Don't throw the baby with the bathwater

If distrust of those in the assurance business remains high, there will be chaos all around

WITHOUT CONTEMPT

SOMASEKHAR SUNDARESAN

The "assurance industry" is in a crisis. For purposes of this column, the term is being used to cover the profession of chartered accountants and auditors, and indeed the activity of credit rating — all of which are now facing a crisis of confidence. It is not surprising, particularly when systemically important financial institutions are under stress; when crude knee-jerk reactions of regulators are dime a dozen; and when investor confidence levels are at a low.

It is a very sensitive and critical juncture for the regulatory system. Everyone with any role in the corporate and business space has firm views on how bad or how good the assurance industry is. Dealing with the situation calls for the skill-sets of a peace-time general (one who works on doing the best to avoid an actual war), as opposed to the skill-sets of a war-time general (one who would thrive and revel in waging war).

Wars are expensive and indeed bring on the feeling that "all is fair in war and love" — the love for protecting society and the hatred of those perceived as adverse to society are a potent mix. When waging a war, one does not worry about collateral damage, innocents being hurt or killed, and even society accepts these costs when the war is a popular one. Regulators and political incumbents are human and not at all immune to the feeling.

Throwing out the baby with the bathwater is real prospect. When allegations of auditors colluding to cook the books, or of rating agencies being potentially guilty of fraud, are levelled, the consequences are severe and serious — not just for those accused but for the rest of society. Information and integrity of information that is available to the market to take informed decisions is vital — be it investment decisions, or credit decisions, or even basic trade and business decisions, and indeed policy decisions. Therefore, one has to be extra careful and sensitive in ratcheting up allegations about these agencies. If there is not enough to support an allegation and yet it is lightly made, one not only hurts them but also every person whose decision-making is influenced by their services.

If the work done by those in the industry were to be of a shoddy quality, the decision-making would be shoddy and thereby the societal impact would be wider. This is why the assurance industry has a very vital and sensitive role to play — and precisely why licences and registrations to carry out such activity are handed out with a very tight fist. It is easy for the securities market regulator to issue a broking licence but tough for it to issue a credit rating agency licence. Erring on the side of caution is the accepted norm since one does not want riff-raff to be in the business. A corollary to that necessarily is not to be loose-tongued and theatrical when attacking these agencies when suspecting wrong-doing.

If hatred of government keeps rising, the mob on the street would want to overthrow the government. The overthrow may even seem romantic, or at the least, justifiable. Yet, in the process, one would be saddled with anarchy. Likewise, if distrust of those in the assurance business is high, the path could lead to chaotic conditions.

In such regulatory situations, there can emerge an inherent conflict between the role of the regulator in meeting its "prudential" objectives and its role in enforcing against "misconduct". The conflict between the two objectives is fine and an important one. For example, if you punish a bank in very harsh terms, you end up eroding public confidence in the bank, resulting in a run on the bank. On the other hand, if you let an errant bank off lightly, you risk placing a premium on violative conduct and the moral hazard of encouraging the belief that the bank is "too big to fail".

The distinction and conflict between these two objectives is so sharp that by sheer regulatory design, the United Kingdom has broken up its regulatory framework into a "conduct authority" (an organisation that handles misconduct and enforcement action against violations) and a "prudential authority" (an organisation that regulates how a market entity must be organised and must act prudently by stipulating norms such as minimum net worth, risk assessment norms etc.).

The assurance industry is not regulated with such finesse in India. It deserves to be. Absent institutional and organisational involvement in wrongdoing, the rule must be to save the institution without compromising the individual wrong-doers. Putting these players out of business may grab a great headline, but the impact would be as temporary as the headline.

Disclosure: The author represents members of the assurance industry in his professional capacity.

The author is an advocate and independent counsel. Tweets @SomasekharS

CHINESE WHISPERS

AC shelter for cows

The Congress-led government in Madhya Pradesh is considering adopting a corporate model for the proposed smart cow shelters. The state government is in talks with a Delhi-based company to manufacture some 300 air-conditioned cow shelters for its 0.6 million cow population. The company will make 60 cow shelters a year for the next five years. This smart cow shelter project will be funded through MGNREGA and CSR funds. Cow shelters were an important issue in the Congress party manifesto released before the Assembly elections. The Congress party also accused the previous Bharatiya Janata Party government of not setting up a single cow shelter in the state during its 15-year regime.

Panic in MP cabinet

The Kamal Nath-led Madhya Pradesh government, hanging by a wafer-thin majority, is finding it difficult to keep its ministers under control. During a recent meeting, a minister, allegedly owing allegiance to the Scindia camp, got into an altercation with Chief Minister Kamal Nath. Those present at the meeting said they had never seen anything like that before. There are rumours that Nath, who is under pressure from independent MLAs and smaller allies, might have to expand his cabinet to "accommodate" allies. And to make space for new ministers, he might have to ask some current ones to resign. This rumour has created a flutter in the Jyotiraditya Scindia and Digvijaya Singh camps. Some ministers are said to be holding unofficial meetings and preparing their responses to handle such an eventuality.

