# The power of Indian storytelling

## The global market for content created by large platforms has liberated Indian creators

MEDIASCOPE

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Have Indian stories found their place in the world? Last week, three Indian shows and one film were nominated for the International Emmy Awards. (Note, these are different from the Emmy Awards that were wrapped up earlier this week.) *Sacred Games* season 1 (in the category drama series), *Lust Stories* (TV movie/mini-series), Radhika Apte (best performance by an actress, *Lust Stories*) and *The Remix-India* (non-scripted entertainment) are the nominees from India. The winners will be announced on November 25.

Are we finally seeing Indian stories told in an Indian context finding a global audience? Has the search for crossover content ended?

On July 6, 2018, *Sacred Games*, a Hindi show with a smattering of Marathi and Punjabi began streaming in 190 countries to 125 million subscribers (then). It was reviewed by every major publication in the world from *The Guardian* to *The New York Times*. No Indian TV show or film has ever had that kind of global release. This was the first show the $15.8 billion Netflix had commissioned out of India and it pulled out all the stops. *Lust Stories* didn't get that much attention but it got the same kind of release on Netflix.

*The Remix*, created by Mumbai-based Greymatter Entertainment, is a format show with 10 teams that have a DJ, singer, producer and dancers who face each other off over 10-15 weeks. It has been a huge success in Vietnam, China, Indonesia and more recently South Africa. *The Remix-India* released on Amazon Prime Video last year in 200 countries.

These are the kind of releases Indian studios lusted after in the early part of the millennium. But they simply didn't have the content, and the marketing and distribution muscle to get a release in so many countries at one go. Now it is standard. *The Family Man*, Amazon Prime Video's latest Indian original premiered in Los Angeles. For these three shows and for Apte to be nominated, to compete for audiences and awards along with Brazilian or British content is a huge jump of faith and ability for Indian content.

Satyajit Ray's *Pather Panchali* (1955) had a 226-day run at Playhouse on New York's Fifth Avenue reportedly breaking a 30-year-old record for foreign releases in the US. Later, Raj Kapoor's films charmed the Russians. In the 90s, Sooraj Barjatya touched a chord with non-resident Indians (or NRIs) in the UK and the US with *Hum Aapke Hain Kaun* (1994). Aditya Chopra followed with *Dilwale Dulhania Le Jayenge* (1995) and Karan Johar with *Kuch Kuch Hota Hai* (1998) and *Kabhie Khushi Kabhie Gham* (2001). Soon the 'overseas' market became a sales territory. There was a slice of mainstream local audiences in say Germany or Peru which loved Shah Rukh Khan films but largely it was the diaspora market. There really wasn't any crossing over onto mainstream screens and audiences.

By 2006-2007 corporatisation changed the Indian film business. The big studios came in and the domestic market grew thanks to more screens and television. The quality of Indian cinema went up and films such as *Omkara* or *Rang De Basanti* (both 2006) worked. The nostalgia-craving overseas market was not interested in contemporary Indian films and it slumped.

Then three films indicated that there was a market for Indian stories. There was Danny Boyle's *Slumdog Millionaire* (2008). It is not an Indian production but was indicative.

Rajkumar Hirani's *3 Idiots* (2009) and Nitesh Tiwari's *Dangal* (2016), completely Indian stories, told from an Indian context, made huge amounts of money in China, a market that had never delivered for Indian cinema. Others such as *Secret Superstar* (2017), *Bajrangi Bhaijaan* (2015) followed. Hollywood and the studios noticed it.

By the time the data boom of 2016 came, the Indian creative ecosystem was ready to move to the next level. With 35 OTTs vying for original content, it is party time for Indian content creators. The huge demand for original content means that the vast pool of talent India has, in writers, filmmakers, technicians, is finally coming into play at the creative end while platforms such as Netflix and Amazon take these stories global.

This ability to connect with your audience anywhere in the world has been the single biggest game-changer and the reason we don't need a crossover. It creates a global free market for stories and liberates Indian creators to tell the stories they want to.

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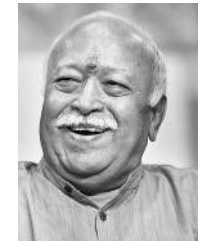
## CHINESE WHISPERS

### Difficult choice

Is everything all right between cricketer-turned-politician Gautam Gambhir (*pictured*) and singer-actor-turned-politician Manoj Tiwari? The two Bharatiya Janata Party (BJP) faces have been avoiding each other's company for quite some time now. During a recent event in Delhi, Gambhir's team was not sure when Tiwari would turn up. To avoid a confrontation, Gambhir decided to give the event a miss. Tiwari too has maintained a distance from all meetings that are held under Gambhir's charge. All eyes, meanwhile, are on the party leadership, which is expected to announce the chief ministerial candidate for the Delhi Assembly elections. If no party elections are held in Delhi and he continues as the BJP's Delhi unit president, this is a signal that Tiwari would be the party's choice for chief minister.

