India Inc's 'Khan Market gang'

Powerful dynastic elites are reluctant to allow any outsider into their cosy club

HUMAN FACTOR

SHYAMAL MAJUMDAAR

The "Khan Market gang" is everywhere in the past few days — in newspaper headlines, social media and in everyday conversations of just about every Indian. The so-called liberati is, of course, hardly enjoying all the attention and would rather have a quiet corner where they can drown their sorrows after the stunning election victory of Narendra Modi threatens to make the self-appointed intelligentsia almost jobless.

The ruling regime sees the gang as a minority of powerful dynastic elites who sought to control all levers of power and avenues of discourse, and were reluctant to allow any outsider into their cosy club.

A variation of this gang is present in India's family-owned businesses as well. A few members of the group have been running for cover for some time. But there are still many promoters who think they have a divine right to control their companies with little skin in the game. They think only they are the best custodians of long-term value creation in their companies. A few have allowed outside professionals to take over as chief executive officers but micromanage them to death.

Consider Jet Airways Founder and former Chairman Naresh Goyal. Despite appointing CEOs, Goyal and his wife ran Jet as a mom-and-pop operation where nothing happened without the two of them. Goyal was always involved in key decisions, the CEOs often had little executive power and did not survive long, making a mockery of the process. Jet has had eight CEOs in 11 years.

Goyal, for example, once announced to the media at a Paris air show that Jet would order 20 new wide-bodied aircraft and that these would be inducted into the airline's fleet over the next 18 months to fulfil his aspiration of going global. The problem was that Jet's board and its CEO got to know about the plan from the next morning's papers.

There are many Goyal clones across India's family-run companies who run their companies as a fiefdom. They pack their boards with relatives and are often control freaks. Obviously, most tend to miss the opportunities because they don't listen to others. Founders in the West sack one CEO and get another. Indian promoters sack one CEO and get into the CEO's role themselves. Most of these promoters are victims of their own beliefs and are often trapped by them. They find it difficult to trust people with something they have nurtured.

There are also cases where difficulties for the outsider CEOs arise in the form of entrenched coteries of long-serving employees, who short-circuit any proposal that can cause a radical change in the existing structure within the group. Research has also found that quite a few promoters love to think and force others to think that they are simply indispensable. For, nothing — just nothing — gives them more pleasure than the thought that the organisation would crash after they leave. After all, there can't be any better evidence of your brilliance than the falling apart of the company after you've left. Some believe in their indispensability so much that they simply refuse to leave — even if that means repeatedly increasing the retirement age of the entire board.

No doubt, quite a few family-owned businesses have faded into oblivion since the early 1990s. A recent study by McKinsey said only 7 per cent of the family-owned businesses in India have gone beyond the third generation.

According to a white paper brought out by global executive search firm Egon Zehnder, timing is an all-important question. The first step is for the entrepreneur to realise that a different leader is required for the future journey. Symptomatically, this is often the stage when an organisation's progress has visibly slowed down by the lack of formal structures, systems and processes.

The problem in India Inc is that promoters appoint professionals without a clarity on their role. For example, it is important to have agreement on the areas where the family will drive decision making and the areas where they will support/endorse decisions made by the professional. It is important to have a formal structure and process — something that Anand Mahindra and Harsh Mariwala have put in place. Most leave enough ambiguities in the system so that promoters can move in any time.

It's time the Khan Market gang in corporate India, too, woke up and smelled the coffee. If genuflection is the defining feature of your company's culture, real talent will hit the exit button sooner than you think.

CHINESE WHISPERS

In a fix

The Madhya Pradesh government, led by the Congress, is busy preparing its Budget for 2019-20. The process hasn't turned out to be as smooth as it was expected to be. Insiders say the state government is tearing its hair out over organising resources to fund the farm loan waiver scheme, announced before the Assembly elections late last year. By some estimates, the government needs about ₹50,000 crore to put in motion the promised waiver. On the other hand, the Opposition is waiting with bated breath, hoping it would falter. As an observer said, "Kamal [Chief Minister Kamal Nath *(pictured)*] is stuck between a rock and a hard place".

Mixing cricket with politics

As Prime Minister Narendra Modi *(pictured)* pads up to form a new government and the ICC Cricket World Cup 2019 gets underway, Indian market players are ready to cash in on the excitement. A domestic brokerage on Thursday came up with a list of 11 stocks, terming it the "dream team" for the World Cup. "The mood is upbeat in the Indian markets, with 'captain' PM Modi ardently padded up for his second innings. And so, we take a shot at selecting a team of world beater stocks, not only for the month-long tournament but perhaps till the next elections (read: World Cup)!" the brokerage said in a note to its clients.

Mamata versus Mamata?

