Beautifying India's ugly media spaces

India's news media is a global byword in bad taste, its social media is crawling with trolls. How do we fix this?

MEDIASCOPE

VANITA KOHLI-KHANDEKAR

Can things get any worse? On Sunday, when reports of the blasts in churches and hotels in Sri Lanka came in, Indian politicians first tried to use it to score points in the ongoing general election. Then, Indian news media simply went ahead and named some people as the culprits whilst the Sri Lankan police was still figuring things out. All of Monday, Sri Lankan media and citizens were expressing their disgust over our politicians, media and trolls. This has happened over several incidents now. For instance, when Indian trolls were gleeful about Muslims being killed in the mosque shoot-out in New Zealand, in March this year.

Across the world, Indians command respect for their love for learning, democracy and of course, a growing economy. We are seen as erudite people with the intellectual firepower that shows up globally in IT, academics and in the management of some of the world's top firms. For the last few years, however, we seem to be bent on demolishing that image. The image of the Indian coming out of news channels, newspapers and social media is of a rabid, fanatical, war-mongering chap who enjoys the spectre of violence — verbal or physical — against any person he doesn't agree with.

It is very easy, and probably fair, to blame media for it — especially television news. News media is the intellectual fodder that informs our arguments, debates and decisions on what to buy, who to vote for et al. But the last two years, news media has been doing a shabby job of informing. The shrill, one-sided headlines, bad reportage, the screaming that passes for debate, are hardly news. There is no focus on science, technology, business or societal changes on nightly news bulletins. Yet this seems to be attracting more not less people. News consumption on television rose from 6.5 per cent in 2015 to 7.2 per cent in 2018 even as total TV viewership grew, according to Broadcast Audience Research Council data.

To make matters worse, you have the WhatsApp university where manufactured news, disinformation and prejudice are amplified to a largely media-illiterate mass of people. So entire sections of society believe that Pandit Jawaharlal Nehru said some of the rubbish that is being attributed to him.

There are four simple ways of counter-influencing, if not cleaning, this up.

One, each of India's 400 news channels (yes, we have that many) post their sources of funding, shareholding, profit and loss accounts, and balance sheets online every quarter. This should be part of the conditions for getting a licence. More than half of Indian news channels are owned by politicians, builders or random people who are in it to peddle influence or curry favour, not to make honest money or further the cause of good journalism. This move will force dodgy players out or at least, keep them in check.

Two, create an independent-of-the-government media regulator by merging all the bodies that currently "self-regulate". Please note, this regulator has to be independent-of-the government, a la Ofcom — the regulator and competition authority of the UK communications industry — for this move to work.

Three, let Doordarshan go free. Currently, it is part of the "autonomous" Prasar Bharati. It is, however, not independent to do the content, hire people, distribute or fund itself the way it wants to – much of that is still controlled by the central government. If DD had true autonomy, it would change the shape of the news market by default. Across news and entertainment, the UK has five public service broadcasters including the BBC, Channel 4, ITV; each world-class. Competitors are constantly grumbling about how they are subsidised. Sure they run on public money but it is well-spent. The five have created a news and entertainment ecosystem that forces private broadcasters to up their game. In India, there is no such benchmark.

Lastly, can we as Indians agree to disagree with civility online, to question every forward and every bit of misguided history or factoid thrown at us. Can we decide not to watch loud, shrieky news channels that divide us? That will help in cooling things down a bit and hopefully we will go back to being the Indians the world respects.

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CHINESE WHISPERS

No ticket, no party

After the Bharatiya Janata Party (BJP) denied Dalit leader Udit Raj a party ticket from the north-west Delhi constituency, the aggrieved leader removed the prefix "chowkidar", or watchman, from his official Twitter handle. He also threatened to quit the party, saying his supporters across India were hurt by the BJP decision. However, the prefix was back a couple of hours later, leading to speculation that the BJP had reached out to Raj with some assurance. The prefix returned around the time when there was a rumour that the nomination papers of singer Hans Raj Hans, whom the BJP had fielded from that seat, were incomplete. Soon, supporters of Hans clarified his papers were in order. Will Raj remove the prefix from his Twitter handle again and quit the BJP once and for all? We didn't have an answer to that question at the time of going to press.

Corruption slinging

It is common knowledge that Chhattisgarh Chief Minister Bhupesh Baghel *(pictured)* and former chief minister of the state Raman Singh do not see eye to eye. The two often use social media platforms to target each other. In the heat of electioneering, things seem to have gone a little out of hand. They have ended up dragging their families into a Twitter war. After Raman Singh tweeted, "...if we count all 29 states of the country, Bhupesh Baghel is the only chief minister who is on bail", Baghel targeted Singh's son-in-law and claimed "his son-in-law is absconding and his wife, son and even the cook are accused of corruption. He should not preach us". In September 2018, Baghel, who was then state Congress Committee chairman, was jailed in a case involving objectionable CDs of a minister. In March, a case was registered against Singh's son-in-law over alleged financial irregularities in a state-run hospital when he was its superintendent.