### Price of happiness



Rashtriya Swayamsevak Sangh chief Mohan Bhagwat (*pictured*), in the presence of Finance Minister Nirmala Sitharaman, released a survey of the socio-economic status of women and their decision-making space, in New Delhi on Tuesday. The Drishti Stree Adhyayan Prabodhan Kendra, a Pune-based outfit that did the survey, interviewed more than 75,000 women over two years for this. Among other things, it found that more than 90 per cent of the respondents with no family and no income "possess a very high level of happiness and wellbeing". "This indicates that family incomes have no influence on the level of happiness and wellbeing," the survey stated.

### Congress' Tripura woes

There is no let-up in infighting at the state units of the Congress. While resigning, the president of the Tripura unit, Pradyot Manikya Deb Barman, has highlighted in a letter, leaked to the media, that he fell out with the central leadership over the Assam Citizens' list and accused Congress leader Luizinho Faleiro of colluding with Bharatiya Janata Party leaders. Last week, Deb Barman had threatened to resign over his petition in the Supreme Court in which he requested an Assam-like citizens' list in the state. The 41-year-old alleged that Faleiro, who is in charge of the seven north-eastern states, was urging him to withdraw the petition. He also alleged that Faleiro was seeking advice from MLAs who had switched from the Congress to the BJP and that he had misused party funds.

# The mystery of the missed calls

## Or why Jio is battling incumbents over interconnect user charges

SURAJEET DAS GUPTA

The telecom titans — incumbents vs newbie Reliance Jio — clash again, this time over innocuous missed calls.

Incumbent operators have complained to the regulator that Jio has arbitrarily slashed the duration of the call alert ringer from 45 seconds to 20. By doing so, it has increased the number of missed calls on competitors' networks and is forcing their customers to call Jio customers back.

Jio, say sources, has hit back alleging that the two operators have consciously kept voice calls rates for 2G and 3G customers steep, which is a high as as ₹1.80 a minute. High voice tariffs are forcing subscribers on these competitor networks to make missed calls to Jio customers, who have no problem calling back, since voice calls on the Jio network is free.

Why are missed calls such a big deal for leading telcos? The real grouse concerns IUC (interconnect user charges), or the money per call that a telco pays when its customers make a call to the user of a competing network (it's the cost for using the competitor's network to terminate the call).

The provocation for the latest outbreak of hostilities is that last week, the Telecom Regulatory Authority of India (Trai) floated a consultation paper to reconsider its decision to scrap IUC (currently at 6 paisa per call) from January 1, 2020. Trai's logic for doing so is simple: Two years ago Trai had banked on the fact that technological innovations such as voice over LTE, the 4G mobile communications standard (which makes voice costs negligible), would remove the asymmetry in the share of outgoing calls to incoming calls between Jio and incumbent operators.

Things haven't worked out that way because incumbents have been slow to acquire 4G customers and the number of incoming calls terminating on Jio's network has been far lower than expected. It's a unique problem that incumbents have with Jio; for other competing networks such as Airtel and VIL, the ratio of incoming to outgoing calls between the two are nearly similar so IUC payments are neutralised.

TAKE TWO
ANALYSIS BEHIND THE HEADLINES

For incumbent cash-strapped telcos, there is a lot of money riding on IUC. In the last quarter alone, Jio, paid over ₹850 crore to Airtel, VIL and state-owned BSNL as IUC charges. And Airtel and VIL earned over ₹580 crore in a quarter from IUC, most of it from Jio.

Given that the incumbents together made losses of over ₹7,700 crore last quarter, it's no rocket science to understand why IUC earnings are significant. No surprise, then, they want IUC charges extended for a year or two and the charges upped. They say there is always a cost for using the network and it cannot be zero but should be calculated on the basis of the average cost of all operators to generate a minute of voice call. Jio, on its part, wants an end to IUC for equal and opposite reasons.

This is why the time duration of the ringer alert has become so contentious. Airtel alleges that with a 45-second alert, which is considered normal in India, more than 45 per cent of customers take the call. By reducing it to 20 seconds, the proportion of subscribers who take the call falls by 20 per cent. Thus, Airtel alleges, Jio is forcing their customers to make an outgoing call to Jio's network and earning IUC rather than making a payout. Jio has now agreed to push the ringer alert to 25 seconds but Airtel says that will mean not more than 38 per cent of the subscribers will take the call.