Speed is of the essence

Despite Kerala Chief Minister's repeated appeal that "each file has a life depending on it", and that they should be dealt with swiftly and in a humane way, little seems to have changed in some government offices. According to a recent report, over 100,000 files are in queue in the Kerala state secretariat, with almost 25,000 of them waiting for at least three years. The report was published in the wake of the alleged suicide by an NRI businessman after some local government bodies held back approval to the ownership of a convention centre in one of the districts in the state citing various reasons.

In search of lunar water

India's second moon mission is aimed at more than just earning bragging rights

T E NARASIMHAN

TAKE TWO

India's first lunar mission, Chandrayaan-1, orbited the moon in 2008, but did not land there. Come July 15 and the Indian Space Research Organisation (Isro) will launch a second mission, aimed at landing a rover on the surface of the moon, a feat that only the US, Russia and China have managed so far.

The plan is for the 3.8-tonne Chandrayaan-2, weighing as much as eight adult elephants, to lift off from Isro's launch station Sriharikota, off the coast of Chennai, at precisely 2.51 a m. The landing of Chandrayaan-2 is expected on September 6 or 7.

If all goes to plan, this mission will mark a string of firsts for Isro and India's space prowess. For one, the entire module for Chandrayaan-2, consisting of a rover, an orbiter and a lander, has been designed and developed indigenously.

All components will be able to communicate with one another. The orbiter is capable of communicating with Isro's communication facility for interplanetary spacecraft, the Indian Deep Space Network (IDSN) at Byalalu, near Bengaluru, as well as the lander, which has been named Vikram (after the father of the Indian space programme Vikram A Sarabhai).

The lander has the capability to communicate with all the components of Chandrayaan-2 and the IDSN, and it is designed to execute a soft landing on the lunar surface, another first by Isro. And the rover, which will carry out the actual exploration work on the surface of the moon, is a six-wheeled robotic vehicle weighing 27 kg called Pragyan. It can communicate with the lander alone and will carry the national flag, the Ashoka Chakra and Isro's own logo.

The orbiter won't directly go into the lunar orbit, but into the geo-transfer orbit (an intermediary orbit between two orbits) first and then to the lunar orbit, covering 3.844 lakh km from earth to moon in 50 days.

The mission also marks a new chapter for industry-Isro partnership: Nearly 500 companies have contributed to developing the rocket, GSLV-MKIII, that will launch Chandrayaan-2, and another 120 companies and 15 academic institutions were involved in developing the satellite.

Given the scale and complexity of the mission, Isro Chairman K Sivan has called it the most "terrifying mission" for Isro ever. "The agency has chosen the South Pole for landing as it would be easy to land due to the flat surface and ample solar energy," he added.

The mission life of the orbiter will be one year, while that of the lander is expected to be one lunar day, which is 14 earth days.

With a project cost of ₹978 crore, Chandrayaan-2 is aiming to build on the success of Chandrayaan-1. It was planned immediately after Chandrayaan-1 in 2008 but several bottlenecks (including funding) delayed it. The second mission will pick up from where the first one left. Chandrayaan-1 had found water molecules on the moon. Chandrayaan-2 will dig deeper to find traces of water or snow on the lunar surface.

"The success of Chandrayaan-2 will be sweeter as it's an indigenous effort," says Ratan Shrivastava, an aerospace and defence expert.

As with the earlier mission, this one has sparked debate on whether India needs to spend such large sums of money on space exploration when there are other more pressing needs to address.

But the scientific community believes the intangible long-term rewards of Chandrayaan-2 are many. It will, they say, go on to inspire a whole generation and motivate young people to undertake real-life applications of science and technology, says Sivan.

The idea of undertaking an Indian scientific mission to the moon was initially mooted in a meeting of the Indian Academy of Sciences in 1999 and was later followed up by discussions in the Astronautical Society of India in 2000. The mission was unanimously recommended, especially in view of the renewed international interest in exploring the moon.

Chandrayaan-1 discovered evidence of water resources on the moon, and more research is required on the extent of water on the surface, below the surface and in the tenuous lunar exosphere to address the origin of water on the moon.

For the second mission, when it was approved in 2008, the project cost was estimated at ₹425 crore, excluding the launch costs and cost of the lander, which Russia had agreed to provide the lander. However, in 2013 Russia pulled out and Isro decided to build the lander itself.

"Indian scientists had to develop the lander and rover from scratch because the Russians were not coming on board. Now we have to develop our capabilities fast for the third mission (Chandrayaan 3 or Lunar Polar Exploration) in quick succession," said Ajey Lele, senior fellow, Institute for Defence Studies and Analyses.

