean tech development. Direct approaches, such as taxing environmental externalities, are likely to trigger more innovation. Industrial policy and innovation policy must go hand-in-hand.

Sixth, encourage competition rather than protect inefficiency. In India and Mexico, trade liberalisation and import-induced competition made local firms invest more in energy efficiency. Direct support measures work better when linked to proof of growing competitiveness in domestic or export markets. Favouring individual firms will increase the chance of private investors gaming the system. Information asymmetries between public officials, innovators, entrepreneurs and investors could be reduced through improved monitoring.

Soon, a new government will have to think about the intersection between industrial growth and sustainable growth for India. Creating enabling conditions for effective green industrial policy is hard, but it is the only way towards becoming a great economy that shapes the future.

The writer is CEO, Council on Energy, Environment and Water (http://ceew.in). Follow @GhoshArunabha @CEEWIndia

Blaming the messenger

BOOK REVIEW

VIKRAM JOHRI

Facebook, the social platform that was supposed to help us share pictures of kittens with family members living far, has transformed itself into a global behemoth that can arguably affect the outcome of elections, give voice to all manner of conspiracy theorists, and provide a mechanism by which the most dastardly content can be widely shared.

In his book, whose title leaves no doubt which way his sympathies lie, Roger McNamee, an old Silicon Valley hand and early Facebook evangelist, lays the blame for this state of affairs squarely at the door of the company's leadership. Having worked with both Mark Zuckerberg, the company's founder, and Sheryl Sandberg, its chief operating officer, Mr McNamee presents their strategy as one of "delay, deny, and deflect".

Like many others, Mr McNamee was first alerted to Facebook's "dangers" after Donald Trump's victory in 2016. Though the conclusions of the report from Federal Bureau of Investigation Special Prosecutor Robert Mueller investigating Mr Trump's possible electoral collusion with Russia does not appear to offer definitive conclusions, Mr McNamee is certain that the Russians hacked Facebook and definitively changed the outcome of the election.

He describes this hacking as sophisticated, brought about by the loose standards Facebook set on sharing data with third parties. Mr McNamee describes Facebook's algorithm, in what is now widely known, as one that generates filter bubbles, echo chambers where users find their political and social views supported and magnified by other members. By using user data and running hundreds of such groups, Mr McNamee argues, Russians used the platform to swing the election.

His criticism in this respect is well-founded, as multiple events, most notably the Cambridge Analytica scandal, have shown how porous Facebook's privacy standards are. For too long, Facebook unmitigatedly allowed what is called data harvesting to build detailed profiles of users that were then made available to advertisers at attractive rates.

Yet, to claim that Facebook affected the election outcome is to give the platform an agency that it does not deserve. Mr McNamee's assumption that the outcome of the 2016 election was a foregone conclusion until the toxic cocktail of Russians and Facebook altered it is flawed. Facebook may have amplified and provided an outlet for resentments that a number of voters felt about the Democratic nominee Hillary Clinton. It did not create those resentments.

By refusing to acknowledge the problems of the white working class and, worse, pooh-poohing their concerns by calling them such egregious terms as "basket of deplorables", Hillary Clinton had set herself up for defeat long before the Russians could achieve anything with Facebook.

Belatedly, the company has begun taking action. A famous example is shutting down Infowars, the conspiracy website run by Alex Jones, which was a fount of fake assertions and disinformation. Along with other social media platforms, Facebook is now increasingly willing to work with content providers to remove hate speech from the site.

As for a long-term solution, Mr McNamee is of the view, recently propounded by Democratic Senator Elizabeth Warren, that companies like Facebook and Google should be viewed as public utilities, and should be regulated as such. This line of thinking emerges from the fact that they provide a service — news in Facebook's case, search in Google's — that is closer to a public good than a business. More importantly, it stems from the realisation that their advertising-based revenue model forces these platforms to build algorithms that cause public harm.

While there is merit to this claim, Mr McNamee and others need to avoid putting the cart before the horse, as they did with their analysis of the Democratic defeat in 2016. While some sort of regulation is perhaps called for, the unarticulated hope beneath that claim — that shutting down or regulating social platforms will make people shift to liberal pieties — is quixotic.

In the appendix at the end, Mr McNamee includes a discussion on how to reverse nationalism, which, in his view, is responsible for the string of political surprises unleashed in the West over the past few years. Until the liberal elites recognise that there are genuine issues with the global order they celebrate, and until the mainstream media is more willing to air unpopular — rather, popular — views, there will always be a demand for online communities that challenge received wisdom.

Mr McNamee is right that a 15-year-old company got this powerful because it learnt how to get under the skin of its users. But the rise of Facebook and other social media platforms reflects a political, social and cultural schism whose roots go well deeper than anything these sites could engender.

ZUCKED: Waking Up to the Facebook catastrophe
Roger McNamee
HarperCollins; ₹599, 336 pages