Airtel says with the 20 second ringer alert, the number of outgoing calls to Jio from Airtel's network has gone up from 35 per cent to 40 per cent of total calls. As a result, IUC payouts from Jio have dropped dramatically by ₹80 lakh a day By using this route, Airtel alleges, Jio is rapidly increasing its share of offnet calls as a percentage of total calls (currently at 39 per cent) so that it can reach the magic figure of 50 per cent in a few months. Then, competitors say, Jio will convince the regulator to scrap IUC after December.

Jio officials counter than Trai's consultation paper shows that Vodafone (UK) has pegged the ringer alert at 15 seconds, AT&T (US) and in Optus (Australia) at 20 seconds and Verizon (US) at 30 seconds. So 45 seconds is over the top. Also steep voice calls costs on competitors' 2G customers encourages them to make missed calls to subscribers on competing networks, who then call back, incurring IUC costs for Jio. According to Jio data, Jio missed calls from incumbents, especially in Bihar, Rajasthan and Odisha, is 30 per cent of all calls against a country-wide average of 14 per cent to 30 per cent.

Jio also allege that incumbents have, on an average, 1.4 times more 4G spectrum than Jio, yet they have been slow in nationwide rollout of 4G services. As a result, only 33 per cent of their subscribers are on 4G networks and that is the key cause of the asymmetry (the assumption being that 2G customers will call out less).

Airtel counters that its 4G network covers 92.8 per cent of the country and it has as many mobile towers that are 4G-enabled as 2G. Unlike Jio, which only has 4G customers, incumbents also have to cater to 2G and 3G customers, who may lack the money or inclination to upgrade to 4G. "The minimum recharge coupon for Airtel is ₹35 with outgoing calls; for Jio the minimum you pay is ₹49 for Jio feature phones and ₹153 for non-feature phones. If Jio also catered to the low-priced market it would have achieved parity in incoming and outgoing calls. If they cater to higher-paying customers, obviously they will have more outgoing calls and the asymmetry will continue," says a senior executive of one of the incumbents.

Jio sources contend that it is grabbing over nine million new customers a month, so the number of incoming calls are also increasing. For instance, from May onwards incoming calls from competing networks as a percentage of total calls to Jio's network went up 2 percentage points every month and hit 38 per cent in July. If new customers are added at the same pace every month, Jio expects to reach parity between outgoing and incoming calls by March next year. And going further, competitors will have to pay Jio IUC. But by the December deadline Jio will continue to have a deficit of 5 per cent (incoming calls from competing networks will be 45 per cent of total incoming calls) though the IUC payout could be much lower. Trai has some tough calls to take.

INNOCOLUMN

# Enterprise, education and eudaemonia

R GOPALAKRISHNAN

Economic growth and job creation are central to a nation. History teaches a truism: That society must be entrepreneurially hyper-active.

A growth nation needs three Es: Enterprise to generate vibrant energy; education, which includes school/college, but also art, culture and skill-oriented forms of intellectual enhancement; and, finally, eudaemonia, the Greek-derived expression for human well-being in terms of health, happiness and relationships. The Roman, Mughal, Vijayanagar, Ming and Ottoman empires exemplify that the last two Es become elusive if enterprise is weak.

Like Kumbhakarna, our system has finally woken up to the ground realities and the central role of enterprise. According to OECD databases, India increased effective tax rates from 23 per cent in 2013-14 to 30 per cent till last month. No wonder the penny dropped — and thank the Lord for that — triggering the steroid tax cut. The suffering economic patient gasped and cheered lustily, better late than never.

India needs and welcomes short-term fixes like the tax cut, but we must remember that this is jugaad economic planning. India desperately needs strategic planning by policy planners and business. In this article, I highlight an important strategic priority that India Inc can consider and act on, irrespective of policy.

The old ways of creating SLUCs (short-life, unsustainable companies) is fading out, an SLUC being defined as a company that thrives on irresponsible debt leverage, political patronage or is artificially cultured with bountiful and irrational equity. In my two earlier columns ("We need more business institutions, not just companies", June 27, and "Business 'institutions' essential for India's growth", August 2), I had presented the case for Indian business leaders to nurture their companies as institutions. Institutions are superior to companies, just like forts are superior to modern bungalows. India needs more forts.

Here is an alternative metaphor from physiology. Think of the Indian bison or the tiger. Such strong animals are designed and endowed with a stable frame of bones (companies with sound strategic intent and purpose), a body that has a healthy balance between stored fat and working muscle (companies with agility and scale), and, above all, an immune system to fight short-term disease attacks (companies with strong values and high ethics).

