Vodafone's India woes

We need international players, especially in a sector like telecom, for global best practices and the latest in technology, if nothing else

NOT FOR PROFIT

NIVEDITA MOOKERJI

Balesh Sharma stepping down and Ravinder Takkar taking over as the CEO of Vodafone Idea are not ordinary events in the life of a company. If analysts are to be believed, the latest top-level change will determine where the telecom company is headed. For the UK-based telco, a leading player in the world in terms of market value and subscriber numbers, India has been an expensive bet and giving Takkar the top job seems to be a final attempt on its part in gaining shareholder confidence. If this doesn't work, exit may be the only way out for the telco, caught in a never-ending tariff war. It's another matter that the top executives of the company have not gone beyond calling the Indian telecom market "unsustainable".

Next October, the Newbury (Berkshire)-headquartered telecom giant will complete 15 years in India. Vodafone's India story began in October 2005, when it acquired a 10 per cent stake in Sunil Mittal-promoted Bharti group. At $1.5 billion, that was the single largest foreign investment in the country till then, and the deal made headlines. But it wasn't enough being a financial partner to Bharti and soon Vodafone wanted a bigger India play. In February 2007, after months of negotiation, the British telco announced its decision to pay $11.1 billion in cash to buy a 67 per cent stake in Hutchison Essar (Hutch) from Hong Kong-based business baron Li Ka-Shing. That again was the single largest foreign investment in the country till then. During the deal talks, whether it was a celebrity-like treatment given to then Vodafone global CEO Arun Sarin, when he made a rare appearance early morning in a luxury hotel, or it was then Hutch Essar head Asim Ghosh, who had to escape media attention by taking the back gate at a conference venue, Vodafone was at the centre of the telecom narrative in India. The Voda-Hutch deal was completed in 2009.

Soon, Vodafone wanted to be on its own, of course, helped by the easing contours of foreign direct investment regulations in telecom. Essar group's Ruias, who became Vodafone's local partner after the Hutch deal, left the entire business in the hands of the UK telco a few years later. But, this time, reality struck hard. The next local tango for Vodafone, in March 2017, was with Aditya Birla group chairman Kumar Mangalam Birla-led Idea Cellular. The two agreed to merge their Indian operations in a $23-billion deal. The idea was to create a new giant to take on Jio. The plot clearly didn't work.

Vodafone's merger with Idea was a product of compulsion and didn't yield the desired results. It has been losing subscriber numbers and the losses are widening too. Difference in culture between the two companies and an integration not executed well, only made things worse.

A Vodafone executive familiar with the workings of the multinational had recently pointed out that nowhere else in the world had the telco confronted a situation like this. He was referring to Reliance Jio taking on all others in the market through disruptive pricing.

However, that does not mean Vodafone has not been disenchanted with India before. The UPA-2 decision to retrospectively tax Vodafone has been the biggest setback for the UK-based telco, much before Jio came into the picture. The government at that time had raised a tax demand of ₹11,000 crore related to Vodafone's acquisition of Hutchison Telecom stake in 2009. The amount had increased to ₹20,000 crore, including interest and penalties. While the Supreme Court subsequently quashed the demand in January 2012, the government amended the IT Act retrospectively, to impose the liability back on Vodafone.

As for its current business, Vodafone Idea has said it won't participate in the 5G spectrum auction at the current price fixed by the Telecom Regulatory Authority of India. Who knows what the next step of the UK partner would be. If at all it's an exit, it won't be a first for Vodafone. New Zealand and Japan are among the geographies that the group exited when the going got tough. There are hurdles in Australia as well as recently the regulator stopped a planned $7.7-billion merger of Vodafone's struggling Australian business with TPG Telecom. There are indications that an exit from Australia cannot be ruled out.

If Vodafone indeed decides to quit India, the telecom market in the country, which once had telcos from across the world, will be left poorer. We need international players, especially in a sector like telecom, for global best practices and the latest in technology, if nothing else.

Changing optics of the telecom war

Unlike its mobile services, Reliance Jio's fibre-to-the-home business is going to be less disruptive for the industry

SURAJEET DAS GUPTA

The next big battle between the country's two telecom giants, Reliance Jio and Bharti Airtel, is set to be fought on the home broadband front, with both players preparing to grab customers with the triple-play of video, data and voice.

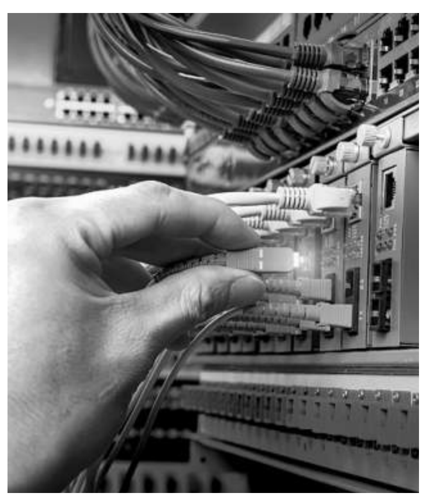
After over a year of testing the waters, Reliance Industries' Chairman Mukesh Ambani announced last week that the group's telecom arm, Reliance Jio, would commercially roll out fibre-to-the-home services (FTTH) from September 5 across 1,600 towns. The proposal makes great sense. But Jio will face a tough competitor in Bharti Airtel, which has been first off the block in this arena. Airtel is currently furiously switching its 2.36 million subscribers to home broadband in 100 cities from copper in the last mile to fibre at no extra cost to consumers, either for the Wi-Fi router or the higher speeds.