The ruling party in West Bengal, Trinamool Congress, led by Chief Minister Mamata Banerjee *(pictured)*, sat on a *dharna* in front of the Naihati municipality building near Kolkata to protest the post-poll violence in the state that had allegedly left several TMC workers "homeless". The Opposition in the state lapped up the opportunity to take a dig at Banerjee, saying she was leading a *dharna* against her own administration. Sujan Chakraborty, Communist Party of India (Marxist) member of the state Assembly, said there couldn't be anything "more funny and absurd than this". The Opposition also wondered if Banerjee would next demand the resignation of the state home minister — a post held by Banerjee herself.

An opportunity to transform economy

The clouds hanging over the global economy due to the US-China trade war and the slowing domestic economy make it imperative for the government to consider a sizeable stimulus in its first Budget

SUMANT SINHA

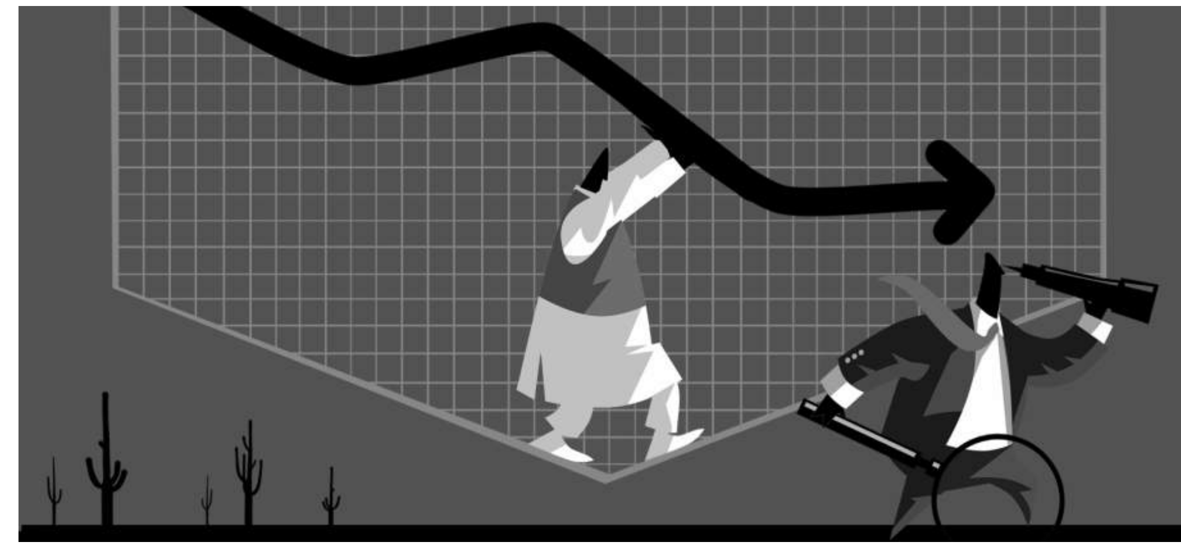

ILLUSTRATION BY BINAY SINHA

India has resoundingly re-elected the Narendra Modi-led National Democratic Alliance (NDA) for the next five years. Given its majority in Parliament, this will be a stable government with a clear mandate, and this provides the new government a historic opportunity to transform India's economic landscape.

Clearly, the government has to continue with all the good work it has been doing over the past five years — reforming the banking sector, sharpening the roll-out of GST and investing in building core infrastructure. In addition, the economy has run into a bit of a soft patch which needs to be addressed immediately. The automobile sector is going through a slowdown, the aviation sector is in a difficult spot, and many corporations are clearly hesitant about making further investments. This has to be dealt with expeditiously. A few key actions by the government can put us on a more sustainable economic trajectory so that more Indians are able to reap the benefits of "achhe din".

The first task is reforming the financial sector including the banking space. Without robust banks, lending can't be revived and without credit, investments in new projects will remain subdued. The government needs to quickly and massively recapitalise public sector banks so that they are able to lend more easily. The sentiment in the NBFC space, which was hurt with the unravelling of the IL&FS issue, has to be quickly addressed, perhaps with some sort of emergency line, notwithstanding the RBI's likely reluctance in this regard. The RBI for its part, can definitely help by lowering the benchmark rate further, and also pumping more liquidity into the system similar to its two dollar-rupee swaps. With inflation below 3 per cent, there is absolutely no reason for the repo rate to be over 6 per cent, and for corporates to be borrowing at rates in excess of 10 per cent, which implies real rates of 7 per cent. No investment can happen at this rate of borrowing. It is an absolute imperative that the cost of capital be brought down quickly.