Setting son?

Vellappally Natesan, general secretary of the Sree Narayana Dharma Paripalana Yogam, an organisation close to the Ezhava community in Kerala, has predicted Congress President Rahul Gandhi will win the Wayanad seat. As the leader of an organisation that can move the needle in the case of an inconclusive election, Natesan claims to know the pulse of the people. Interestingly, Natesan's son Thushar Vellappally, a leader of the Bharat Dharma Jana Sena, is the NDA candidate in Wayanad, and is pitted against Gandhi. Natesan, along with his son, went to vote and told journalists there he didn't know his son was contesting. The NDA has two strong contenders in the region, he added, and they were Kummanam Rajasekharan in Thiruvananthapuram and K Surendran in Pathanamthitta. Significantly, he left out his son from the list of "strong contenders".

NDA's coal policy faces critical questions

Did consumers and state governments benefit from it? Or did the private sector gain more through the back door?

NITIN SETHI

TAKE TWO

On April 12, Chhattisgarh's newly elected chief minister Bhupesh Baghel wrote a letter to Prime Minister Narendra Modi claiming that the Centre's coal block policy could cause his state to lose potential revenue of ₹9 trillion over the life of the coal blocks in its geography. At the same time, two recent public interest litigations (PILs) have questioned the handing over of these allocated coal blocks by state power companies to the private sector through secretive mining, development and operation (MDO) contracts.

Losses aside, Baghel's letter and the PILs raise policy-level questions that have gone unasked for the four years since the NDA government introduced the coal allocation and auction regulatory framework. This framework came after the Supreme Court in August 2014 cancelled the allocation of 214 coal blocks to the private sector and state power producing companies under the previous United Progressive Alliance (UPA).

The NDA's framework introduced coal block auctions for the private sector. But it also legalised what the Supreme Court had found was not permitted under the previous regulatory regime: Coal block allocations to state PSUs which could then hand them over to the private sector through MDO contracts.

Though the initial focus was on auctions, the government has ended up with more allocated blocks (58) than auctioned ones (31). It is this allocation policy that Baghel has questioned.

This month, the Supreme Court accepted and sent notices on a PIL filed by a Chhattisgarh-based citizen, Dinesh Kumar Soni, challenging the nature of MDO contracts signed by the Rajasthan government (when the state was under the BJP) with the Adani group handing over some coal blocks it secured in Chhattisgarh. The Union government, Rajasthan state government (now Congress-ruled) and the Adani group are yet to respond to the notice. The Delhi-based NGO Common Cause (which had filed the earlier case against UPA-era coal allocations) filed a PIL on a similar case in a December 2018.

Soni's PIL challenges the manner in which the coal blocks were re-allocated to Rajasthan Rajya Vidyut Utpadan Nigam Ltd (RRVUNL) after they had been once cancelled by the Supreme Court. RRVUNL handed over the control of the blocks to the Adani group through joint ventures (JVs) that had been set up before the Supreme Court's 2014 cancellation order.

The litigant has alleged that the MDO contract violates the law and the Supreme Court order. They have also alleged that in one case the contract predates the Supreme Court order cancelling UPA-era allocations and holding such JV agreements illegal.

MINE OVER MATTER

- The NDA's framework introduced coal block auctions for the private sector
- The policy also legalised allocations to state PSUs which could hand them over to the private sector through MDO contracts
- More blocks allocated (58) than auctioned (31)
- Chhattisgarh chief minister writes letter to Modi saying the state could lose revenue of ₹9 trillion owing to MDOs
- Two PILs challenge the nature of MDO contracts between Rajasthan government and the Adani group over coal blocks the former secured in Chhattisgarh
- PIL states that PSUs end up paying more for coal than it would have buying from a Coal India subsidiary
- MDO contracts kept outside the Right to Information law

They claim the state PSU ends up paying more for the coal from its own block than it would have buying from a Coal India subsidiary, advantaging the private company. In one JV for which some details of the contract are in the public domain, the petitioners allege the state PSU would pay ₹275 per tonne above the rates at which South Eastern Collieries provides a higher grade of coal. Additionally, the JV would earn more at the cost of the PSU by selling coal rejects. The litigant has alleged that the JV, in one mine alone, would end up making a profit of ₹7,557 crore over a 30-year period at the cost to the state power company.

Baghel, on the other hand, has said that keeping a low reserve price (on top of the royalty) for the blocks allocated to the state PSUs causes loss to the state governments under whose jurisdiction the blocks fall. He has contended that states where the blocks are located should have both a say in the allocation of blocks to other states as well as the right of first refusal.

Additionally, he has demanded that the reserve price for such blocks be raised from ₹100 per tonne to at least ₹500 per tonne or match the average premium secured when private players bid directly for the blocks. The premium for the coal blocks auctioned in the previous years ranged between ₹2,291 and ₹3,502 per tonne.