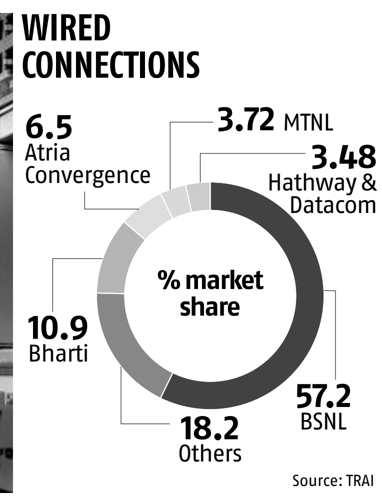
Airtel's plan, according to sources in the company, is to connect over five million homes in the next three years. It currently has a fibre network capacity to connect around 10 million homes. According to telcos, on an average only 25 per cent of the homes through which the fibre passes actually take a connection. Airtel, though, is not looking at numbers alone. Its gameplan is to move from average revenue per user (ARPU) to increasing average revenue per account, or the monthly bill of a household using Airtel services for mobile, DTH, broadband, landline and content.

Going beyond the hype of the Jio launch, this means that the two rivals could be neck-and-neck in terms of acquisition of FTTH subscribers if their plans fructify. This is also because Jio has gone in for a more realistic plan than what it had earlier envisaged to reach: 20 million homes, which translates into five million connections, instead of 50 million earlier.

The change in plan, say analysts, could be because of the challenges involved in laying fibre underground, which is not only a slow process, but also expensive because of the high cost to get right-of-way permissions, especially in large cities. Jio launched FTTH in select pockets at an upfront cost of ₹2,500 to ₹4,500 for the instrument and free broadband. But despite the free broadband offer it managed to connect only a modest 0.5 million homes. The freebies, however, will soon be over.

It is clear that this time around, unlike during the launch of mobile services, Jio is not looking at becoming a disruptor. Its 4G LTE services for mobiles came with zero tariffs followed by rock bottom prices. The broadband base price, though, has been set at ₹700 a month for 100 mbps speeds, only slightly lower than Airtel' minimum base price of ₹799 per month.





Moreover, most telcos admit that the size of the FTTH market at the prevailing price for triple play services is limited. The is so because only 30 million homes in the country currently have an annual salary of over ₹10 lakh, the household income level at which FTTH price tag becomes affordable. If rural area is taken away from this equation, then the number of homes that can afford the service falls to 20 million. Even fixed broadband is available only in 7 per cent of Indian homes and big cities like Mumbai fare no better with just 25 per cent homes connected to fixed broadband.

So how does one woo more households to home broadband? Interestingly, the two players are pursuing different strategies. Airtel is wooing its 16 million DTH consumers (about 30 per cent live in cities) by offering them an integrated set-top box that will, apart from broadcast channels (linear TV) through DTH, provide internet, landline telephone as well as OTT channels.

"We think DTH is the most efficient way to deliver linear TV across the country as cable does not reach everywhere and laying it is expensive. For broadband, we have FTTH, through which we will power OTT channels, gaming, conference calls, smart homes, home surveillance and also voice calls," says a source in the company.

To begin with, Airtel has already piloted a triple-play integrated plan for ₹1,399 to ₹1,899 in three cities, which includes postpaid mobile connections, DTH, internet and OTT channels bundled together. Consumers have to pay only one bill for all services from mobile, DTH, broadband, OTT, landline amongst others, and will have a single customer care number. The company will soon launch an integrated set-top box that will power all these services with no requirement for separate ones.

Jio's strategy in comparison is more diverse, with FTTH being its centerpiece. Mathew Oommen, president of Jio, says "Fibre is full proof and with new technology delivery costs are coming down." Of course, it also offers the highest speeds. So the set-top box given to FTTH customers will offer broadcast TV and OTT channels, while an IP phone will offer voice calls.

But aware of the challenges in rolling out FTTH, Jio has also bought over cable distribution companies. Through the acquisition of Hathway, Den and GTPL they now have access to over 23 million homes, or 12 per cent of all TV households. But merely a little over 2 million of them have broadband, which has been possible through replacement of the cable backbone to fibre or improving the quality of the coaxial cable.

Jio plans to work with the 30,000 local cable operators (LCO) it acquired via the three companies to find new subscribers for its triple-play box for high-speed internet and OTT channels, while leaving the LCOs to offer TV channels as they did before. But that's not all. Jio is working on a new technology to use cable infrastructure to offer voice calls. It also has plans to replace coaxial cable with fibre, and upgrade some of the customers acquired from cable companies. Regardless of whether all this is going to be disruptive for telcos or not, one this is certain: New standards of broadband speeds are sure to be set in the industry.