Second, the indirect tax space saw the biggest reform since independence with the introduction of the GST. The next logical step will be to bring down the multiple tax slabs to, preferably, just one. This will not only make compliance easier, but also its enforcement. Similar is the case with the imposition of the long term capital gains tax which depresses capital markets sentiment but is not fully compensated for by an equivalent accretion in revenues.

A third important task for the government is to privatise public sector companies, including eventually the PSU banks. As the PM had said earlier, "the government has no business to be in business". While it is good thinking to improve their health before a possible sell-off, today many are becoming a drag on the public exchequer. The government needs to sell many of these loss-making public sector units and use the money to shore up critical infrastructure like roads, power, railways, airports etc. This requires a philosophical change and it is imperative that this government takes such bold steps.

The fourth — and that brings me to a sector which is close to my heart — are the energy markets. In his previous term, Prime Minister Narendra Modi completed the commendable task of electrifying every single village in India under the Saubhagya scheme. As all households get connected and the GDP growth ratchets up, the hunger for electricity will only grow. However, this cannot be achieved unless the distribution system is reformed. Till discoms become financially viable they will not be able to pay for the power they buy nor will they be able to modernise their networks to handle increased loads.

The government's electrification goals will also require a tremendous push from another key sector — renewables. India is now one of the leaders in clean energy generation but to keep the momentum going NDA 2.0 will need to set new targets beyond the existing 2022 targets of 175 GW, and bring in supportive policies. I would propose a renewable energy target of 250 GW for 2025, and 400 GW for 2030. This would imply that at least half of the new electricity capacity we need over the next 10 years will come from clean sources. This would buttress the PM's global leadership on climate change, with India leading the way in tackling one of the most defining challenges facing humanity today.

Fifth, and finally, given the sluggishness in the Indian economy, and global headwinds that are likely to persist, the best course of action for the government may be a fiscal stimulus to revive flagging animal spirits. The clouds hanging over the global economy due to the US-China trade war and the slowing Indian economy make it imperative for the government to consider a sizeable stimulus in its first Budget. Fiscal deficit targets may be breached in the short term and purists will surely protest, but the longer-term benefits will outweigh the short-term disruption. A quick stimulus may also help in continuing one of the most important tasks before this government — the process of generating jobs for the millions of young Indians joining the work force.

The author is chairman and managing director, ReNew Power. Views are personal

INSIGHT

A fix for Boeing

Questions multiply about flight testing for the B737 MAX-8, MCAS software refinements, whistle-blowers and passenger confidence

VIJAY VERGHESE

There is no doubt the original B737 is a workhorse that is absolutely safe. It has proven itself. The problem is with the cosmetic and commercial extensions on the MAX-8 that have stretched things beyond the design's capability

Boeing says it has a fix for the B737 MAX8 jet that is currently grounded worldwide. This relates to a software fix for the MCAS (manoeuvring characteristics augmentation system), which is believed to have sent two planes into a fatal nosedive. This should be good news for travellers. Is it?

Airlines that are haemorrhaging money with aircraft idling on the ground — and shall have to spend yet more money on advertising and PR to reassure passengers their planes are safe — would be glad to get their birds in the air but not without solid evidence that the patch will work. The risks are too high. Three major Chinese carriers — Air China, China Southern and China Eastern — perhaps prodded by the fractious US-China trade impasse, fired the first salvo demanding compensation for the grounded B737 MAX-8 jets. Others will follow.

While bullish about its fix, Boeing has failed to assume any clear responsibility for the crashes. CEO Dennis Muilenburg, who finally appeared on television half a year after the Lion Air crash in an egregiously botched PR exercise, continued to deflect the discussion towards pilot error — a tack the manufacturer has consistently taken.

Shareholders and questioning newsmen were offered waffle about a "chain of events" and "multiple contributing factors", none of which seemed to involve Boeing. It was a line of argument that incensed the American Airlines pilots' union who described as "inexcusable" Boeing's tin-eared approach even when they suggested fixes right after the Lion Air crash. There have been testy and candid exchanges between pilots and Boeing. One commented, "These guys (the deceased pilots) didn't even know the damn system (the MCAS) was on the airplane." He is right.

Muilenburg's optimism that when recertified the patched B737 MAX-8 aircraft will be among the "safest planes ever to fly", may not be shared by passengers, many of whom opted out even before the US grounding came into force. In early March Southwest allowed spooked passengers to switch planes if they did not wish to fly on a B737 MAX.

A key problem is that the airline is attempting a software patch for what is really a design flaw (like sending a Sumo wrestler to a psychotherapist to convince him he can do ballet). The airframe with its larger engines and the increased fuselage length simply does not gel with flight dynamics. Initial performance was less-than-optimal and this is what necessitated the first fix — the MCAS.