The NDA's coal block policy and attendant new regulations were intended to open the coal sector to a transparent regime and private mining through upfront bidding, and cheaper allocations were expected to pass on the benefits to state power-producing PSUs and power consumers.

Instead, so far, it has led to the private sector preferring to get into the coal business through the backdoor via MDO contracts, for which the government has provided a veil of secrecy by expressly putting them outside the purview of the Right to Information.

Mining companies see huge potential from the MDO route. The Adani group made ₹8.63 billion (EBITDA) from the state and central government coal MDO contracts in 2017-18, according to the company's report to its investors. This was from a year of mining the 2.1 billion tonnes of reserves it has under MDO contracts. It believes the total MDO business would corner 52 billion tonnes of coal reserves.

Baghel's letter is unlikely to see a response from the incumbent Central government at this stage. But the PILs bring an indirect challenge to the secretive MDO contracting route. The fundamental questions they raise could soon lead to disclosure by both the Union government and potentially the private company of the nature and contents of such contracts. That could help usher in a critical review of the NDA's coal allocation regime.

INNOCOLUMN

Building trust key to entrepreneurship

R GOPALAKRISHNAN

Business and entrepreneurship are clearly promoted by fostering and advancing trust in a society. I came across two books, both of which emphasised trust as a social and behavioural ingredient in the spread of entrepreneurship — *Rainforest: The Secret to Building the Next Silicon Valley* by Victor Hwang and Greg Horowitt, and *Trust: Creating the Foundation for Entrepreneurship in Developing Countries* by Prof Tarun Khanna of HBS.

Powering the energetic drive for entrepreneurship in the country, our policy and business leaders should do much more to nurture trust. The manifesto of one party mentions motherhood statements, having done nothing during its time, "Since our economic model is based on entrepreneurship and innovation, we commit to simplifying and lowering tax rates. An important aspect of the ease of doing business is the ability to enforce contracts and resolve disputes. Therefore, we promise to significantly increase the capacity of the legal system within five years in partnership/co-ordination with the judiciary."

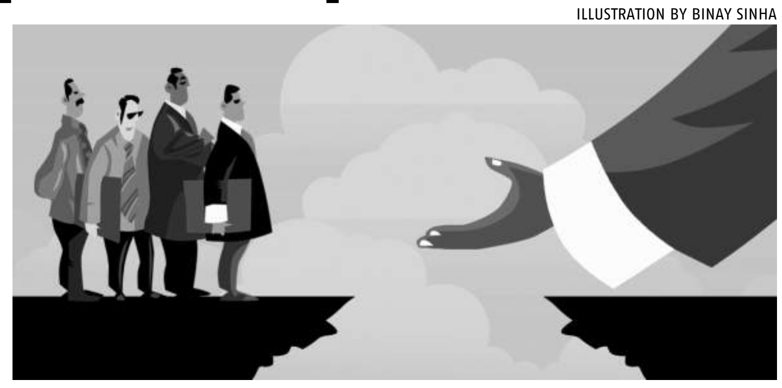
Is it for entrepreneurs or for governments and policy makers to act? Or is it a shared job? If policy initiatives are likened to positive energy that accelerates, then dilution or reduction of trust works as a negative energy that retards. The final benefit to society is the sum of these two opposing factors. Business must adopt trust-building systems like quality and reliability, while, and governments must provide unambiguous policy and speedy dispute resolution.

Members of societies develop trust through two broad strategies: First, is the positive nurturing of trust through social behaviours of mutual understanding and adaptation to one another's differences; second, is the avoidance of the negative of diminishing trust by speedily investigating and adjudicating on inevitable differences in society. India can improve in the both respects.

Nurturing of trust: The trading tradition is based on trust, on communities living adaptively and in harmony. Trust-building systems are an intuitive part of Indian life. The Multanis traded as far as Central Asia and Persia because they developed a system of transferring money based on trust, the hundi. The Marwaris were able to extend their geography by developing a third-party system of the gumastha. The Kutchis became masters at intuitively understanding the winds and ship-building systems, which enabled them to venture out far into the oceans. By developing the training system of podiyan-aduthavan, the Chettiars could undertake controlled risk-taking across the seas. Social adaptiveness and harmony lie at the core. I will digress through an example.

Around 1650, a Tamil priest, Rangarajan, migrated from Kanchi to rural Bengal at the invitation of the local raja. A Tamil enclave developed at Godi Bero over 350 years, speaking only Bengali, dressing in authentic nine-yard saree and *panchakacham veshti*, more elegantly than those in Mylapore! They told me with pride, "*Aamrao aapnaar moton Bodogalai Iyengar, kintu* Tamil *bolte pari naa. Kemon lagchey amader poshak*?" (We are also from your community, but we cannot speak Tamil, how do you like the way we dress?). Their adaptiveness and diversity has produced a principal for Patna Medical College, two well-known neurosurgeons, scholars and parliamentarians.