CHINESE WHISPERS

Wordplay

Congress Lok Sabha member Shashi Tharoor *(pictured)* has again got his Twitter followers to riffle through their dictionaries. On Wednesday, he retweeted party colleague P Chidambaram's tweet of September 24, 2018. Chidambaram had tweeted the link of his interview to a newspaper on the alleged irregularities in the Rafale fighter jet deal where he sought to punch holes in then finance minister Arun Jaitley's defence of the deal and said, "To a person running scared, every shadow will be a demon". Tharoor fished out the nearly year-old tweet and commented, "Well said P Chidambaram! It is a tribute to your strength of character that you are standing up to persecution and character assassination with courage and confidence. I believe justice will prevail in the end. Till then we will have to allow some malicious minds their schadenfreude." Some of Tharoor's followers immediately reached for their dictionaries and/or the internet to search for the meaning of the word "schadenfreude".

Supporters vs spokespersons

The drubbing faced by the opposition parties in the 2019 Lok Sabha elections in Uttar Pradesh not only put paid to the political prospects of their frontline leaders, but also brought bad news to their spokespersons appearing on television debates. With most prominent non-BJP parties — namely, the Congress, the Samajwadi Party and the Bahujan Samaj Party — barring their "official spokespersons" from representing their parties in televised debates, such debates now feature BJP spokespersons only, apart from the representatives of some lesser known and fringe political outfits. Some enterprising leaders of opposition parties, however, have devised a novel way of appearing in TV debates without breaching the ban edict: They are identified as "supporters" of their respective parties rather than "spokespersons"!

No takers

The Kamal Nath-led Madhya Pradesh government is desperately trying to sell its old seven-seater aircraft but with little success. In January, the state government had issued a global tender for its Super King Air B-200. It had fixed a base price of ₹11.1 crore but there were no takers. This is the third failed attempt to sell off the plane. The aircraft is 18 years old and the state government has been forced to hire charter planes or choppers to fly its VIPs. The previous Shivraj Singh Chouhan government had also tried to sell the aircraft off, albeit unsuccessfully. The Congress (then in the opposition) had criticised the move. Selling it would be a "waste of valuable resources," it had said.

INSIGHT

A bottoms-up approach to inclusive growth

Counter the growth slowdown with a micro-loan revolution

SOUMYA KANTI GHOSH & S ADIKESAVAN

In the midst of all the noise regarding the current growth slowdown, we have somehow forgotten some of the potentially transformative announcements made in the first Budget of Modi 2.0. One such announcement was the offer of micro loans at an effective rate of 4 per cent per annum for women in self-help groups (SHG) towards income-generating activities in all 727 districts of the country. At present, under the Deen Dayal Antyodaya Yojana (DAY) scheme, these ultra-low interest loans are available only in 250 districts.

Woven around the brilliantly practical theme of *antyodaya* (resurgence of the lowliest) articulated first by Pandit Deendayal Upadhyaya, an original socio-economic thinker of the last century, these bank loans for amounts ranging from ₹10,000 to ₹50,000 have helped in demonstrably altering the lives of lakhs of women across the country. A large theoretical and empirical literature in development microeconomics suggests that when credit is routed through women, the household as a whole experiences better outcomes in the form of increased consumption or investment on goods.

The SHGs are typically groups of 10 women in the same neighbourhood pursuing economic activities like food processing, catering, tailoring and tiny local trade like vegetable vending, dairy and backyard poultry. The SHG-led approach differs from traditional micro-finance in several ways. First, it does not exclusively focus on credit or savings but also includes emphasis on social empowerment, outreach, and capacity building. Second, the goal is not to establish a separate micro-finance institution but to use the group to intermediate in dealings with the formal sector and help households create a credit history that will eventually allow them to access regular sources of finance.

Banks are waiting for a formal notification from the Reserve Bank of India on spreading the DAY coverage to all districts

Banks lend them small sums in doses under a five-year, annually stepped-up credit-support structure. These loans have proved to be extremely popular among the marginalised and have put these women in meaningful economic pursuits resulting in positive changes in their own lives as well as in their neighbourhoods. Over the past 40 years, SHGs across South Asia and Southeast Asia have emerged as a social and financial force to reckon with. In South Asia, the spread of SHGs has been most notable in India. In 1992, the National Bank for Agriculture and Rural Development (Nabard) piloted the concept with 500 groups. Since then, the SHG movement has witnessed tremendous growth that helped build one of the world's largest and fastest-growing networks for micro-finance.

In a form of silent revolution in India, the loans under DAY have grown from ₹23,319 crore to ₹84,790 crore in the last five years and the number of SHGs that have received this credit support stood at 5.13 million as on March 31, 2019. As a result, the dependence on private money lenders has been reduced for groups that were earlier credit-excluded from the formal banking channels. That a few governments in states like Kerala, Telangana, Andhra Pradesh, Bihar and Odisha have latched on to this opportunity to nurture these women's SHGs is reflected in the higher disbursals under DAY in these states.