How comfortable are you with your smartphone software updates? The process of catching and neutering bugs is by nature incremental. They first need to be found. If your phone malfunctions you cannot make a call. If a plane malfunctions it can fall from the sky.

The question of aircraft testing is another important area for scrutiny. Boeing is confident the plane is now airworthy. Flight safety is measured in terms of incidents per million flights and the aircraft manufacturer had by early May 2019 flown a little over 100 sorties. In statistical terms this strains to be meaningful.

It was later revealed that Boeing was unable to even simulate the MCAS nose-down stall-prevention sequence of the doomed aircraft. This has necessitated another critical software fix on B737 MAX training simulators. The issue may have been spotted earlier but the aircraft manufacturer did not believe simulator time was necessary. An iPad would suffice.

As the aircraft awaits flight certification (not from 'FAA and Friends' this time but just the FAA), frequent flyers might ask themselves exactly how much they really know about aircraft and whether they would fly on the MAX-8. How might they react if Boeing was to later rebrand the plane and christen it anew?

In January 2019 Toyota recalled almost 2 million vehicles to fix defective "exploding" Takata airbags. It is far harder to recall a 66,000 kg aircraft and how airlines respond to the PR-perception challenge remains to be seen.

There is no doubt the original B737 is a workhorse that is absolutely safe. It has proven itself. The problem is with the cosmetic and commercial extensions on the MAX-8 that have stretched things beyond the design's capability. The 737 is a ubiquitous piece of equipment. As Muilenburg stated, "On average 2,900 B-737 airplanes are in the air with half a million passengers on-board at any given time." That's half a million reasons to get it right this time — starting with the airframe.

The author is a Hongkong-based journalist and the Editor of SmartTravelAsia.com and AsianConversations.com

LETTERS

No shortcuts

This refers to the article, "It's about high quality jobs" (May 30). The article is worth reading and has wonderful suggestions for creating high quality jobs in the country. In a country like ours where there is an increasing demand for quality jobs, it is essential to change the mindset of the people. Like the IT sector, tourism in India could be a big supplier of quality jobs and can meet the aspirations of the qualified youth of our country. Take the example of Scandinavian and Nordic countries that attract a lot of tourists specially during the summer. The sector employs a large number of young people and earns a huge revenue. It is also agreed that the manufacturing sector could provide millions of high quality jobs with labour reforms but suffer due to the wrong policies of the government. It is suggested that the youth be trained in sectors like tourism, food processing, garment and footwear manufacturing that have a huge presence in the international markets. A limited number of government and corporate jobs will not be able to solve the unemployment problem of India. What is needed is innovative thinking and proper planning.

Partha Sarathi Mukhopadhyay
Nagpur

A test of quality

I refer to "An action plan to energise defence" (May 28). The writer has made an excellent case for capital allocation rise for defence in the next Budget, besides making several other suggestions. I hope the new government will seriously consider these. I would like to raise a few related issues relevant to the subject:

- For meeting the requirement of scientists, we have to ensure that for engineering and science students, a career in research and development is preferred by providing greater recognition and higher remuneration.
- The government organisations like Defence Research and Development Organisation may confine themselves to working out overall concept and design, leaving the detailing and supply of subsystems to the chosen competent private organisations.
- Decision in urgent matters should be taken on a case to case basis without waiting for years for an overall policy applicable for such matters.
- The defence systems so developed should attract profitable export market. Export is a test of its quality.

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HAMBONE

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Modi govt 2.0

PM's signal to ministers: Perform or perish

Narendra Modi was sworn in on Thursday as prime minister of India for the second time amid extraordinary expectations from his government. With a 303-seat haul for the Bharatiya Janata Party (BJP), and with a commanding 353 seats for the National Democratic Alliance, high expectations from the government are only to be expected. Though a majority of the names in the second cabinet of Mr Modi are familiar as they were part of the earlier Council of Ministers, the prime minister has sent a strong signal of "perform or perish" by dropping around 30 ministers. Only a prime minister as much in charge of his party and parliamentary contingent as Mr Modi could have done such a cleaning-up exercise. However, two of those who do not find place in the new team are Sushma Swaraj and Arun Jaitley because of their ill health. The prime minister would surely miss Mr Jaitley, his long-time friend and colleague who served as finance minister in the first Modi government, was the BJP's chief trouble-shooter and steered the economy reasonably well. The absence of any representative from the Janata Dal (United), one of the BJP's close allies, is surprising and signals a simmering tension between the two parties.

Mr Modi has done well to bring in some new names, many of whom have proven themselves at the state level. In another welcome development, he has given a ministry slot to S Jaishankar, an outstanding ex-bureaucrat, and Hardeep Puri, a former career diplomat and minister, even though he lost the election. Induction of more such people who can marry good ideas with efficient execution is the need of the hour.