The most critical part of a moon mission is the landing. Soft landing and deployment of the rover on the surface of the moon at a speed of 1cm per second is critical for any mission to succeed.

The mission will let India into an exclusive club of nations that have landed a rover on the moon, but more than to any other nation, India is keen to showcase its space capabilities to China. "I don't think we are trying to demonstrate anything so much as to the US, but primarily to our immediate neighbour, China," said Rajeswari Pillai Rajagopalan, fellow and head, nuclear & space policy initiative, Observer Research Foundation.

China has already sent Changé 4, its fourth mission to the moon in 2018 with a lander sent to the far side of moon as a first-of-its-kind effort. According to NASA, China has lined up at least four more moon missions, including Lunar Sample Return Mission in 2019.

But India's mission is not just about earning bragging rights. It usually undertakes missions complementary to the missions of other space powers. Chandrayaan-2, for example, may lay the foundation for international cooperation between India and allies (such as Japan, France and the US) for expanding lunar exploration and shared aspiration of the global community for the inhabitation of the moon by humans.

Space resources mining, which countries like the US, China and Luxembourg have pioneered, is another opportunity. Russia is also beginning to give attention to it.

Considering the importance of space technology for people and security, the government has been constantly increasing the budget for Isro: ₹10,252 crore in 2019-20, ₹9,918 crore in 2018-19, and ₹8,053 crore in 2017-18.

Besides contributing to scientific development, Chandrayaan-2 has also had an huge economic effect. It has come as a boost to Make-in-India effort. Of the ₹978 crore for the project, nearly ₹603 crore will be towards satellite development, indirectly benefiting a whole host of smaller companies that make components for satellites.

PHOTO COURTESY: ISRO

REACHING FOR THE MOON

CHANDRAYAAN-1

Launch: 2008
Key finding: Discovered signs of water on the moon
Project cost: ₹603 crore

CHANDRAYAAN-2

Launch: July 2019
Research area: To find the quantity and source of water on the moon.
Map the topography and mineral reserves
Project cost: ₹978 crore

CHANDRAYAAN-3

Launch: 2024 in collaboration with Japanese Space Agency

INSIGHT

Redefine fiscal responsibility

DHIRAJ NAYYAR

In two weeks, Finance Minister Nirmala Sitharaman will present the first Union Budget of Prime Minister Narendra Modi's second government. Fundamentally, the Budget is a statement of account of the expenditure and revenue of the Union Government. Unsurprisingly, therefore, the one statistic most eagerly awaited is the fiscal deficit, for the year gone by and the year ahead. But since the Union Budget is more than just an accounting exercise — it is a state of the economy and path of reforms address — the statistic that should take priority over all others is the rate of growth. In a scenario where annual growth is at a five-year low (and quarterly growth below 6 per cent), should the minister's main concern be meeting the fiscal deficit target of 3.4 per cent come what may or should the main concern be boosting the growth rate?

For a country that has a long history of fiscal profligacy, the recent trend towards fiscal responsibility is a radical change. But what is fiscally responsible must be defined by the state of the economy. For now, the government's target is the FRBM mandated 3 per cent of GDP. Apparently, the 3 per cent figure was arrived at by an assessment of the demand and supply of resources in the economy with a view that the government does not crowd out more productive private investment. Curiously, it is the same target as the one for member states of the European Monetary Union that are far more advanced economies. That said, the single 3 per cent target cannot be suitable for all scenarios. There must be more flexibility when the economy is in a slowdown characterised by sluggish private investment. As a corollary, the target could be tighter in a private investment-led boom.

For the moment, the Indian economy is stuck in the former. Investment as a percentage of GDP has stayed below 30 per cent of GDP for the last five years — at its peak it was around 36 per cent of GDP. The private investment cycle has shown little signs of revving back to speed. The reasons for sluggish private investment are not macroeconomic. They are structural.

It may also be time for the FM to emphasise the importance of a zero (or close to zero) revenue deficit rather than solely obsess about the fiscal deficit

Fiscal restraint, while always sensible, isn't going to get the economy out of the growth rut.

It is important to remember that there are two sides to the fiscal deficit equation — expenditure and revenue. Modi 1.0 began its tenure by trying to shift the emphasis of expenditure from revenue expenditure to productive capital expenditure. That effort ran out of steam towards the end of the government's time in office. However, at this stage, it does not make sense for the government to cut its capital expenditure further given that private investment is not making up for the slack. It would be ideal if the government cut its revenue expenditure but between establishment costs and election promises that is unlikely to happen.