Kerala is a striking example of the power and potential of women's SHGs with the state government building up this network and using it to bring women to the forefront of other innovative socio-economic activities. For instance, the government there has recently promoted and used women's SHGs for the construction of houses under the Rebuild Kerala programme, launched after last year's devastating floods.

The opportunity for state governments to tap into this fully Centre-funded low-interest credit-linkage programme is immense. Our experience as the largest lender in the country is that wherever the states have understood the opportunity that DAY affords and entrusted the leadership with efficient bureaucrats, the traction has been immense — with attendant benefits to the lending banks as well.

SHG loans is one segment where delinquencies are lower. Even where defaults are noticed, mostly it does not arise from wilful default — empirically, the credit morality and the "intent to repay" is the highest among women, especially those who borrow relatively smaller sums. It is a tribute to womenhood in general that bankers face less problems in the recovery of loans given to them.

What then is the potential we are talking about based on the Budget announcement? Under the Jan Dhan Yojana, banks had at last count (as of August 7, 2019) opened 365.5 million accounts; of these the public-sector banks have opened 290.6 million accounts with the State Bank of India alone facilitating 110 million accounts. We believe that a bank account is the key to financial inclusion and opens the door to many economic possibilities including micro-credit support. It is estimated that nearly 60 per cent of these accounts are those of women, which works out to 180 million.

In a country that aspires to post real growth rates of 8 per cent and wants to become a $5 trillion economy by FY2025, formal credit linkages to these previously excluded groups is imperative. We estimate the number of women already assisted is 60 million based on the number of SHGs financed. The gap that needs to be filled to ensure full credit inclusion comes to around 120 million. It is here that the Budget announcement on interest subvention under DAY offers great possibilities for income support to the marginalised.

Banks are waiting for a formal notification from the Reserve Bank of India on spreading the coverage to all districts. Once that happens and the enablers in terms of state government support for the formation and nurture of these SHGs is ensured, we believe the scheme will well and truly contribute to *antyodaya* as envisaged by its original proponent. This is what we call a bottoms-up approach to inclusive growth.

Ghosh is group chief economic advisor, State Bank of India; Adikesavan is a senior bank executive. Views are personal

LETTERS

Significant proposals

As analysed in the editorial "In the right direction" (August 21), the proposals of the task force on the Direct Tax Code to resolve income tax disputes are significant. The idea of a negotiated settlement via mediation by collegiums of commissioners is a better alternative than litigation because there are pending court cases worth about Rs 6 trillion and the success rate of income tax department at courts is very poor. This, together with the suggested legal management unit that will deal with the tax litigation process under the new income tax law, should bring down the number of litigations. Besides, replacement of individual assessment officers by assessment units both for individual and corporate assesses is likely to mitigate their fear of harsh treatment and improve compliance.

Overall, the proposals as reported in the media are helpful. Their effectiveness together with recommended reduction in the tax burden will be proved by increased compliance by tax payers.

Y G Chouksey Pune

Be flexible

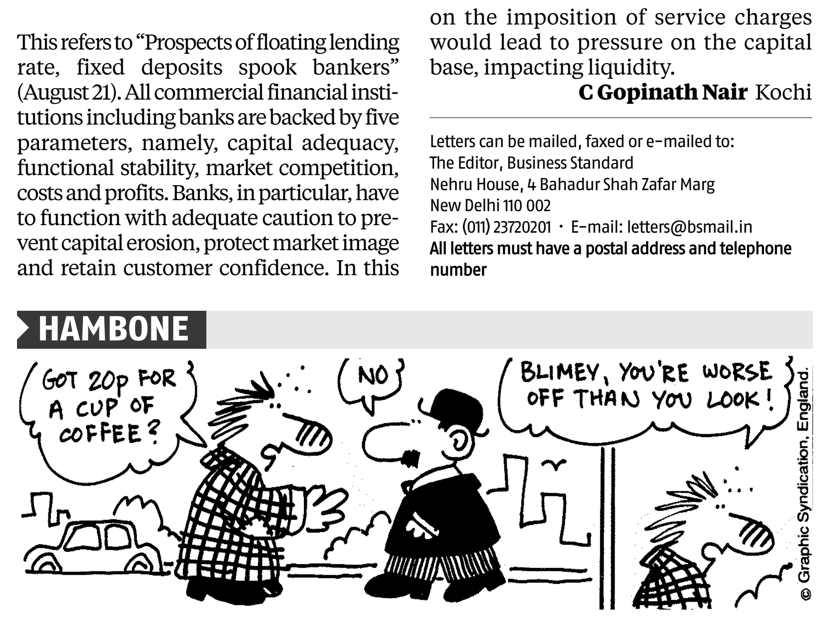
This refers to "Prospects of floating lending rate, fixed deposits spook bankers" (August 21). All commercial financial institutions including banks are backed by five parameters, namely, capital adequacy, functional stability, market competition, costs and profits. Banks, in particular, have to function with adequate caution to prevent capital erosion, protect market image and retain customer confidence. In this context, a large portion of bank custom traditionally comprises retail depositors who invest for daily operational savings bank accounts or time deposits. Corporate deposits show only an artificial growth with higher cost of deposit. They have less time frame as they adopt a profit-oriented approach with temporary parking of idle funds for short-term returns. They are opened with special rates of interest governed by time and amount that determines the cost. However, interest rates in both the cases have to be linked to liquidity, the quantum of deposits, time span, costs and projected returns from such funds when lent in the market. Conversely, higher interest rates on advances will delay or lead to default in repayment by retail borrowers or stagnate corporate accounts where repayment of instalments is not forthcoming.