These attributes allow an institution to serve society with competence for a century. The secrets of the long-life Gen-C institutions (Generation Centurion) like Tata, Birla, Bajaj, Godrej, Unilever, Ford Motors and Kikkoman guides us about the economic and societal value of long-life companies.

In a research project that I am involved with at Mumbai's SPJIMR, the faculty is researching institution-building as compared to companies among Gen-L (Generation Liberalisation) companies. They identified those that took off into a vertical trajectory during the last 35 years of liberalisation. The researchers were surprised by the absence of 'institutions' among this cohort. What makes a company worthy of being an institution? That is the core of the SPJIMR research.

Tata Consultancy is a Gen-L institution as indeed its two eponymous software colleague companies. So also, the HDFC group, comprising housing, banking, asset management and insurance. L&T, Kotak Bank, Titan, Biocon and Marico also weigh in as Gen-L entities, having all leapt into salience and palpable impact during the last 35 years. They have generated about 2 million direct jobs, 10 million indirect jobs, and account for a market cap (expressed in Rs lakh crore) of 30 out of 140 total listed on BSE. The 'renewal rate' of market capitalisation can be thought to be 20 per cent over 35 years.

This is just not good enough for the aspirations of our nation or society, we need a renewal rate that is far higher. This challenge should engage the attention of chambers of commerce and management institutes: What does it take for India to create more business institutions with a better renewal rate? Rather than the old style of SLUCs, India needs solid, well run, long-life business institutions.

On a lighter note, I possess a whole library of "Re-XXX India" books — *Re-imagining India, Rebooting India, Re-thinking India, Re-engaging India* and *Re-designing India*. My thought is for India Inc to re-energise India through great business institutions that are solid, resilient and long-life, while delivering societal and economic good in the future.

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## LETTERS

### Zero-sum game

This refers to "Thomas Cook goes bust, fliers stranded" (September 23). This is a typical case of overconfidence and mismanagement by a company. Thomas Cook was a well-established company that had, over the years, captured the confidence of the global market. Today's markets are highly competitive and survival is the only thing that matters and not past reputation. Therefore, companies should first review their own capabilities before thinking of mergers and acquisitions. Increased market indebtedness will erode shareholder confidence and lead to flight of capital. Liquidity erosion does not occur overnight and in retrospect, Thomas Cook should have restricted its scope of activities to put its finances in order. Continuing to tread on its old path led not only to revenue loss but also to capital erosion. The declaration of bankruptcy has created a systemic problem. The collapse has impacted not only the global tourism sector but also the hotel industry and the foreign exchange business. Retail trade is also short of revenue and travel agents have shut shop. The only positive is the benefit to other competitive firms and brands.

**C Gopinath Nair** Kochi

### Cost and benefit

The column "Cricket, culture and PSU bank merger" by Tamal Bandyopadhyay (September 23) was a nice narrative of how Bank of Baroda (BoB) is inching towards formalising the merger with Dena Bank and Vijaya Bank. As rightly said by the writer, the merger process at BoB could serve as a template for other public sector banks which will soon begin the process of transformation.

The meticulousness with which the writer explained the step by step process adopted by BoB in bringing about the merger was worth a read. He didn't miss enumerating the benefits from this merger. However, it is the cost involved in formalising this merger that seems to be missing. Hiring outside consultants and paying hefty fees for suggesting ways and means to create and market a new brand, from ensuring on-boarding on a single CBS platform to imparting training to a huge number of employees -- the costs involved need to be analysed. Undoubtedly, this merger is going to create a case study for the students of management and banking professionals, as unlike mergers of banks that took place earlier, this merger was of a different kind and of a larger scale also.

**Sagar Soni** Gujarat

### Contingent liability

The government has introduced several bold and innovative measures cutting across the vital sectors of economy, both in terms of giving a boost and also to bring about uniformity in the tax systems and procedures across the country, while enhancing revenue generation. It has simultaneously made available room and flexibility for reconsideration.

Levying of GST on certain items is one such thing. It is well known that health care, social security, and life cover are three critical aspects. Presently, GST is also levied on mediclaim premium paid and this quantum is burning a hole in the premium payer's pocket. The mediclaim premium amount is also going up steeply and considering that life expectancy is increasing, the increasing premium becomes a big burden. To soften this, the government should seriously consider either scrapping or at least scaling down the GST rate on mediclaim premium to a reasonable level. It is akin to a contingent liability and again the process is not a commercial transaction intended to derive any profit. It is hoped that the government will pay due heed to this request.