The temptation for the government may be to shore up the revenue side. As long as the government focuses on non-tax revenue by pushing an aggressive disinvestment programme — of PSUs and their assets — it is on the right track. If, however, it focuses on the taxation route, the outcome could depress growth further. The government must honour its commitment to lower the corporate tax rate to 25 per cent for all companies. It must also remove unnecessary cesses. It must also provide, where necessary, fiscal incentives to industries which could generate employment on a large scale. At any rate, it must desist from setting impossible targets for tax officials which lead to unintended consequences — like the retrospective tax amendment which continues to be a deterrent to investment to this date.

If the choice before the finance minister is meeting the fiscal deficit target of 3.4 per cent by continuing to squeeze on the tax front or missing the fiscal deficit by 0.3 to 0.4 per cent by cutting taxes, cesses (at least not raising any) and settling lingering disputes to boost investment, then Sitharaman must opt for the latter. The economic cycle demands that.

Of course, such a stance must not be viewed as fiscally irresponsible. So, any relaxation of the deficit should not involve runaway revenue expenditure. It must serve as a boost to investment, private and public. It is an opportunity for a new finance minister to recalibrate the orthodoxy around fiscal rectitude. Instead of 3 per cent for all times, why can't it be 2 per cent and 4 per cent depending on the economic cycle. It may also be time for the FM to emphasise the importance of a zero (or close to zero) revenue deficit rather than solely obsess about the fiscal deficit which may be sustainable if the expenditure is flowing to productive uses. Modi's economics has leaned towards being practical than textbook. It should be the same for the fisc.

The author is chief economist, Vedanta

LETTERS

Bridge the gap

This refers to A K Bhattacharya's thought-provoking piece "Of Ms Gandhi and Ms Sitharaman" (June 19). To the concluding question, "Could Sitharaman *(pictured)* be expected to throw in more humour and wit during her Budget speech?", after going through some of the 15,000 plus suggestions from the citizens so far uploaded at the portal dedicated for the purpose, I have no hesitation in saying the answer is a big "yes".

Though only eight months will be left in the current financial year after passing of this Budget, Sitharaman's Budget speech on July 5 will be indicative of the fiscal policy that will evolve during the coming five years.

Sitharaman has been given the responsibility of bringing clarity in the government's approach to resource management at a time when her own advisors might be speaking in divergent tones. The silver lining is, as compared to 50 years ago, today India has a large domestic resource base waiting to be exploited. Illustratively, accumulated wealth in the form of real estate, domestic gold-stock, external investments including those from NRIs and monetised wealth including agricultural income are all factors that will contribute to the country's economic development, if the right approaches are made with positive signals.

Having said that, there is a trust and credibility gap that needs to be bridged on a priority basis. The gap has widened recently on account of the negativism infused in the public mind, especially during the days before the election. It is possible to redeem the trust in the financial sector, judiciary and other arms of the government. Hopefully, some measures to this end will find mention in Sitharaman's Budget speech on July 5.

M G Warrier Mumbai

Restore House's sanctity

Parliament was reduced to a clown house on Tuesday with the new lawmakers indulging in needless and at times acrimonious sloganeering during the oath-taking ceremony. Frenzied calls of "Jai Sri Ram", "Jai Durga" and "Allahu Akbar" filled the air. It is unfortunate that even the members of Parliament chose to ignore the direction of the presiding officer that no slogans will go on record. Shouting of religious slogans in Parliament is not only demeaning but brings down the credibility, sanctity and dignity of the House.

N J Ravi Chander Bengaluru

Who is the real culprit?

This refers to the article "Labour reforms: NDA has its work cut out" (June 19). Ever since the National Democratic Alliance came to power in 2014 a concerted drive is going on to impress upon the government that labour laws and therefore, labour alone is the big hurdle in economic progress. What is forgotten is that that so many labour laws were created to prevent the exploitation of workforce by the

employers. That exploitation has not abated much even now, thanks to the indifferent attitude of the government in their strict enforcement as seen in the violation of the Act pertaining to Contract Labour.

Besides, the changes made by the NDA1.0 government in such laws are seen as mostly pro-employer — such as, the exemption of small organisations from the so-called "inspector raj" though the employees there are more vulnerable to exploitation due to non-existence of trade unions there.

If the government is keen on bringing about statutory reforms, it should adopt a balanced approach in protecting both the employers and the workers.