Unlike public sector banks, private banks adopt a less flexible approach for market survival, as there is no infusion of capital by the government. Banks have to link their deposit rates to the repo rate. It deters the customer who prefers fixed returns against uncertain floating rate returns. A banking scenario with erosion in deposits, non-recovery of advance instalments and restrictions on the imposition of service charges would lead to pressure on the capital base, impacting liquidity.

C Gopinath Nair Kochi

Letters can be mailed, faxed or e-mailed to:
The Editor, Business Standard
Nehru House, 4 Bahadur Shah Zafar Marg
New Delhi 110 002
Fax: (011) 23720201 · E-mail: letters@bsmail.in
All letters must have a postal address and telephone number

HAMBONE



Business Standard
Volume XXIV Number 8
MUMBAI | THURSDAY, 22 AUGUST 2019

No sectoral relief

Tax cuts for specific industries must be avoided

Last month, India's automotive sector contracted by 19 per cent, the biggest fall since April 2001. Passenger vehicle sales have been dipping for some time, an indication of tepid overall consumer demand, but now commercial vehicles have also begun to suffer, indicating that economic activity is slowing. Passenger vehicle sales went down 31 per cent year-on-year in June; it was 26 per cent for commercial vehicles. Two- and three-wheelers also suffered, though less than four-wheelers. Naturally, company finances have also taken a hit, with profits falling 28 per cent in the June quarter for auto manufacturers and 21 per cent for the producers of auto ancillaries.

The problem, it is clear, is more from domestic sales, which are shrinking, than exports, which grew at a low but positive rate of 4 per cent in July 2019. The auto sector has been loudly calling for a sectoral stimulus package and, given that it accounts for a significant part of India's manufacturing output and employs about 35 million people, the government might be willing to oblige. In particular, the sector is hopeful of a cut in the goods and services tax (GST).

The government bears some responsibility for this slowdown in the auto sector. In particular, regulatory uncertainty has taken a toll on companies. There was confusion and rollbacks galore when it came to the implementation of new fuel standards, which rendered investment difficult and also buying decision. The government's recent stance about aggressive electrification of personal vehicles has also worried carmakers. A troubled financial sector added to the problem. Financing costs are high because the transmission of recent interest rate cuts by the central bank has been imperfect. And the crisis in non-banking financial companies (NBFCs) has played a part since those had become major sources of auto loans to consumers, funding a majority of commercial vehicles purchases, two-thirds of two-wheelers, and almost a third of passenger car purchases. Stressed NBFCs have rolled back this lending, and similarly burdened banks have cut down on exposure to companies and dealers.

Therefore, it is clear that the causes of this slowdown are not easily countered by something as simple as a tax cut. It reflects a deeper malaise: A regulatory mess, a slowdown in demand and a stressed financial sector. Thus, the government must be careful while considering the auto industry's demand for a relief package. India's history with sectoral packages rolled out as a consequence of lobbying has not been good. They tend to be withdrawn too late, and provide perverse incentives going forward. No sector should subsist on such policies. What is needed is something that addresses the overall situation. Here, perhaps, the government would like to consider following through on its corporate income tax cut for the largest companies. But any such overall stimulus, while tempting, should also take into account the fiscal situation. The market is already overloaded by government borrowing, which intensifies the investment crisis in the economy, thanks to crowding out. The slowdown in the economy will put further pressure on revenue and affect fiscal targets. Thus, a reform package that enables higher investment and demand without burdening the fiscal position is the only practical way out.

The plastic problem

States lack the will to impose restrictions

Legal bar of some kind or the other on the use of disposable plastic shopping bags had already been in place in most states prior to Prime Minister Narendra Modi's call to make India free of single-use plastics. Some of the states have also extended this ban to other use-and-throw products made of plastic, specially multi-layered plastic, which cannot be recycled. However, these injunctions remain largely on paper for want of effective enforcement except in parts of some states such as Himachal Pradesh, Uttarakhand and Sikkim. If the initiative results in triggering a mass anti-plastic movement, it would be good for terrestrial and aquatic environment, marine biodiversity, and human and animal health.

Rough estimates suggest that about 26,000 tonnes of plastic waste is generated in India every day. About 90 per cent of it is neither recycled nor safely destroyed. The bulk of it ends up in landfills, where it lasts practically forever to pollute the environment and ground water through toxic gases and pernicious metals such as lead and cadmium. In cities, the discarded carry bags and wrappers clog the drains to cause flooding of roads. Plastic toxicity in food packed in recycled and inferior grade plastic poses a risk to human health.