The biggest entry in the Cabinet obviously is Amit Shah, the master strategist in the BJP's spectacular win in the Lok Sabha election. The ability to deliver the goods for his party, along with his strong equation with Mr Modi, clearly makes him the second-most powerful member of the Union Cabinet. While the portfolio he would manage is not officially known, the buzz is that he may be given charge of the finance ministry. Though not much is known about Mr Shah's economic thinking, his political heft could come in handy in taking tough reforms decisions in case he moves into North Block. That is required at a time when deep-rooted economic challenges such as reviving India's growth momentum, both on the investment and consumption side, await the new government. Consumption, which makes up over 60 per cent of gross domestic product, has weakened sharply. Fixed investments have been almost stagnant at about 30 per cent of GDP in the past four years, and foreign direct investment has declined for the first time in six years.

One of Mr Modi's oft-repeated slogans has been "minimum government, maximum governance" — something that got pride of place in this year's BJP manifesto as well. By the yardstick of that slogan alone, the signals are not very encouraging. In 2014, the first phase of the swearing-in saw a 45-member Council, raising hopes that the prime minister would walk his talk. But that hope was dashed as the second phase — within two years — saw the cabinet size swell to 78 members, the largest in years. This time round, as many as 59 ministers have taken oath in the first phase, and it is to be hoped that Mr Modi would stick to his slogan and go in for a broad downsizing of the Council of Ministers.

The FDI problem

Shrinkage reveals questions about future of Indian growth

The data released by the Department for Promotion of Industry and Internal Trade (DPIIT) reveals some worrying news about foreign direct investment (FDI) in India. According to the DPIIT, foreign direct investment in equity has in fact declined in 2018-19, for the first time in six years. The decline is not great — only 1 per cent or so, from $44.85 billion to $44.36 billion, but it is nevertheless significant. This data on FDI flows has not always been released on time, in spite of the Reserve Bank of India passing on the required figures to the DPIIT in a timely fashion. The government was relying on FDI inflows in order to demonstrate the strength and potential of the Indian economy. It was also hoped that FDI would fuel manufacturing investment and jobs in an India that has otherwise, apparently, been plagued with jobless growth. The FDI performance of India over the last few years has also not been inspiring in terms of the destination of investment. In 2018, India dropped out of the top 10 destinations for FDI on the AT Kearney FDI Confidence Index for the first time since 2015. This came at a time when other comparable economies were doing relatively well — Southeast Asian economies saw FDI increase in 2018 by 11 per cent.

The nature of FDI even prior to the fall in 2018 was not entirely satisfactory. Too little of it was going into greenfield investment that increases productive capacity and the potential for jobs, which is the sort of FDI India requires. The government, which had been taking credit for robust FDI flows as a sign of its good management of the Indian economy, must also now take responsibility for its failure to sustain this momentum. Some rethinking of recent poor policy moves is in order. In particular, it appears that India must address questions about sovereign risk. Too many recent moves affecting foreign investors have been arbitrary in appearance, or seem to favour domestic interests over those of foreign investors. Such policy changes serve as a serious disincentive for foreign investment, and can explain the weakness of the FDI data. One such error was the draft e-commerce policy. Those who had invested in this fast-growing sector from abroad could justly complain that the rules of the game, which in any case gave them relatively harsh treatment, were then changed under their feet. Policy U-turn and arbitrariness must be replaced by consistency and investor-friendly institutions that work swiftly to redress such perceived unfairness. Inconsistencies that allow some companies — such as Apple and Ikea — more friendly treatment must also be addressed. Rules should be the same for all investors — and those rules should be, in addition, clear and transparent.

India is in any case suffering from a drought in private investment. Part of the reason for this was stressed balance sheets of Indian corporates and overcapacity in crucial sectors. There were hopes that this could be made up for by adequate foreign direct investment. If the FDI tap is also drying up, then it is an open question where the capital to fuel Indian growth will come from. Unless the government changes its attitude to FDI, India will face even more severe headwinds for growth.

A near-term policy agenda for the new govt

Markets are clamouring for stimulus and romanticising about big-bang reforms. But the new administration's first job must be to fix the plumbing

The National Democratic Alliance's decisive election victory has understandably buoyed markets and raised expectations of big-bang reforms (land, labour, capital) to drive the next burst of growth. It's important, however, for policy-makers not to get ahead of themselves. The first order of business must be to stabilise an economy that finds itself on a precarious wicket.