Y G Chouksey Pune

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
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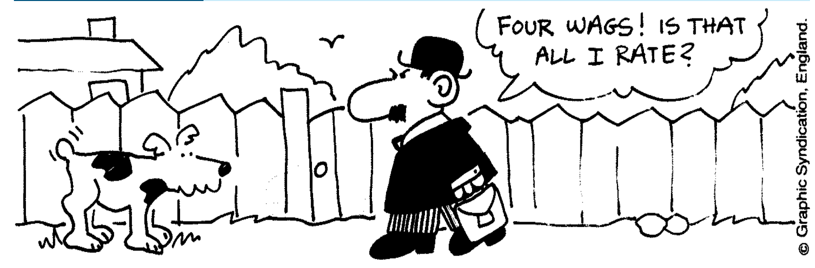
HAMBONE



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Surplus of advice

There is no need for another panel on farm reforms

The government's plan to set up a high-powered committee on structural reforms in agriculture makes little sense. Numerous panels have already gone into this issue and have come out with substantive reports covering nearly everything that needs to be done to put this beleaguered sector on a sound footing. The most notable among these panels are the M S Swaminathan-headed National Commission on Farmers, the Shanta Kumar-chaired committee on food sector reforms and the Ashok Dalwai-led empowered committee on doubling farmers' income. Besides, the government's own think tank, the National Institution for Transforming India (NITI) Aayog, has come out with some well-judged inputs for reforming the key segments of the farm sector. In fact, most of the issues marked out by Prime Minister Narendra Modi and others in the recent meeting of the NITI Aayog's Governing Council for reference to the proposed committee have also been dwelt upon comprehensively in these documents. These issues pertain to private investment in agriculture, logistics, value-addition, marketing support, irrigation, especially drip and other means of micro-irrigation, and, most importantly, the legislative changes required to revamp agriculture and its allied activities.

Significantly, the Swaminathan commission's five-part report (2006) had sought a paradigm shift in the focus of agricultural development programmes from increasing production to raising farmers' income. It took over a decade for the government to realise the importance of this counsel and begin acting on it. However, many other equally prudent recommendations of this commission still remain unattended. Not too different is the fate of the Dalwai committee's 14-part report which has devoted a full volume to discussing the structural reforms and governance framework for agriculture. Being the latest exercise on this count, this September 2018 report is the most relevant to the prevailing agrarian situation marked by widespread farmers' distress. So is, indeed, the three-year action plan for agriculture crafted by NITI Aayog. If the government is truly serious in refurbishing the farm sector, all it needs to do is to sift through these treatises, pick up the pertinent suggestions and implement them in a time-bound manner.

That said, the truth that cannot be disregarded is that the Centre has a limited authority to intervene in matters related to agriculture which, according to the Constitution, is a state subject. It can do little without the cooperation of the states which, often, is unavailable in adequate measure. The meagre success of some of the Centre's game-changing initiatives such as reforming agricultural marketing, legalising land leasing and regularising contract farming bears this out. The model Bills drafted to serve as the guides for the amendment of the state laws have failed to deliver the desired results. Unsurprisingly, therefore, the Swaminathan commission chose to recommend shifting of agriculture from the State List to the Concurrent List of the Constitution. This would allow the Centre to play a more meaningful role in the agricultural sector without significantly diluting the powers of the state governments. Similar translocation of subjects was carried out in 1976 when five matters, including education, forests and wildlife protection, were moved from the State List to the Concurrent List through the 42nd amendment of the Constitution. Unless the Centre is able to take the states on board through statutory means or persuasion, it is unlikely to succeed in reforming the farm sector.

New internet trends

Smartphone sales fell year-on-year for the first time globally

Mary Meeker's annual report on internet trends is among the most highly anticipated slide deck in Silicon Valley. That's because Ms Meeker, who founded the billion dollar fund Bond Capital, has an unerring instinct for pinpointing the future direction of the digital economy. The focus of the 2019 edition is on data, the ways in which companies, regulators and countries handle it, and the concerns as data floods the Net. Alongside security and privacy concerns, there are issues about regulation, moderation and privacy management. India has been rated as a "moderately regulated" economy and there are concerns about political, social, or religious content being blocked "often without direct public input", and the increased use of government surveillance and disconnection of mobile internet for political reasons.

The study says due to a rising base, new internet user growth slowed in 2018 and smartphone sales fell year-on-year for the first time. But more than half the world's population had access to the internet, with a majority of users (about 53 per cent) coming from Asia-Pacific. While China has the largest base, accounting for 21 per cent of all internet users globally, India comes second at 12 per cent and the US third at 8 per cent. Despite the rise of India as an internet powerhouse, the bulk of the digital economy is still controlled by the US and China. As many as 18 of the top 30 digital multinational businesses are US-incorporated, while seven are from China. That situation will probably not change until there's a reboot of the Indian policy ecosystem, allowing startups to tap more capital with less red tape.

According to the report, digital ad spends increased but there was a slowdown in growth rate. Surveys indicate that 59 per cent of all financial transactions in 2018 were digital, which is a tectonic shift. This is buttressing the growth of the fintech industry but is also creating new security concerns. Digital corporates saw a rise in customer acquisition costs as they were compelled to invest in privacy management. There was a surge in cyber attacks including attacks by government-backed actors. An estimated 447 million sensitive records were exposed in security breaches in 2018.