ILLUSTRATION BY BINAY SINHA



The marked deterioration in social tensions is an economic drag on entrepreneurship. The social fabric and centuries-old entrepreneurial instincts of Indian business are being damaged in a truly anti-national manner.

Deciding on disputes: India must take the cake for her inability to resolve disputes through the legal system. Speedy justice is absent in every political party's manifesto, even as the situation declines precipitously. While there are good economic reasons to have a speedy dispute resolution mechanism, there must be good political reasons to have an increasing logjam of commercial and criminal court cases.

As Prof Tarun Khanna states, "Without this ambient trust, the workings of just about everything would be compromised... in the developing world, entrepreneurs must create the conditions to create." In Rainforest, the authors describe the case of two professors (husband-wife), who set up a company called Profusion. Its technology was so good that PC Magazine awarded their firm the "Best Meta-Search Engine" Award. They lost in commercialisation to Yahoo, not because Yahoo had better technology, but because Yahoo built better relations and networks.

Entrepreneurs can be tasked to develop systems of positive trust-building, like superior customer service and quality systems — but politics must not diminish those efforts by fostering social tensions and delayed dispute resolution. Whichever government is formed in May should note this important aspect.

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LETTERS

Exercise restraint

This refers to the editorial "The Supreme test case" (April 23). The sexual harassment charges against Chief Justice of India (CJI) Ranjan Gogoi *(pictured)* by a woman who had once worked in his office cannot be simply brushed aside as one aimed at maligning the reputation of the CJI and the institution he heads. While the CJI had every reason to be aggrieved over the complaint against him, he could have exercised restraint and refrained from publicly attributing motives to the complaint before recusing himself from hearing the case. The CJI's apprehensions about the need to protect and preserve the judicial independence are genuine, but the question that has emerged is whether the higher judiciary has the institutional resolve to look into the complaint with the fairness and objectivity it deserves.

M Jeyaram Madurai

Go for quick resolution

This refers to the "Amendments in IBC to provide for mediation" (April 22). The government's move to amend the Insolvency and Bankruptcy Code (IBC) by making provisions for mediation and prepackaged resolution is of immense importance that may help iron out the glitches in insolvency proceedings experienced over the past few years. In many cases, these proceedings could not be completed within the stipulated time frame due to multiplicity of litigations. This has restricted the IBC in fully achieving its intended objectives.

Mediation as a tool for exploring mutually beneficial solutions is a low-cost option that also saves precious time for both the parties. This must be given a chance before actually resorting to insolvency proceedings. Similarly, prepackaged resolution that stipulates preparation of a financial reorganisation plan by the stressed company with the approval of at least two-thirds of the creditors before filing an insolvency application at the National Company Law Tribunal is also a good proposal and must be seriously considered. This is likely to provide swift resolution and with less legal hurdles as the plan will have the approval of a majority of the creditors right from the beginning and therefore, should ensure smooth sailing.

Sanjeev Kumar Singh Jabalpur

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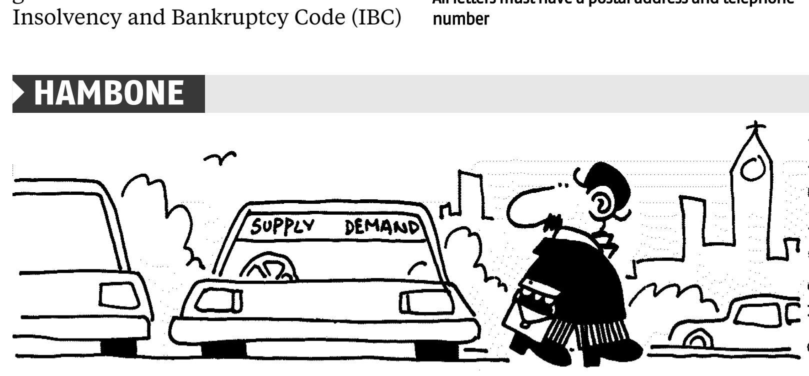
HAMBONE



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The crude oil trap

End of Iran waiver means a familiar problem for India

The US has not extended the exemption from its sanctions against Iran granted to some countries, including India, that import crude oil from that country. This move, while not entirely unexpected, is nevertheless a negative shock. As much as 11 per cent of India's crude oil imports are from Iran. It is true that India has sought to diversify from Iranian imports under US pressure. The waiver capped Indian imports from Iran at 300,000 barrels of crude oil a day. India further decreased the amount it was importing, such that in January of this year, according to published reports, there had been a 45 per cent decline in crude oil imports from Iran.