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## HAMBONE

Business Standard
Volume XXIV Number 30
MUMBAI | WEDNESDAY, 25 SEPTEMBER 2019

# The private train mirage

## No short-cut to reform in the Indian Railways

The possibility that Indian train travellers may soon be able to book a ticket on a privately-run train has seized the imagination of many observers of the sector. It has been reported that the Indian Railways is almost ready with its blueprint for public-private partnerships (PPPs) on rail travel, and may bid out routes as early as next year. This timeline is reasonable, given that the dedicated freight corridors (DFCs) are likely to come online in the next two years, freeing up a considerable amount of capacity on the existing mixed-use corridors between Delhi, Kolkata, and Mumbai. New tracks that are supposed to permit a top speed of 160 km an hour are also being planned for the next three to four years. The Railways apparently hopes that as many as 150 routes can be bid out to private operators, who will be able to bring in their own coaches and engines and also employ drivers as long as the latter have received some form of certification from the Railways. If all goes according to plan, and foreign investors such as the European public-sector rail majors are interested, then there will be a considerable inflow of resources to the Railways.

While the motivation is understandable, the idea is fundamentally flawed. A multitude of questions could be asked, and most are weighty enough to sink the plan altogether. For example: Which routes and time slots will be made available to private operators? If it is only the most remunerative ones, then will the Railways' resource mobilisation not suffer? Second, will the companies be given pricing power? An independent regulator has been promised, but there is also talk of fare caps. If the contracts are long-term — as they should be — then surely pricing power should be with private operators, otherwise they would face unacceptable levels of risk. The independent regulator will also apparently adjudicate disputes. But disputes in systems involving public and private players are endemic in India, and notoriously difficult to settle. In this case, the disputes might occur literally every minute, as trains compete for space and slots in stations or in crowded access networks. Who decides at each moment whether, say, an Indian Railways suburban train or a long-haul private operator gets priority at a congested signal outside a station? If it is the Railways, and it decides in favour of its own train, then can this decision be appealed — and what is the point of an appeal since the issue would need to be resolved in a matter of minutes, not years? Few investors are likely to be enthused by such a context.

At the very least, if private operators are to be considered, then the Indian Railways and the Railway Board itself would need to be reformed, and probably split. If the owner of the network also competes with private operators as a service provider, there is enormous scope for disputes, side deals, and corruption. Logically, the public sector trains and the public sector network will have to be detached from each other completely. But then, as is the case in Britain, it might result in chronic under-investment in the network. Appealing though private trains might sound, there are no shortcuts to a complete overhaul of the Railways itself, starting with demolishing the silos between departments and creation of a corporatised structure.

# Don't kill e-commerce

## Regulating new economy requires new thinking

E-commerce companies will come under intense regulatory watch as they head out for the biggest annual shopping carnival starting next week. The Competition Commission of India (CCI) wants to keep a check on deep discounts by e-commerce companies to protect the businesses of brick and mortar retailers. While it's the job of the competition watchdog to curb anti-competitive behaviour across sectors, the e-commerce industry is yet to qualify as a dominant business to come under the CCI lens. At an estimated sale of $33 billion as of 2018, the e-commerce market is barely 25 per cent of the organised retail pie. As Indian retail is mostly unorganised, the share of e-commerce in that universe would be in low single-digit. Since e-commerce firms are not dominant players in the sector, discounts, however deep, offered by them cannot be termed "predatory pricing". The CCI fear of making some businesses unviable due to e-commerce discounts, as reported, lacks valid reasoning. It's true that traders, who are considered important in electoral politics, have been lobbying with the government against e-commerce discounts, but this should hardly be a reason for any regulator to clamp down on a certain business.

Whether it's an airline, a hotel chain, a telecom operator or a developer, abuse of dominant position must be established in any CCI case. Abuse is stated to occur when an enterprise (or a group of enterprises) uses its dominant position in the relevant market in an exclusionary or/and in an exploitative manner, according to the Competition Act, 2002. E-commerce is no different. A recent case related to Oyo hotels explains the point. New Delhi-based RKG Hospitalities, which had entered into a "marketing and operational consulting agreement" with Oyo in 2017, knocked the CCI door, alleging unfair and discriminatory clauses imposed by the firm. It said Oyo was able to execute one-sided clauses by misusing its dominant position in the market to cause harm to Divine Inn, the brand of hotels run by RKG. Last month, the CCI agreed that Oyo was not a dominant player in any relevant market.

This is not the first time that the CCI is looking at e-commerce companies — it had taken up complaints linked to online firms earlier too. However, this time, the watchdog is keen to take up cases, including in e-commerce, suo motu as well, and that's worrisome. For instance, in a recent media interview, a CCI official said the watchdog would file more cases on its own in a proactive bid to tackle market distortions. The argument the Commission is putting forward is that deep discounts over an extended period could make some businesses unviable as that might erode the value of products and services in the mind of the consumer.