Corporates tracking consumer behaviour cashed in on several trends. In developed markets, more than 80 per cent of TV watchers use a second device to look up relevant topics on the Net, and over 40 per cent discuss news real-time on social media. The time spent surfing on mobile and using social media now exceeds time spent watching TV. Instagram has overtaken Twitter in terms of social media penetration while WeChat with its predominantly Chinese base is also a huge player. Instant short video has a cult following and internet gaming, mainly on mobile, has grown exponentially.

On-demand services, which started with ride hires and BnB bookings, are moving into healthcare, to deliver instant medical appointments, pathology tests, and online home-delivery of prescription drugs. Local and hyper local services are growing rapidly. In many cases, corporates have gained through the launch of freemium services, where free users are converted into paying customers as they get hooked. Another major growth category is online education services where Byju finds special mention. The report also indicates that Reliance Jio with its combination of online services and physical retail may pioneer a new business model.

ILLUSTRATION: AJAY MOHANTY

Jet Airways: Exit is best

Over 25 years, Naresh Goyal systematically built Jet Airways into the world's best airline and then destroyed it

INDIA'S WORLD?

NAUSHAD FORBES

In Jet's heyday, service levels set new global benchmarks. The crew were the best of any airline in the world — providing unmatched courtesy, efficiency and friendliness. A 40-minute flight in economy from Bombay to Baroda came with a hot breakfast. The food was good, and the seats in all classes better than the competition. The comparison with what had come before was dramatic. Indian Airlines combined matronly service with a punctuality record where the time-table served only to calculate how late one was. For a while, it seemed that Jet Airways would not only be India's best airline but a national champion, ruling the international skies.

It all then started to go sour. A series of blunders began with the purchase of Sahara in 2007. Renamed JetLite, it was clumsily integrated into Jet Airways. When Jet tried to restructure and reduce employment in Jet Lite, the government stepped in and made them rehire everyone. Not content with one low-cost carrier, it launched another, Jet Konnect, and then introduced a business class on the low-cost carrier. The end result was a muddled customer offering. In 2010, Jet had five different domestic offerings — business and economy with meals on their full-service domestic Jet Airways flights, Jet Connect Plus and economy on Jet Konnect, and economy on Jet Lite. The ticket agents were probably as confused as the passengers. As Jet got into financial trouble, it managed things poorly. Staff benefits were cut back, demoralising employees, and diluting the key differentiator of the quality of service that came from a proud team.

The offerings were eventually sorted out, and Jet reverted to being a full-service carrier with an economy and business class on all flights. But the damage had been done. In the intervening years, Indigo had entered the market with a single offering, and had steadily increased market share. You may not like what you get with Indigo, but you know what you get. Jet somehow managed to fill its flights and still make a loss — the mark of a broken business model. When Jet started suspending flights in January of this year, the question was not if the end would come but when.

Apart from this story of management, Jet Airways offers two important lessons. First is the role of government. Naresh Goyal has been famous for his political connections. Lobbying by Jet, and later Indigo, did much to delay Tata's entry into the airline industry. Consider the flip-flops on foreign investment. When Jet began in 1993, it was 60 per cent owned by Naresh Goyal's entities and 20 per cent each owned by Gulf Air and Kuwait Airlines. In 1997, the rule was changed and foreign ownership in airlines was not permitted (which effectively grounded Tata's plans for a joint airline with Singapore Airlines), so he bought over their share. Later, the government clarified that foreign investment in Indian carriers was permitted — provided it didn't come from an airline! Now why a pizza-maker or super-market should be permitted to invest in an airline, but not an airline, would effectively compete for the booby prize in policy-making. Finally in 2012, foreign investment in Indian airlines by foreign airlines was permitted.

Naresh Goyal's connections also seem to have delayed the reckoning with banks. A banking system immune to influence would have forced Jet Airways into resolution when it still had time — and not the long, lingering demise we have witnessed. One cannot help wonder if a quick recognition of NPAs, and forced change in ownership some years ago, would have preserved Jet Airways and its jobs.

But the most important lesson of Jet Airways is the unfolding future. The collapse of Jet Airways has been greeted with great concern — concern over fares, that have risen as capacity has shrunk, over the fate of Jet's 16,000 employees, and the depressing sight at Bombay and Delhi airports of dozens of Jet aircraft literally gathering dust. But we must note the many positive indicators too. SpiceJet, which also runs a 737 fleet, has suddenly come to life — taking over the leases of Jet aircraft, not even bothering to repaint them, and adding dozens of new flights. Vistara has seen capacity and fares rise, improving viability and speeding up investment in new flights and services. Indigo just reported record profits for Q4. Who knows, maybe even Air India will make a profit in spite of its ₹55,000 crore of debt. The saddest aspect of Jet's demise is its employees. But here too, we hear of hundreds of pilots and cabin crew being hired by SpiceJet and Vistara. The employees need support, given the suddenness with which they lost their jobs, but given some bridging help their commitment and quality will enable them to move on, helping other airlines and industries to prosper. In brief, an industry that was under great financial stress across the board, is suddenly healthier by Jet's collapse.