Oil ministry officials, as well as oil-importing companies, have put on a brave face on this development, claiming that they were shifting their sourcing of crude oil to other suppliers such as Kuwait or the United Arab Emirates. However, this should be seen as what it is — bravado. It is not easy to replace the terms that Iran provided. For example, Iran would offer a longer credit period than other crude oil suppliers would — sometimes as much as 60 days, twice the regular amount of time offered by other source countries. The official pricing of Iranian crude oil was of course lower, and insurance was also cheaper if not free. Thus there will be unquestionable financial implications for the oil importers and, as a consequence, for the economy generally. A reasonable amount of Indian oil used to be imported from Iran and Venezuela; now both of these countries are no longer utilisable as sources, with obvious consequences for pricing and availability of crude oil.

The global price of crude oil has in any case been rallying, and this will only provide a further upward impetus. It is not impossible that, in the short to medium term, the price of crude oil globally would hover between $75 and $80 a barrel. This would not be good news for the Indian macro-economy. Indian economic indicators have remained excessively dependent on the price of crude oil. While India's current account deficit narrowed in the third quarter of the financial year 2018-19 to 2.5 per cent of gross domestic product, an increase in the oil import bill will once again send it up close to 3 per cent of gross domestic product or even beyond. The narrowing was in any case largely due to a fall in oil prices, helped along by the Iran waiver. If the global price of crude oil rises, the domestic price of fuel will also have to rise in response, with implications for consumer price inflation. The Reserve Bank of India will once again be faced with an unpleasant choice — increasing crude oil prices will exert upward pressure on inflation, while also dragging down growth. Too little has been done in the years of lower oil prices, since 2014, to reduce the Indian economy's dependence on the price of crude oil. The best insurance would have been to, first, ensure that exports were high and could sustainably cover the oil import bill; second, to expand exploration for crude oil resources within India; and third, to increase the presence of renewable in India's energy mix. Of these, only the third can be said to have been moved on with sufficient energy.

Goodies for small traders

Collateral-free loans of ₹50 lakh is not a good idea

Speaking at a traders' convention in New Delhi, Prime Minister Narendra Modi made a series of promises to traders about changes in government policy if he was re-elected this May. Mr Modi's Bharatiya Janata Party (BJP) has traditionally been the party of the small business owner, but some of the government's policies over the past five years have alienated a significant section of its traditional vote bank. Mr Modi clearly intends to win some of them back, as is his prerogative. However, at least one of the promises made by the prime minister deserves a closer look. The promise in its structure is symptomatic of how the Indian state has gotten credit all wrong over the past decades; and in its specifics is not advisable at this fraught moment for the Indian financial sector.

The prime minister said a traders' credit card scheme similar to the Kisan credit card would be introduced. He also said loans would be made available to traders — loans of a ticket size of as much as ₹50 lakh, without any collateral whatsoever. Conceptually, the aim of this loan is understandable. Many traders have faced a cash squeeze after the twin blows of demonetisation and the introduction of the goods and services tax, or GST. Credit has become hard to come by. It is thus necessary both from the point of view of this particular sector as well as for the economy generally to ensure that credit flows more freely to the trading sector. However, directed lending of this sort is always a bad idea. The past decades have shown that loan melas, whether for the rural sector or for infrastructure, rarely achieve their ends. In the end, directed lending, especially collateral-free directed lending, ends up stressing those banks that have been forced into making these loans. The entire history of bank nationalisation up to the present day — a nationalisation that was originally justified by the need to force credit into "priority" sectors of the planned economy — shows that when nationalised banks are turned into tools of government policy, they fall into crisis in the medium to long term.

In fact, the banks are yet to properly emerge from the current bad loans crisis. Infrastructure, construction, power, and commodities lending remain stressed. But the government has added fresh pain points already such as the MUDRA loans, which have seen a leap in delinquency over the past financial year. And now the prime minister is promising to add yet another source of bad loans to the banks' list of directives. Politicians need to realise that the public sector banking system is not a free source of cash for re-election. Promises of concessional or collateral-free credit will eventually have to be paid for as surely as direct income transfers. But, unlike the latter, loan melas or loan waivers have the additional cost of stressing the entire financial system and raising the chances of a freeze in bank lending that causes a more generalised slowdown or crisis. This promise should have been discussed in greater detail if it is indeed a serious one. As it now stands, it would be a bad idea to implement.

ILLUSTRATION: BINAY SINHA

Do-it-yourself and nirvana economics

Revisiting the academic contributions of P D Henderson and H Demsetz

In the last few months, two old friends and economist colleagues whose work deserves to be better known in India died.

The first, P D (*David*) Henderson died at the end of September aged 91. In a varied career, he was an Oxford don, economic advisor to the UK Treasury and chief economist at the UK aviation ministry before becoming director of the World Bank's Economics Department in 1971. That was when I first met him when he was visiting Nuffield College Oxford, where I was a research fellow completing a book on a cost-benefit study of small-scale irrigation in Maharashtra (*Wells and Welfare*, OECD, 1972).