Nearly 80 per cent of the plastic produced is used for packaging. Curbing this usage would affect several businesses, notably food processing, beverages, wholesale and retail trade and e-commerce. They would have to invest in finding suitable and cost-effective replacements and installation of new machinery. Disposable carry bags are relatively easy to shun because their alternatives are available in the form of bags made of cotton, jute or other non-plastic fibre. Such bags used to be a regular part of shopping in the past. Of late, some types of bio-derived and bio-degradable substitutes of plastics have also been developed. These might find gainful application in some sectors.

According to a United Nations Environment Programme (UNEP) report, 127 of its 192 member countries have enacted legislations to regulate plastic bags. Over 25 of them have also imposed legal restrictions on other single-use plastic products such as water bottles, milk packets, ketchup and shampoo sachets, cups, glasses, cutlery, straws and take-out food containers. The stipulated deterrents include curbs on manufacture, distribution, use and trade; taxes and fines; and manufacturers' extended responsibility to retrieve used products for safe disposal. Though the success of these measures is quite patchy, these have freed nearly 25 per cent of the world of plastic waste menace.

India's poor record in this field is not due to a paucity of legal framework but the lack of will to impose the mandated restrictions. This is reflected in the pliability of plastic waste management policies of both the states and the Centre. Almost all state governments tend to succumb to the industry's pressure to grant wide-ranging exemptions from the plastic ban. The Centre, too, last year relaxed the plastic waste management rules of 2016 by dropping some stringent and result-oriented norms. This has defeated the very purpose of formulating these rules. Now that the Prime Minister himself has taken up the cudgels to eliminate plastic bags and single-use products, better results can be expected.

ILLUSTRATION: BINAY SINHA

The world has a Germany problem

The debt obsession that ate the economy

You might think that recent events — market turmoil, weakening growth, declining manufacturing production — must be producing some soul-searching in the White House, particularly over Donald Trump's view that "trade wars are good, and easy to win." That is, you might think that if you haven't paid any attention to Trump's past behaviour.

What he's actually doing, of course, is attributing the economy's troubles to a vast conspiracy of people out to get him. And his recent remarks suggest, if anything, that he's preparing to open a new front in the trade war, this time against the European Union, which he says "treats us horribly: barriers, tariffs, taxes."

PAUL KRUGMAN

The funny thing is that there are some aspects of European policy, especially German economic policy, that do hurt the world economy and deserve condemnation. But Trump is going after the wrong thing. Europe does not, in fact, treat us badly; its markets are about as open to US products as ours are to Europe's. (We export about three times as much to the EU as we do to China.)

The problem, instead, is that the Europeans, and the Germans in particular, treat themselves badly, with a ruinous obsession over public debt. And the costs of that obsession are spilling over to the world as a whole.

Some background: Around 2010, politicians and pundits on both sides of the Atlantic caught a bad case of austerity fever. Somehow they lost interest in fighting unemployment, even though it remained catastrophically high, and demanded spending cuts instead. And these spending cuts, unprecedented in a weak economy, slowed the recovery and delayed the return to full employment.

While debt alarmism ruled both here and in Europe, however, it eventually became clear that there was a crucial difference in underlying motivation. Our deficit hawks were, in fact, hypocrites, who suddenly lost all interest in debt as soon as a Republican was in the White House. The Germans, on the other hand, really meant it.

True, Germany forced debt-troubled nations in southern Europe into punishing, society-destroying spending cuts; but it also imposed a lot of austerity on itself. Textbook economics says that governments should run deficits in times of high unemployment, but Germany basically eliminated its deficit in 2012, when euro area unemployment was more than 11 per cent, and then began to run ever-growing surpluses.

Why is this a problem? Europe suffers from a chronic shortfall in private demand: Consumers and corporations don't seem to want to spend enough to maintain full employment. The causes of this shortfall are the subject of a lot of debate, although the most likely culprit is demography: Low fertility has left Europe with a declining number of adults in their prime working years, which translates into low demand for new housing, office buildings, and so on.

The European Central Bank, Europe's counterpart to the Federal Reserve, has tried to fight this chronic weakness with extremely low interest rates — in fact, it has pushed rates below zero, which economists used to think was impossible. And bond investors clearly expect these extreme policies to last for a very long time. In Germany, even long-term bonds — all the way out to 30 years! — pay negative interest rates.

Some analysts think that these negative interest rates hurt the functioning of the financial sector. I'm agnostic on that point, but what's clear is that with monetary policy stretched to its limits, Europe has no way to respond when things go wrong. Indeed, much of Europe may well already be in recession, and there's little if anything the central bank can do.

There is, however, an obvious solution: European governments, and Germany in particular, should stimulate their economies by borrowing and increasing spending. The bond market is effectively begging them to do that; in fact, it's willing to pay Germany to borrow, by lending at negative interest. And there's no lack of things to spend on: Germany, like America, has crumbling infrastructure desperately in need of repair. But spend they won't.

Most of the costs of German fiscal obstinacy fall on Germany and its neighbours, but there are some spillovers to the rest of us. Europe's problems have contributed to a weak euro, which makes US products less competitive and is one reason American manufacturing is sliding. But characterising this as a situation in which Europe is taking advantage of America gets it all wrong, and is not helpful.