Growth has slowed discernably in recent quarters. To be sure, some of the pressures are transient: Sharp cuts in government spending to meet the 2018-19 fiscal deficit target, election-related uncertainty, and regulatory-induced one-time price-increases in the auto sector. These pressures will reverse in the coming months. But, even adjusting for this, underlying growth momentum has slowed meaningfully. Indian growth has largely been flying on one engine — consumption — which has progressively exhausted itself. Rural consumption is hurting because the terms-of-trade confronting agriculture continued to worsen in 2018-19. Slowing urban consumption reflects the disruptions in the non-banking finance companies (NBFCs), auto and housing sectors, as well as the inevitable limits of dipping into savings to prop-up consumption when income growth has slowed. Simultaneously, the outlook for exports has worsened as global trade wars deepen. Slowing exports and consumption together create the worrying prospect of hysteresis. Therefore, even as the strong election result is likely to rekindle animal-spirits, they must contend with formidable headwinds.

SAJJID CHINOY

The real challenge, however, is that counter-cyclical policy space is either exhausted or currently inefficacious. Calls for a fiscal stimulus appear irresponsible, since India's total public sector borrowing requirement is almost 9 per cent of GDP, consuming all housing financial savings, keeping market interest rates elevated and impeding monetary transmission. Any stimulus will likely be counter-productive, simply pushing-up interest rates further, accentuating crowding-out risks and financial fragilities in the NBFC sector. Monetary policy has been eased but is not transmitting, with the yield curve still very steep, and bank lending rates barely budging.

What then can policy-makers do to arrest the slowdown? While markets remain focused on the demand side, the optimal response, in our view, is to focus on the supply side. Fixing the plumbing in three areas must constitute the near-term policy agenda:

1. NBFCs: its solvency, not liquidity

The relentless pressure that NBFCs have been under since last year has translated into their credit offtake collapsing , thereby compounding the consumption slowdown. While bank credit has stepped-in, it cannot completely offset it, because these are very different business models that target different end-users.

The NBFC slowdown shouldn't be surprising. Financial conditions have meaningfully tightened in the sector with average spreads of NBFC bonds significantly above their pre-IL&FS levels. Importantly, this is despite liquidity conditions easing. Interbank system liquidity has eased, core-liquidity is now in a surplus, and several NBFCs are holding much higher cash levels on their books. Despite that, spreads have not softened, clearly suggesting these are reflecting credit risk, and not liquidity, premia. Mutual fund flows have dried up and even bank lending to NBFCs — a key source of refinancing and disbursements — has slowed, suggesting banks, too, may be getting wary of credit risk. Contrary to the market clamour, therefore, this is not a liquidity problem. It's an underlying solvency concern.

A missing middle?

This, by itself, should not warrant any policy intervention. Lenders reassessing risk and charging higher risk premia is just the market mechanism playing itself out. Any intervention will simply induce moral hazard. That said, there is a growing concern that asymmetric information may be compromising allocative efficiency. The best NBFCs are easily able to attract funding and those with the most well-known vulnerabilities have understandably been rationed out. The problem is not at the extremes. It's likely in the "missing middle". It's likely that a vast swathe of NBFC s in the middle are unable to attract funding or raise equity, because investors are unsure about their underlying asset quality. This is the classic asymmetric information problem. One can't distinguish good apples from the bad ones, and so stops lending to all apples. In turn, this is forcing several NBFCs to demonstrably hoard cash — and thereby cut back on disbursements — to "signal" that are not amongst the bad apples. But this is a very inefficient signaling mechanism. More generally, asymmetric information about underlying asset quality is leading to allocative inefficiency and weighing on financing, equity raising, credit off-take and therefore on GDP growth.

Needed: credible signaling

What is therefore needed is a credible external signaling mechanism. This can best be provided by the regulator undertaking an asset quality review (AQR) of the NBFC sector. Once concluded, this would credibly distinguish the good apples from the bad apples, eliminate the "trust deficit" that looms over the sector, and allow the good apples to raise equity and funding. Operationally, an AQR will need to be delicately handled and artfully managed. It may lead to temporary disruption. But doing nothing also has a very real cost — the risk of accidents and that of foregone growth, quarter after quarter.

2. The fiscal-monetary tango

A credible Budget in July is critical. Actual revenue collections in 2018-19 are likely to be much below the revised estimates, making the projected revenues for next year virtually unattainable. The government must therefore (i) reiterate its fiscal deficit target of 3.4 per cent of GDP; (ii) but do so by credibly budgeting revenues and expenditures; (iii) and ensuring that legitimate budgetary payments — like to Food Corporation of India — are not pushed off-balance sheet. Barring this, bond markets are likely to get nervous again, and build in more risk-premia into bond yields, thereby pushing up the cost of capital further. A credible Budget, however, rests squarely on GST revenues increasing markedly, which will necessitate further simplification of the GST and meaningfully-tighter compliance mechanisms.