As David was keen to promote a systematic analysis of the Bank's main business of financing public investment projects at the time, he asked me to come and spend some summers in his department writing a short book (*Methods of Project Analysis*, Johns Hopkins,1974) appraising the alternative methods of project analysis then vying for the Bank's attention. He was a stern taskmaster in ensuring that the resulting book was clear, cogent and concise. But he soon fell out with the then IBRD president, Robert McNamara, and in 1975 joined University College London or UCL (where I was a lecturer) as professor of political economy. We became and remained close friends. David had gradually moved away from the political Left to the classical liberalism endorsed by Margaret Thatcher. Encouraged by her then economic adviser Alan Walters, she sent him to the Organisation for Economic Co-operation and Development (OECD) as its chief economist.

DEEPAK LAL

During his UCL years, he produced devastating cost-benefit studies of the follies of the supersonic Concorde project and the Central Electricity Board's advanced gas-cooled reactor in his inaugural lecture. But his major economic contribution was in the BBC Reith lectures he gave when he was at the OECD (*Innocence and Design*, Blackwell, 1986). In these, he argued that it was not the ideas of economists or vested interests that guide economic policy but the "do-it-yourself (DIY) economics" of laymen who believe they intuitively know how the economy works. No better Indian example is Prime Minister Narendra Modi's demonetisation decision.

After retiring from the OECD, he was an itinerant applied economist at various institutions in the UK and the Antipodes, during which he wrote a devastating critique of 'corporate social responsibility'. Finally, he took issue with various exaggerated claims about the extent and costs of anthropogenic carbon emissions on climate change as propagated by the Intergovernmental Panel on Climate Change (IPCC). This led to his persuading the former UK chancellor of the Exchequer Lord (Nigel) Lawson to set up the Global Warming Policy Foundation, of whose academic council he became chairman, and of which I remain a member, as I had some influence in converting him to climate-scepticism through my Wincott lecture (The Limits of International Cooperation, IEA, 1990, reprinted in my *Against Dirigisme*, ICS Press, 1994).

The second recent victim of the Grim Reaper was my UCLA colleague Harold Demsetz, who died at the age of 88 in early January, just a week before we were due to meet him. He was one of the most important micro-economists of the past century who — as many of his obituarists have noted — deserved but did not get the Nobel prize.

When I took up the new James Coleman chair in International Development Studies in the Economics Department at UCLA in 1991, the leaders of the UCLA economics school were Armen Alchian, and Harold Demsetz who had been at UCLA for over 30 years. They were microeconomists who are wrongly identified as creating an imitation West Coast Chicago by the sea. Though influenced by many Chicago economists — in Demsetz's case by Ronald Coase and George Stigler — they created and taught a distinctive price theory which was not dependent on Chicago economists claim that a competitive economy can be reasonably be fitted into the Arrow-Debreu model of a perfectly competitive economy. The UCLA price theory was based on the older classical notion of competition as the process of a rivalrous search for unrealised profit opportunities whose outcome is the uniformity of rates of return on invested capital and in prices of identical goods and services, but not because producers are price takers incapable of making prices. This older view of competition emphasising the process of disequilibrium adjustments leading to a competitive equilibrium it is to be found in Marshall and the modern Austrian theorists like Hayek.

Thus in his famous 1969 paper "Information and Efficiency-Another viewpoint" (reprinted in his *The Organization of Economic Activity*, vol.2, Blackwell, 1988), Harold coined the notion of the "nirvana fallacy" in criticising Kenneth Arrow's claim using the Arrow-Debreu framework (in his *Economic Welfare and the Allocation of Resources for Invention*) that with 'market failure', government intervention could make markets more efficient. Demsetz argued that this assumed a perfect government whilst failing to consider if the *actual* intervention could be perfect. "Those who adopt the nirvana viewpoint seek to discover discrepancies between the ideal and the real and if discrepancies are found, they deduce the real is inefficient." It is child's play to show that because of incomplete markets, external effects, and the existence of public goods, 'market failure' defined as deviations from a perfectly competitive norm is ubiquitous, but the corollary that this then requires massive corrective public action is unwarranted. Yet we still find many interventionist policies advocated on grounds of 'market failure'.

Harold made a seminal contribution to industrial organisation, law and economics, and institutional economics. Of these, I have used his 1968 paper "Why regulate utilities?" to think about privatising Indian infrastructure in my 1996 B R Shenoy Memorial lecture "From Planning to Regulation: Towards a new Dirigisme?" (reprinted in my *Unfinished Business*, OUP, Delhi, 1999). Harold argued that instead of regulating natural monopolies there should be a competitive auction for becoming the incumbent to run the natural monopoly. This 'competition for the field' differs from the later notion of 'contestable markets', which is based on competition between an existing incumbent and potential entrants to the natural monopoly. If they can enter and exit without incurring any transition costs, the monopoly would be perfectly contestable, and the insider incumbent would not be able to garner any rent from consumers. By contrast in 'competition for the field', competition takes place before production begins and the potential rents are competed away by the best bidder becoming the incumbent, Thereafter, there would be a distinction between insiders and outsiders and substantial transition costs for the latter — in sharp contrast with contestability theory.