This is how a market economy should work. The Austrian economist Joseph Schumpeter showed that the essence of a vibrant market economy was competition. Competition fostered innovation, and innovation brought forth gales of "creative destruction". The old and the inefficient were replaced by the new and the dynamic. The essential mechanism is Exit, something we should celebrate much more. Airlines in the USA go bankrupt almost as often as Donald Trump. Two of the three largest carriers flying in the US today — American (2011) and United (2002) — went bankrupt — and since revived.

So as we rightly concern ourselves with Jet's employees and their welfare, nothing else should concern us. Not the increase in fares we see as capacity has shrunk. As SpiceJet and Vistara and Indigo add seats and flights, competition will come back and take care of it. Not the bank loans that won't be repaid. Banks lend money on commercial terms — they price risk into the interest they charge, lending to the best borrowers at present at 9 per cent when they borrow from the RBI at 4.5 per cent, giving them the highest spreads in the world. (And next time round, they may resist pressures that tell them to keep lending to a business that a good banker wouldn't touch). And not, even, the removal of a favourite service provider that built an Indian brand we could all be proud of — others will take its place, and someone might even build a world beating Indian flag carrier. Exit makes the world better.

The writer is co-chairman of Forbes Marshall, past president of CII, and chairman of the Centre for Technology, Innovation and Economic Research (CTIER)
Email: ndforbes@forbesmarshall.com

Trade as a weapon or as a boomerang?

CLAUDE SMADJA

The new international buzz concept is the weaponisation of trade. And this is the stuff nightmares are made of for business executives and political leaders. Of course, countries have been using trade as a weapon or as a negotiating tool to twist arms in the past but this was on an ad-hoc basis. The big difference now is that the Trump administration has elevated the systematic use of trade tariffs and sanctions as an instrument of coercion to a doctrine governing the way America deals with adversaries or friends and allies — although, in fact, the very notion of friend or allied country is completely alien to Donald Trump's view of the world and of the way the US fits and acts in that world.

There is no underestimating the damage that this weaponisation of trade by the number one economic power in the world is creating to an international trading system already under assault, to the global economy and to international stability and security. In that respect one can only be amazed by the hubris, arrogance ... and blindness of an administration so assured of its economic dominance that it does not realise that it is using a boomerang that will hit the US back in the face at some stage.

When Washington threatens to raise tariffs on imports from Mexico to force the government there to deal with the migrants issue — in complete disregard to the existing NAFTA agreement between the US, Mexico and Canada which is supposed to be replaced by the just agreed US, Mexico Canada agreement (USMCA) — this is not just a blatant violation of an agreement ratified by the US, and of the norms of the WTO. It is a signal to all countries dealing with the US that the Trump administration does not feel constrained by legal commitments undertaken by the US and that it just operates according to the law of the jungle.

In that respect, one needs to also look at the EU countries — especially Germany — and Japan facing the threat of US tariffs on their automotive exports which was reiterated this week in Washington, under the spurious pretext that these exports represent a threat to America's national security. And then there has been the revelation that the US has recently transparently implied that the EU could face economic and trade sanctions if it proceeds with its plans to expand the cooperation among its members on military procurement and spending.

So, today, every single trade and economic relationship with the US needs to be considered as a vulnerable one, subject to the whims of a president who has once called himself "tariff man" and who considers that trade wars are "easy to win". Washington has now become the rogue elephant in the china shop.

The damage done by this weaponisation of trade to the multilateral, rules-based trade system can now be measured every day as the uncertainties about the way this system will be able to continue to function — and the impact of the US-China confrontation — are having an increasing impact on the global economic outlook. While Mr Trump relishes launching trade wars investors hate them and keep decisions on hold or cancel investments until the situation is cleared.

It is this growing concern about the extent of the synchronised economic slowdown that has pushed Mario Draghi, the president of the European Central Bank, to express his readiness to launch another round of stimulus monetary measures if the toxic combination of declining growth and political uncertainty were to continue. And it is the same concern that has prompted Jerome Powell, the President of the Federal Reserve, to suggest that rates could be brought down if the trade war with China and the trade confrontations with the EU, Mexico and whoever else, were to weaken the economy — as more and more indicators signal that this is beginning to happen.

However, the damage done by the Trump administration's weaponisation of trade is definitely not limited to the trade and economic domains. It is potentially a major additional disruptor of an already very volatile geopolitical environment. As Washington shows no qualm using trade tariffs among the panoply of measures it is deploying in its containment policy towards China, Beijing has hinted that it could also respond by using its dominant position in the domain of rare earths. The EU is also ready for tit for tat measures against any move by Washington on auto imports tariffs. Countries which feel vulnerable to American trade blackmail will definitely push ingenuity to the extremes to find some ways to hit back in another domain or another time. Acrimony is building up that can only complicate or even ruin efforts to address some crucial international issues in a constructive way.