A credible Budget will also help in boosting monetary transmission. First, it will balm bond yields and ease financial conditions. Second, if bond yields are lower, small savings rates — linked to bond yields — should also come down, making bank deposits more attractive, boosting deposit growth, and helping monetary transmission in the banking system. Third, rampant non-compliance of GST pushed up currency-in-circulation (CIC) in 2018-19. If GST compliance is tightened, CIC growth will fall, deposit growth will rise and provide more fillip to monetary transmission. Fourth, how a fiscal deficit is met matters for growth. Meeting the deficit by slashing public investment — where fiscal multipliers are arguably higher — versus tightening indirect tax collections — can have meaningful implications for growth.

In contrast, if markets worry about fiscal credibility, and monetary policy is simultaneously eased, the yield curve will steepen further, inducing the financial sector to borrow short and lend long — as the margin of temptation from maturity transformation increases – but accentuating financial fragility.

3. Reversing the terms of trade

Tackling agrarian distress — by trying to correct the adverse terms of trade from low food prices — must constitute the third near-term priority. There is limited space on the demand side. The PM Kisan scheme should boost food demand, but total spend is just 0.4 per cent of GDP, and there is no fiscal space for more.

Instead, the answer lies on the supply side. There are early signs that some wholesale food prices have begun to pick-up. Distortive policies — like the stockholding limits, intermittent export bans, and the Essential Commodities Act — must be done away with, so that some normalisation of food prices is accommodated. Simultaneously, the new government needs to ensure that surplus production is quickly exported to avoid domestic gluts.

Markets are clamouring for stimulus and romanticising about big-bang reforms. But the new administration's immediate priority must be to stabilise the economic boat by first fixing the plumbing.

The writer is Chief India Economist at J P Morgan

Modi*ji, ab ki baar, suit-boot ki sarkar*

In July 2014, a single sentence from Rahul Gandhi that the Modi government was a *suit-boot ki Sarkar* —a government of and for the rich — threw the prime minister completely off-balance. For the next five years, he focussed on ensuring that his government would not be seen as a government of the rich.

But now Mr Modi has delivered a handsome win for the Bharatiya Janata Party. He is the unchallenged political leader of India. There is, however, one challenge that still exists: His own mind, which is of a Left bent.

This is sad. So just as he exposed the fake secularism of the Congress, he must now banish its fake socialism which has affected him as well. That means he must free himself of belief that a government must not be seen favouring capital.

LINE AND LENGTH

TCA SRINIVASA RAGHAVAN

Everyone knows India needs investment on a massive scale to remove poverty, And, by now, we also know that private investment is what will make that happen because in a capital-scarce country, it is the private sector — barring the crooks — that uses capital more efficiently.

This is the main reason why, if he wants to help the poor and get the credit for it as well, he must do what China does. He must openly adopt pro-capital policies. And — this is critical — he must remember that pro-capital does not mean pro-capitalist. That was the Congress way, which suppressed private capital in favour of public investment while promoting favoured capitalists at the expense of the public sector.

What is to be done

The economic history of the world shows that governments which favoured private capital delivered the highest rates of growth. That's why we need laws that don't discriminate against capital as this is essential for widening and deepening it. This is also something that China has done.

But since 1970 India has failed spectacularly in this regard. It was doing quite well before that.

After 1970, however, policy focus shifted to politically motivated, Left inspired redistributive policies at the expense of investment and growth. The 1983 book by Isher Ahluwalia described this perfectly.

Mr Modi did not dismantle these policies in his first term because he wanted to get re-elected. He desperately wanted to avoid what had happened to Atal Bihari Vajpayee because of the India Shining campaign.

But now that he has been re-elected, he must take India back to the Nehruvian template of determinedly raising the level of investment, with one major difference: Nehru was forced to turn to state-led investment because the private sector threw up its hands. But that is no longer the case and Mr Modi must go out of his way to assist it just as Nehru did with the public sector.

This should be Mr Modi's landmark departure from the Nehruvian model. All policies — tax, imports, interest rates and exchange rates — must be made private sector friendly. The public sector must go, once and for all. It is an *abhishaap*, a curse.

This is not to say there must be no public investment. There must. But it must be confined to building transport and social infrastructure as China has done. Even the power sector, which the Congress thinks is infrastructure, must be privatised. It is deadweight on the exchequers of the state governments.

And, again, as China has done, the money for this must come from a massive sale of government land to large private sector firms to build office and residential real estate, the demand for which, despite the ups and downs, is insatiable. Moreover, it has a huge investment multiplier.

Turn right, Sahib

The short point is this: Mr Modi must now stop imitating the Congress. *Ab bahut ho gaya*. He must make a huge break with that model and go all out to support private capital.