I would urge readers to read Harold's collected essays for the lasting theoretical contributions of a master economist written in rigorous and lucid prose, without the resort to unnecessary mathematics which has become the contemporary hallmark of 'scientific' contributions and which perhaps deprived him of the Nobel prize.

Strategic sales sans strategy

Disinvestment of government equity in public sector undertakings (PSU) is one area where the Narendra Modi government in the last five years has done much better than its immediate predecessor. Total disinvestment receipts during the five years of the Manmohan Singh government (April 2009 to March 2014) were estimated at ₹99,367 crore. The Modi government almost trebled this to ₹2.9 trillion in the five years between April 2014 and March 2019.

Even when compared with the disinvestment targets the two governments had set during their respective regimes, the performance during the Modi years was better. Disinvestment receipts in the Modi government's five years were about 89 per cent of the targets that were set in the annual Budgets. The Manmohan Singh government, in its second term, had set a Budget target for disinvestment only in four of its five years. In spite of that, the achievement in those five years was only 66 per cent of the total target amount.

NEW DELHI DIARY

A K BHATTACHARYA

The Modi government's disinvestment track record stands out in comparison with that of the Singh government for another reason. The entire disinvestment proceeds between 2009 and 2014 came from the sale of the government's minority shareholding in PSUs. But in the following five years under the Modi regime, the share of such receipts in total disinvestment was only about 71 per cent or ₹2 trillion.

In other words, the Modi government experimented with different types of sales of its shares in PSUs to boost disinvestment receipts. The new types of disinvestment included offer for sale of shares in PSUs to their employees, buyback of shares, initial public offers, and floatation of the PSU exchange-traded fund. Receipts from such transactions were estimated at ₹15,243 crore in five years of the Modi government or just about 5 per cent of the total disinvestment receipts.

Where did the remaining 24 per cent of the disinvestment receipts come from during this period? This amount, an estimated ₹69,161 crore, was collected through what the government described as strategic sales. In the early years of the Modi regime, the mention of strategic sales in the disinvestment receipts section of the Budget was construed to be linked with privatisation. But as it is widely known, the government failed to privatise either IDBI Bank or Air India — the only two privatisation proposals it had taken up during this period.

It was initially believed that the Modi government would rake in significant amounts from the privatisation of these two entities and the target for strategic sale would not be difficult to meet. However, none of the two sales materialised — Air India sale has been put on hold, while IDBI Bank has been bailed out by the state-owned LIC of India, which has acquired a majority stake in the bank. So, where did ₹69,161 crore of receipts from strategic sales come from?

A quick look at the sources of this revenue will reveal how the Modi government has cleverly redefined what is understood by strategic sales and how it has used PSU resources to shore up its disinvestment revenues. Over the years, the government had accumulated shares of companies like Axis Bank, ITC and Larsen & Toubro, which were owned by the now-defunct Unit Trust of India. These shares were parked in the government-owned Specified Undertaking of Unit Trust of India or SUUTI. Income from such SUUTI shares, including sales and remittances, has contributed to the government's strategic sales revenue in a big way. In 2016-17, such receipts were estimated at ₹10,779 crore and in 2017-18, they were a little lower at ₹5,553 crore.

The government completed four other transactions in the last two years and declared them as revenues coming from strategic sales. In 2017-18, the government decided that state-controlled oil exploration major, ONGC should acquire another state-controlled company, HPCL, which is in oil refining and marketing. ONGC acquired the entire majority stake in HPCL held by the Union government. The total consideration ONGC had to pay to the government for this transaction was ₹36,915 crore.

Critics questioned the logic of this acquisition. ONGC's finances came under strain as it had to borrow from a clutch of banks to fund the purchase of the government shares in HPCL. It was an off-market deal. Minority shareholders in both ONGC and HPCL were completely ignored. There were murmurs of protests even within the managements of the two companies as there were doubts over the likely benefits and the challenges that could arise out of different work cultures. But the government managed to raise a significant amount of disinvestment revenue and showed them as receipts under strategic sales.

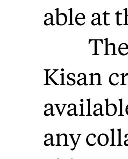
Last year, three such transactions took place to mobilise for the government an amount of ₹15,914 crore. Of this, the biggest chunk came when the state-controlled Power Finance Corporation (PFC) acquired a majority stake in another state-controlled company, Rural Electrification Corporation or REC. The transaction meant that PFC became the majority shareholder in REC and the government got richer by ₹14,500 crore by the sale of its majority stake in REC to PFC. Where did PFC get the money to buy those shares in REC? It financed 70 per cent of the cost of acquisition from its cash inflows and the remaining was arranged through debt.