What would be helpful? Realistically, America has no ability to pressure Germany into changing its domestic policies. We might be able to provide a little moral suasion if our own leadership had any intellectual or policy credibility, but, of course, it doesn't. There's a sense in which the whole world has a Germany problem, but it's up to the Germans themselves to solve it.

One thing is for sure: Starting a trade war with Europe would truly be a lose-lose proposition, even more so than our trade war with China. It's the last thing either America or Europe needs. Which means that Trump is probably going to do it.

The writer is a Distinguished Professor at the City University of New York Graduate Center. He won the 2008 Nobel Memorial Prize in Economic Sciences for his work on international trade and economic geography.
@PaulKrugman. ©2019 The New York Times News Service

The ascent of wealth creation

India's wealth creators should not be eyed with suspicion, the prime minister stated from the ramparts of the Red Fort last week, because it is only when wealth is created that wealth will be distributed. In normal circumstances, this would have been an unexceptionable statement. In today's context, the timing is a little unpropitious.

By wealth creators we assume Narendra Modi was referring to Indian entrepreneurs — at any rate, this is how his finance minister defined the term five days later. Is it really possible *not* to view these "wealth creators" with suspicion?

For one, corporate fraud and variations thereof — from Nirav Modi to IL&FS to the Avantha group — have dominated the headlines on an almost monthly basis these past two years, leaving the intelligentsia wondering what to expect next. If we take in the past 15 years, starting with Ramalinga Raju's confessions, the cause for suspicion is redoubled.

SWOT
KANIKA DATTA

For another, if not the prime minister, his regime's enforcement agencies have become manifestly uber-suspicious of the wealth creation of the wealth creators. You know this has reached serious proportions when one of Mr Modi's staunchest corporate cheerleader, Mohandas Pai, complains publicly of "tax terrorism". Mr Pai was speaking soon after Café Coffee Day's V G Siddhartha was found dead and a letter allegedly written by him complained of harassment by the tax authorities (which may or may not be true).

The immediate context apart, the prime minister's statement reflected a remarkable point of departure. In the past, no prime minister would have dared fete the cause of the rich so openly. This discretion had historic roots. One was the very visible wealth creation by a slew of business groups — from the Walchands to the Tatas and Birlas — from the opportunities afforded by the two World Wars. Although it is true that these businesspeople mostly bankrolled the freedom struggle, too, it was clear that their wealth creation did not lead to meaningful wealth distribution in a dirt-poor country.

Like many leading intellectuals of his generation around the world, India's first prime minister, Jawaharlal Nehru, was heavily influenced by the Soviet economic model (more so after he was given the standard curated tour of Stalin's "reforms"). Having experienced at first hand the abject poverty of United Provinces' peasantry, he was convinced of the need for a state-led economy.

Thanks to P C Mahalanobis and the Planning Commission, the Indian economic template bore no resemblance to the state-driven capitalism of the Chinese model that emerged two decades later and helped China overtake India. The Mahalanobis model involved intricate levels of controls that kept businessmen tangled in red tape and, inevitably, had a limited impact on economic activity or wealth distribution. India's famous Hindu rate of growth kept India poor. Indira Gandhi spotted the political opportunity in India's poverty, making a virtue out of protectionism, nationalism and the strengthening of the licence-permit raj. *Garibi Hatao* was a great electoral slogan that masked the fact that the principal wealth creation was taking place at the level of the corrupt politician and the bureaucrat. Rarely has poverty been more cynically exploited.

The suspicion against "wealth creators" has its genesis in this economic model. It encouraged — some might say forced — business groups to deploy political relationships as a competitive advantage and block foreign and domestic competition (the automobile industry was particularly notorious for this). This business-politician complex created a vicious circle. With structural constraints causing business growth to crawl, taxing became an extractive enterprise. Inevitably, the higher the tax, the higher the evasion; those fortunate to have export licences could sequester large chunks of wealth created in foreign tax havens. No less inevitably, a politician emerged who viewed these wealth creators with suspicion: V P Singh as finance minister in Rajiv Gandhi's government, whose "blacklist" spooked the business community like never before.

True, economic reform forced India Inc to raise efficiency and productivity and enabled it to expand, creating some degree of redistribution. Lower tariff barriers and delicensing permitted some degree of economic expansion and people to become relatively more prosperous. For the first time, wealth creation was a legitimate, even laudable, ambition, but the political class still hesitated to own this message. Pro-poor remained the UPA's shtick, even as millions came out from under poverty.

Today, the problem is that the principal old economy wealth creators of India Inc still suffer from the licence raj hangover. Four decades of punitive taxation and limited competition worked themselves into the DNA of corporate India's governance standards. So much so that tax evasion, family-oriented corporate structures, a complete disregard of boards and an ability to suborn the state-owned banking system are as rife today as they were pre-1991.

The private sector is now the engine for economic growth. Mr Modi's statement on Independence Day reflects an understanding of that truth. The issue for him is to create a dynamic for the corporate sector to grow and compete legitimately and establish healthy governance standards. Right now, that doesn't seem to be in evidence.