In a context where technology, trade, finance, economy, geopolitics are more and more intertwined, Donald Trump and the people around him implementing this strategy of trade weaponisation are fooling themselves if they consider that the "wins" that they could achieve through it will be lasting ones. The boomerang will hit back in other areas. While the US is still *THE* super-power, it is not anymore the "hyperpower" that the former French Foreign Minister Hubert Vedrine saw in it in 1999. And Donald Trump might have a painful realisation of this new state of affairs as the US economy slows down and American businesses and consumers start asking him where he got this notion that "trade wars are easy to win". But the damage to the international systems will have been done. And it will take a long time to repair it; the same long time it will take the US to restore a reputation of reliability and of a genuine stakeholder in a rules-based international system.

The writer is President of Smadja & Smadja, a Strategic Advisory Firm @ClaudeSmadja

She-changers in Silicon Valley

BOOK REVIEW

VIKRAM JOHRI

The rise of Silicon Valley as the preeminent technological mecca of our time is not unaccompanied by problems. There is the concentration of power in the hands of a few companies, the nefarious ways in which social media is being abused, and the lack of regulatory oversight that has led to this state of affairs coming into play.

But there is another aspect of the technological industry that has been commented on in recent years: The lack of gender diversity. In 2012, Ellen Pao filed (and lost) a gender discrimination lawsuit against her former employer Kleiner Perkins, a venture capital firm, for what she claimed were discriminatory hiring and promotion policies at the company. More recently, James Damore was fired by Google for writing a memo that said that biological differences between men and women may contribute to differences in choice of occupation, one reason there is a lack of women in tech.

Julian Guthrie, a San Francisco-based journalist, has observed Silicon Valley up close for a long time, and in the book under review, she profiles the lives of four women who triumphed over challenges to find success as venture capitalists. It is interesting that Ms Guthrie chooses to focus on venture capital rather than engineering in her book since that is perhaps a better indicator of where real power resides in tech.

Through the stories of these women, Ms Guthrie presents lessons in surviving, and thriving in, the cut-throat world of venture capital. Part of this project, she asserts, comes from women taking on roles and responsibilities actively, what Facebook COO Sheryl Sandberg called "leaning in" in her bestselling book. Leaning in, in Ms Sandberg says, is not just about proving oneself at work but an aspirational philosophy that encompasses networking and keeping an eye on latent opportunities.

Sonja Perkins was a young partner at Menlo Ventures when she was invited to a retreat by Thom Weisel, a storied investor. At the retreat, Perkins found she had been signed up for a downhill skiing race against former Olympic skiers and Navy seals. Having skied but half a dozen times in her life, Ms Perkins, nevertheless, did not shy away from the challenge, going down the hill slowly but steadily. Mr Weisel, impressed by her tenacity, introduced her to his circle of contacts at dinner that night.

Leaning in is not just about proving oneself at work but an aspirational philosophy that encompasses networking and keeping an eye on latent opportunities

Leaning in can have other dimensions. Through Theresia Gouw's story, Ms Guthrie stresses the importance of having male allies. At Accel Partners, Ms Gouw learnt from Jim Goetz, a fellow VC, that there were rumours that she was flirting her way to deals. While she had been aware of such rumours, to hear them from another partner was an important confirmation and information that Ms Gouw found useful to keep abreast of.

Or take Mary Jane Elmore, who became one of the first female partners on the West Coast when she joined Institutional Venture Partners. Twenty-eight at the time, she was asked to fire a male founder twice her age. The book recounts how she used a mix of humour and tact to get the job done.

Beyond the demands of day-to-day dealings, though, Ms Guthrie's thesis is that women face unique challenges at the workplace. Magdalena Yesil, a founding member at Salesforce, was unable to attend the bell-ringing at the New York Stock Exchange when the company went public in 2004. Her son was unwell that day, and she says in the book that she should have found someone to take care of her son rather than missing out on a historic day for the company.

The reason the book may resonate with working women is not merely because it presents challenges that can be tackled by leaning in. As Ms Yesil's case demonstrates, there are real differences in how men and women approach work and family, and no amount of workplace egalitarianism can mitigate them.

The four women Ms Guthrie profiles came together in 2010 to launch Broadway Angels, which has invested in blockchain companies and edutech. By sharing the early stories of these star women VCs, Ms Guthrie presents an aspirational model for other young women looking to storm this largely male bastion.

ALPHA GIRLS: The Women Upstarts Who Took On Silicon Valley's Male Culture and Made the Deals of a LifeTime
Julian Guthrie
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