The CCI, which has initiated a study to gain expertise in new economy with a special emphasis on e-commerce, is awaiting industry inputs till September 30. The Commission would do well to consult extensively before formulating rules. Regulating new economy will require new thinking at the CCI, which, like the sector it seeks to watch closely, is still young. Imposing measures such as clampdown on discounts may harm an industry that continues to attract top dollars and marquee global brands into India.

ILLUSTRATION: BINAY SINHA

# Is shareholder capitalism passe?

## The emerging backlash against CSR and the resultant endorsement of shareholder capitalism make sense

The Anglo-American free enterprise system has been based on the classical liberal principles of shareholder capitalism epitomised by the modern corporation. Its sole social responsibility — as Milton Friedman stated in his 1962 classical liberal text *Capitalism and Freedom* — is "to make as much money for their stockholders as possible". However, every time there is a financial crisis, there are dirigiste voices demanding that corporations have a "social responsibility" that goes beyond the interest of their stockholders. The dot-com speculative boom and the ensuing financial scandals like Enron bred moral outrage at the behaviour of corporations, with demands for government intervention to improve corporate governance, and some even asking for stakeholder capitalism to replace shareholder capitalism. Many corporations succumbed to these demands for corporate social responsibility (CSR). None with more dire results than Levi Strauss, the creator of denim jeans, whose CEO Robert Haas, embarked on "a failed utopian management experiment" in which he "was intent on showing "that a company driven by social values could outperform a company hostage to profit alone". The outcome was declining sales, profits and share value. (Nina Munk: "How Levi's trashed a great American brand", *Fortune*, April 1999).

DEEPAK LAL

After the financial crisis of 2008, CSR and stakeholder capitalism are again on the agenda, with corporations asked to fix social problems like inequality and environmental concerns like global warming. More than 180 CEOs in the US, including those of Walmart and J P Morgan Chase, have vowed to go beyond Friedman's simple and clear stated purpose of corporations to incorporate various social responsibilities. The US Business Roundtable, which like its other national associates had upheld the primacy of shareholders interests, has also caved in. This could be a tactical response to the claim by Senator Elizabeth Warren — a Democrat contender for the Presidency — that "being a big company is a privilege not a right", and should have to apply for charters allowing them "to look after stakeholders, especially local ones. Those who let the side down would have their charters revoked". ("I'm here from a company, and I'm here to help you", *The Economist* August 24, 2019).

Raghuram Rajan and Luigi Zingales had argued in an important book, *Saving Capitalism From the Capitalists*, that stakeholder (or as they call it "relationship") capitalism leads to the monopolisation of access to finance by financiers, through implicit or explicit collusion with the state, preventing outsiders to challenge the incumbent insiders, thereby short-circuiting the creative destruction, which — as Schumpeter emphasised — lies at the heart of the dynamic efficiency of a capitalist economy. This is how the rich and well connected have maintained their wealth and power. The nationalised banking systems in both China and India embody this political exclusion of outsiders leading to crony capitalism in which the economic rents (like those from land) are garnered by insiders.

By contrast, in Anglo-American capitalism as it has evolved, the contemporary "search fund" is the ultimate symbol of the most highly developed financial market, where an individual can create wealth through the strength of their ideas rather than through the tyranny of collateral and connections. This enables outsiders without resources to challenge insiders to impart the dynamism of death and rebirth, which is involved in the most efficient deployment of an economy's resources. But, as Adam Smith knew, insiders will collude or use the political process to keep out outsiders.

With the separation of ownership from management in the current managerial capitalism, managers were prevented from milking shareholders through the threat of hostile takeovers, where shareholders in a company with a falling share price were offered a premium for their shares by the raider, and the existing management was sacked. In 1968 managers succeeded in getting the US Congress to remove the element of surprise in hostile takeovers and later to allow managers to protect themselves with "poison pill" defenses against takeovers. The decline in hostile takeovers meant that shareholders who had got an average premium of 40 per cent over the pre-bid price for their shares in the 1950s and 1960s only got 4 per cent in the 1990s. The managers got the lion's share and their compensation soared whilst their companies continued to be mismanaged until they collapsed.

This attenuation of the market for corporate control was worsened by the postwar fiscal system in which there was double taxation of dividends, greatly reducing the post-tax return from stocks. Investors came to depend on increases in the share price as the major component of the return on their investment. With stock options for managers being increasingly used to align managerial incentives with those of shareholders, they both had a common interest in a rising share price of the corporation. This led some managers to fraudulently manipulate their share price through irregular accounting practices, as in the Enron scandal.