He has already cleared the decks for that by emerging as the dominant partner in his relationship with the Rashtriya Swayamsevak Sangh, which is as statist as the Congress and the CPM. He should now get on with the job of making India a truly private enterprise-led economy.

In 2014, he used development as his main campaign appeal. Then, having failed to rid his mind of socialist cobwebs and used capital most inefficiently, he had to use nationalism in his 2019 campaign.

But what will he do in 2024 if he fails to deliver what his main support group wants, namely, both jobs and work. He can't fool the voter twice. That is why he needs to adopt the private sector politically. He has the necessary marketing skills to sell the idea to the country.

Once he makes up his mind to do this, the rest is a matter of detail. I am sure Mr Sam Pitroda will be happy to help with them, saying *kiya toh kiya*.

Generic corruption

BOOK REVIEW

NITIN SETHI

One of India's top pharmaceutical companies, Ranbaxy, its promoters and management defrauded the public, faked records, misrepresented facts, lied to authorities, forged scientific and safety records, cut corners around global regulatory regimes, all to knowingly sell sub-standard medicines, threatening lives across countries and continents. For years.

The only reason we know of it today is on account of a conscientious whistleblower employee who blew the lid off the scam, ultimately causing the company to pay $500 million as penalties while admitting to several crimes it had committed in breaking the US food and drug safety laws. It still didn't pay a penny in India.

The company, as an entity, has been legally extinguished now its two promoters and siblings, Malvinder and Shivinder Singh continue to be in news, squabbling over the riches they earned in the process. Indian journalism has written post-facto eulogies (as the company grew) and obituaries (when it evaporated)

Bottle of Lies is the story of how this scam unraveled. A fantastic work of investigative journalism, written in such an eminently readable fashion that the book begs to be turned into a movie. It scripts the life, trials and tribulations (and ultimate victory) of the whistleblower, Dinesh Thakur, and the deep conspiracies that Ranbaxy management engaged in for years to sell their spurious drugs.

The author, Katherine Eban, couples sharp writing with meticulous research, etching out not just the twists and turns that the US Food and Drug Administration (FDA) went through to book Ranbaxy for its crimes but also the lives and characters of the key players in the great game, including Mr Thakur. He is that rare whistleblower in contemporary Indian history who not only got away with telling the truth but eventually was also compensated for his troubles — and they were considerable. For all the reverence that developing-country regulators have towards their US counterparts, the US FDA does not come out looking too great either.

Yet, it's useful to remember that Mr Thakur, while telling the dirty truth about Ranbaxy, did not have to deal with Indian authorities. It certainly would not have made for a story with a positive ending. India's meek whistleblower law continues to be in limbo and the state's response to the occasional brave whistleblowers (from within the government or the private sector) remains shameful if not downright vindictive. Recollect the whistleblower forest officer Sanjiv Chaturvedi's continuing struggles.

The book rarely slows down with the weight of Ms Eban's detailed research. When it does, it soaks the reader in the essential complexity involved in unravelling any deep-seated trans-continental corporate frauds.

Ranbaxy's frauds, committed years ago, continue to damage the reputation of India's booming generic drugs industry which has provided affordable medicine to millions. There is no doubt that Big Pharma has made the most of this controversy to sow doubts about the efficacy of cheaper generic drugs in a bid to recover their market shares.

But as an Indian citizen one wonders: Didn't Ranbaxy sell the same spurious medicines in India as well? What action was taken, or even contemplated against the company? How did the company never face a legal challenge on similar grounds in India? What have the Indian regulators and government done to curb spurious and sub-quality drugs in India by companies such as Ranbaxy that give the entire industry a bad name? Ms Eban, in closing the book provides some answers. She gives a whiff of what regulatory capture by private sector in India smells like — rotten.

There are larger questions that linger for the reader. Does the book capture the atypical story of how emerging economy industries emerge against the wealth, resources and asymmetric influence of the global North's industries over international and other trade regulations? Does the first wave of entrepreneurs inevitably build businesses on bending environmental, public health safety and labour standards to cut costs till they perish and new ones emerge that can better the record of their predecessors?

Another question that popped up intermittently reading the book: Have India's regulatory mechanisms and capacities failed to keep up with the expansion of its economy? Reading Ms Eban's description of raids against Ranbaxy by the armed, trained and well-equipped forces of US FDA, I was left unsure how to remember the decrepit state of food, health and medicine regulatory authorities in India.

Which brings me to the question of journalist envy that Ms Eban's wonderful work evoked. I scanned through the acknowledgements of the book to see how she found the resources to investigate so deep and so long into one story. Will India's political-economy ever mature, progress and improve to permit, in the first place, and support, in the next, such public-service journalism?

BOTTLE OF LIES: The Inside Story of The Generic Drug Boom
Katherine Eban
HarperCollins
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