The paradoxical politician

BOOK REVIEW
AJAY SINGH

From a nondescript village called Ibrahimpatti in the Ballia district of Uttar Pradesh to the highest seat of power in Delhi, Chandra Shekhar's life was extraordinary by any standards. A legend in his lifetime, he embodied many contradictions: a loner who had many friends cutting across party and ideological lines and a socialist who had many capitalists as friends. It would not be wrong to describe him as the first rank outsider in Lutyens' power clique.

The rise of Chandra Shekhar (1927-2007) was coterminous with the most turbulent phase of post-independent Indian politics. The biographical account of this unique leader penned by Harivansh, the deputy chairman of the Rajya Sabha and one-time a colleague of Chandra Shekhar, and Ravi Dutt Bajpai, a scholar on India, offers a riveting, insider's view of that phase.

Mr Harivansh, who belongs to Sitabdiara village, close to Chandra Shekhar's Ibrahimpatti, is well qualified to write this biography for many reasons. The most important among them is his access, first as a journalist and later as a confidant, to the former prime minister. Given his socialist background and close association, he may not be as clinically critical of the politician's life as he is expected to be. But Mr Harivansh makes it clear at the start that the book aims to bring out the untouched and humane aspects of Chandra Shekhar's life.

The authors have succeeded in that effort. One anecdote — Chandra Shekhar's first conversation with Indira Gandhi, daughter of prime minister Jawaharlal Nehru — is instructive. When Indira Gandhi asked why he chose to join the Congress after working with the Praja Socialist Party (PSP), he said that as a committed socialist, he wanted to steer the Congress towards socialism. And if this objective was not achieved, he went on, "I will endeavour to break the party, for I believe that unless the Congress is fragmented, no new kind of politics can emerge in the country." Indira Gandhi looked at him in astonishment, but in today's context, those words were prophetic.

But that encounter was vintage Chandra Shekhar; he did not hesitate to speak his mind even in the most adverse circumstances. He ticked off his senior and most adored ideologue Ram Manohar Lohia when the latter came to Ballia to attend a political function. Whether Nehru, Lohia or Indira, Chandra Shekhar could not be cowed by the force of personality and circumstance. That is why former President Pranab Mukherjee in the first volume of his autobiography recalled Chandra Shekhar as one of the "most outstanding leaders" who did not get the appreciation he deserved.

Mr Harivansh has justifiably tried to correct this historical wrong. One of the many facets of Chandra Shekhar's personality includes contrarian views that went against the popular will. His stance on Indira Gandhi's decision to launch Operation Blue Star in the Golden Temple in 1984 was one such and it made him quite unpopular. He steadfastly opposed the army action, arguing that anyone conversant with the history of Sikhism would know that such an action would entail a heavy social cost. He was proved right when Indira Gandhi was assassinated a few months later by her own Sikh security guards.

Much before the Punjab problem reared its head, Chandra Shekhar did not hesitate to show his rebellious streak even against Indira Gandhi while he was in the Congress. He openly sided with redoubtable Jayaprakash Narayan and came out with the pearl of earthy wisdom —"*Vinash kale vipareet buddhi* (wisdom leaves you at the time of ruin)" — when she arrested JP. In turn, he, too, was arrested and jailed until the Emergency was lifted. Chandra Shekhar chose incarceration over compromise and suffered for it.

Chandra Shekhar's powerful personality exists now only in the margins of people's memory. In the late eighties, he was seen as a leader who was not inclined to cede ground to V P Singh who had emerged as the chief crusader against corruption. He felt cheated when he was upstaged by a conspiring Singh and Devi Lal in choosing the prime minister after the 1989 election that saw the Janata Dal emerge victorious. Singh, however, did not last long because the Bharatiya Janata Party withdrew support following the arrest of L K Advani in October 1990. So it was in turbulent circumstances that Chandra Shekhar took over as prime minister on November 10, 1990. At that point, the social fissures were wide open on account of the politics of Mandir (the Ram Janmabhoomi) and Mandal (the OBC reservation in education and jobs), and the new prime minister had no track record as an administrator either.

Despite the challenges, as the book explains, Chandra Shekhar made a good beginning that raised the hackles of the coterie around Rajiv Gandhi who soon began breathing down his neck. Chandra Shekhar strove for the solution to the Ayodhya dispute and was close to resolving it, according to the book. Similarly, he was bequeathed with an economy tottering on the brink of bankruptcy. According to the book, even at the risk of unpopularity, Chandra Shekhar allowed the mortgaging of sovereign gold in order not to default on the country's international debt repayment obligations. When he signed the order, he knew his days in politics were numbered.

Messrs Harivansh and Bajpai have uncovered many vignettes that throw light on the life of a man who earned immense respect among his peers though he was marginalised towards the end of his life. Paradoxes defined Chandra Shekhar. This book, an effort to unravel that political enigma of our time, is a laudable endeavour even if it borders on hagiography.

CHANDRA SHEKHAR: The Last Icon of Ideological Politics
Harivansh & Ravi Dutt Bajpai
Rupa Publications, 324 pages, ₹595