Thus, the perceived ills of shareholder capitalism are due to the perverse incentives created for managerial "rent-seeking" by regulations preventing hostile takeovers and the unintended effects of fiscal policy through the double taxation of dividends. If these policy induced distortions in the workings of the free market in corporate control can be removed, executive compensation would begin to fall, accountants would feel less pressure to cook their books and the Anglo-American corporation would pursue the innovation, efficiency and profitability, which has been its hallmark.

This leaves the question of CSR. If this is not forced on every corporation, it is of little concern, as shareholder capitalism is compatible with a thousand flowers blooming. With other companies following policies of maximising shareholder value free to compete with those following a CSR agenda, revealed preference will decide which comes out on top. This was recently highlighted in the case of Calpers (the California public servants pension fund) which had on ethical CSR grounds dumped its tobacco stocks in 2001, which thereafter boomed, leading the pension fund to be underfunded. This then led to the state not being able to afford wage increases for its police and other public servants. An incensed police officer, Jason Perez, won a seat on the board of CALPERS seeking to let the fund invest in law abiding, profit-maximising companies purely on the basis of potential returns. Pitted against the fund's chief CSR guru, Priya Mathur, he won.

Another pet desire of CSR advocates is to stop climate change by divesting in fossil fuel stocks, But, as Bill Gates, the Microsoft founder, has said, "Divestment has reduced zero tonnes of emissions. Those who want to change the world would do better to put their money and energy behind disruptive technologies that slow carbon emissions and help people adapt to a warming world". ("Gates says fossil fuel divestment campaigners wasting their time", *Financial Times*, September 18, 2019). Two cheers then for this emerging backlash against CSR and the resultant endorsement of Friedman's sole objective for corporations: Maximise shareholder value.

# Ending the exemption raj

The trajectory of how India's corporation tax rates have moved since the economic reforms of 1991 shows quite clearly that their reduction to 22 per cent, through an ordinance last Friday, has been a slow and steady process. It has taken almost 28 years before the corporation tax rates (without surcharge or cess) could be brought down from 45 per cent in 1991 to 22 per cent in 2019. This is a 51 per cent drop in the tax rates for companies.

But compare it with the pace of reduction in personal income-tax rates, a slightly different picture will emerge. The peak rate of personal income-tax rate (without surcharge and cess) dropped from 50 per cent in 1991 to 30 per cent in 1997. This was a 40 per cent drop in just six years. The peak rate has not changed since then and remains at that level, even as surcharges and cesses have been levied in this period, raising the overall incidence of income-tax on individuals in the top income bracket.

NEW DELHI DIARY

A K BHATTACHARYA

Two trends are noticeable. One, although corporation tax rates have seen a steeper cut, the reduction has taken place over a longer time frame. Personal income-tax rates were slashed quickly, but after that they stayed at the same level for a long period. Two, the incidence of surcharge and cess on personal income-tax is a little more than on corporation tax rates. The peak personal income-tax incidence, as a result of surcharge and cess is now 42.7 per cent — over 12 percentage points higher than the tax rate. But the incidence of corporation tax, after including the impact of surcharge and cess, has taken the rate of 22 per cent to 25 per cent only.

Returning to the trajectory of India's corporation tax rates since 1991, it is important to note that its journey did not begin well in the early years of economic reforms. In his first Budget, which he presented in July 1991, Manmohan Singh actually raised the corporation tax rate from 40 per cent to 45 per cent. And the reason Dr Singh cited in support of his decision was poor tax collections.

Six years later, Palaniappan Chidambaram, finance minister in the United Front government, struck a different note in his Budget for 1997-98. He recalled how in the previous year, he had already halved the surcharge on corporation tax to 7.5 per cent and now he was abolishing it completely. It seemed then that Mr Chidambaram had no love for surcharges, which are not shared with the states. His logic for reducing the corporation tax rate to 35 per cent was that lower rates would encourage companies to become more compliant and undertake new investments.

Less than a decade later, Mr Chidambaram was back again in the saddle in North Block, headquarters of the finance ministry. As finance minister under Manmohan Singh, who was now the prime minister, Mr Chidambaram cut the corporation tax rate by another five percentage points to 30 per cent to give the corporate sector a measure of relief. That was in his Budget for 2005-06.

But note that the surcharge was back. He announced: "There will also be a surcharge of 10 per cent." As finance minister under the United Front government, he slashed the corporation tax rate by 10 percentage points and abolished the surcharge, but under the Congress-led United Progressive Alliance government, he reintroduced the surcharge at 10 per cent. Governments' fascination with surcharges over the years has shown no sign of ebbing, as the Centre is becoming greedier to corner a larger share of the taxes it collects.