Similarly, NBCC, a state-controlled company, acquired 100 per cent stake in Hospital Services Consultancy Corporation, an undertaking operating under the Ministry of Health and Family Welfare, by paying to the government an estimated ₹285 crore. The deal was concluded through a competitive bidding process. Another deal was concluded last year in which the government's entire shareholding in Dredging Corporation of India was sold to a consortium of four ports — Visakhapatnam Port Trust, Paradeep Port Trust, Jawaharlal Nehru Port Trust and Deendayal Port Trust. The government realised a sale value of ₹1,049 crore.

Note that none of these transactions, which the government describes as strategic sales, has resulted in any change in the PSU character of the enterprises concerned. Nor has their ownership been privatised. The government has sold its stake, but to another PSU. They will continue to function as any other PSU does.

Many questions, therefore, arise. Why describe these transactions as strategic sales? What could be the strategy behind the government move to sell its shares to another PSU? Many of the acquisitions by PSUs were financed by fresh loans. Is the idea of burdening PSUs with more loans to help the government meet its disinvestment targets a wise strategy? Finally, would the sale of their shares in the market, instead of tapping into the resources of some other PSUs, be a better option? Hopefully, the new government to be formed next month will address these questions and find satisfactory answers.

The UN's political record



BOOK REVIEW

KISHAN S RANA

The word "power" is high fashion in Indian books on international affairs, but apt for a work that examines the behaviour of the five permanent members of the UN Security Council (UNSC). The author's rich credentials in multilateral diplomacy legitimise this comprehensive study.

This is foundational work, covering the entire history of the UN's political record since its creation in 1945, also going back further to the origins of the international system and the evolution of international law, and the League of Nations. The device of terse summaries preceding each chapter is effective and adds to readability.

The UN's origin is traced to the Roosevelt-Churchill summit of August 1941 at Placentia Bay, off Canada, when these two World War II allies held their first summit and crafted the Atlantic Charter. Missing in this account is the discussion on India. "In the case of India the President not only referred to traditional American values but also the hope that a promise of freedom would make the Indians fight against Japan more enthusiastically (*Kimball, Ed. Churchill & Roosevelt: The Complete Correspondence*, Vol. I, Princeton 1984, p.373)." Subsequently, Churchill was adamant that the Charter did not apply to India, which diminished India's post-War role and the possibility of a UNSC permanent membership.

Dilip Sinha traces the 1942-45 exchanges among the Allies, including the Soviet Union, the Dumbarton Oakes draft and the San Francisco Conference discussions, leading to swift ratification of the UN Charter on 24 October 1945. A little remembered fact: A provision for a "review conference" after 10 years, if demanded by a majority of the General Assembly. Subsequent chapters examine the phases traversed by the UNSC, including the disenchantment with which it was viewed by the Soviet Union and the US at different times, and the demise of the idea of a "UN military", provided in Article 43. Chapter 8 covers in lucid fashion the Korean War from the perspective of the UN.

Two major chapters cover the innovative compromises that strengthened UN peacekeeping operations and military actions after the end of the Cold War. Sanctions feature in a chapter that can serve as a centrepiece for seminar discussions, given this theme's topicality. It notes that sanction "effectiveness remains open to question and its burden often falls on the innocent". The examination of "new mandates" is comprehensive, covering humanitarian intervention, the "responsibility to protect" doctrine and the struggle against terrorism. It usefully recalls that the West was against humanitarian intervention during the Cold War; a British Foreign Office policy paper in 1968 even argued that it was not "within the corpus of international law".

The US has dominated the UNSC, except for the period 1970-90, and is its driving force, supported by France and the UK. China and Russia are content to defend their national interests and their periphery, with no attempt at pursuing global interests. Evidently, despite Xi Jinping's assertion of a "rightful place at the centre of the world", China remains cautious at the UN. The book speaks of the several small states have faced action from the P-5 or their allies, besides the civil wars in Syria and Yemen, where the UNSC did not act. This was primarily due to the use of veto power, actual or potential, by the P-5. The US-British invasion of Iraq, March-May 2003, the Second Iraq War, is closely examined.

The penultimate chapter examines UNSC reform. The author concludes: "… the permanent seat aspirants face the impossible challenge of satisfying the large membership of the General Assembly without displeasing the permanent five". No further prediction is offered. For the foreseeable future, the reform notion is a chimera. Might it be that for India, continuing economic growth and accretion in political weight in the years ahead will offer a future possibility of some kind of arrangement? In any event, it is good that even in the fever pitch of the 2019 general election campaign, no one has alluded to Indian UNSC dreams.

The author concludes that the UNSC remains mired in the "archaic politics of power". But is not power a cardinal, real factor in international life? Overall the book covers the evolution of the UNSC and actions by the "five policemen" from a practitioner's perspective. It is a fine textbook for diplomacy courses.

The reviewer is a former diplomat, teacher and author

THE LEGITIMACY OF POWER: The Permanence of Five in the Security Council
Dilip Sinha
Vij Books and Indian Council of World Affairs; 321 pages, ₹595