In 2015-16, the debate on corporation tax rates took a different direction. As finance minister in the Narendra Modi-led government, Arun Jaitley raised the issue of exemptions and incentives that had distorted the taxation system. He also admitted that the basic corporation tax rate at 30 per cent was higher than those prevailing in other major Asian countries, making the Indian industry uncompetitive. But he also noted that because of the many exemptions the effective collection of corporation tax was only about 23 per cent. Jaitley said: "We lose out on both counts, i.e. we are considered as having a high corporation tax regime, but we do not get that tax due to excessive exemptions. A regime of exemptions has led to pressure groups, litigation and loss of revenue. It also gives room for avoidable discretion."

Jaitley thus announced his plan to reduce the corporation tax rate from 30 per cent to 25 per cent over the next four years, so that increased investment leads to higher growth and more jobs. More significantly, he announced a time-table for phasing out the various exemptions, so that tax payers got advance notice of their discontinuation. A year later, he indeed outlined a plan for phasing out various exemptions and gave new manufacturing companies the option to be taxed at 25 per cent plus surcharge and cess, provided they did not claim profit-linked or investment-linked deductions.

In addition, he brought down the tax rate for companies with a turnover of up to ₹5 crore to 29 per cent plus surcharge and cess. In 2017-18, Jaitley went a step further by announcing a corporation tax rate of 25 per cent for all companies with a turnover below ₹50 crore. A year later, the threshold for enjoying the lower taxation of 25 per cent plus surcharge and cess was enhanced to a turnover of up to ₹250 crore and Nirmala Sitharaman, in her first Budget as finance minister, raised it further to ₹400 crore. This meant almost 99.3 per cent of all companies were covered by a lower taxation of 25 per cent.

What Ms Sitharaman announced last Friday was actually an extension of Jaitley's principle of an exemption-free taxation regime for companies. Of course, the tax rates were also brought down, to make them closer to those prevailing in other Asian countries. But a more significant change was a signal to end the exemption raj in the corporation tax regime. The lower tax rate was like an incentive for the companies to give up exemptions. Those who would opt for the lower rate would not be able to go back to the earlier regime of slightly higher taxes with exemptions.

In the process, the corporation tax system would also become more transparent, with reduced scope for litigation and discretion. If the decision of last Friday can woo the entire corporate sector away from those exemptions and guide it to opt for the lower tax regime, the government would succeed in ushering in a big reform in India's tax system, apart from reducing its outgo on financing the exemptions. The question is whether Ms Sitharaman would be able to extend the same principle of lowering rates while doing away with exemptions to the personal income-tax system as well.

# Splitting hairs over racism

BOOK REVIEW

HASAN SUROOR

It's commonplace to hear people deny they are racist, adding by way of proof that some of their best friends are non-white, or that their opposition to racism is well known. "Moi? Racist? Nonsense".

But is being "non-racist" the same thing as being "anti-racist"? "NO!", screams the author of this book arguing that not only are they not the same thing but such protests and denials are in fact a "mask" to conceal covert racism.

"Denial is the heartbeat of racism, beating across ideologies, races, and nations," he writes pointing out that the claim that one is "not racist" signifies "neutrality". What it really means is : "I'm not a racist, but neither am I aggressively against racism," he says. He sees it as equating neutrality with anti-racism whereas "there is no neutrality in the racism struggle".

"The opposite of 'racist' isn't 'non-racist'. It's 'anti-racist'," according to him. And it requires one to to be pro-active in engaging with the causes of racism. All of us, the author alleged, are somehow inadvertently complicit in perpetuating racism by assuming that we are anti-racist just because we are not overtly racist.

His catalogue of "suspects" includes his own parent — a part of a "new Black middle class" which believes that Blacks themselves are responsible for their backwardness.

"They fed me the mantra that education and hard work would uplift them, just as it had uplifted them...My parents...were susceptible to the racist idea that it was laziness that kept Black people down."

Kendi doesn't spare himself either and recalls with shame and embarrassment what he describes as the "racist speech" he gave as a schoolboy in which he criticised Black youth for their lifestyle, and lack of aspiration.

"I didn't realise that to say something is wrong about a racial group is to say something is inferior about that racial group ... I thought I was serving my people, when in fact I was serving up racist ideas about my people to my people," writes the author, a prominent Black American academic and anti-race campaigner whose ideas about racism were shaped by his experience of growing up in racially-charged Reaganite America.

The book has won praise on both sides of the Atlantic for challenging some of our commonly accepted everyday assumptions about racism. *The New York Times* hailed it as the "most courageous book to date on the problem of race in the Western mind". This side of the pond, in Britain, *Observer* praised it for offering a "way out from the tangled disingenuousness of mainstream narratives around racism".

Those familiar with Mr Kendi's work say it lives up to the reputation he established on the back of his award-winning *Stamped from the Beginning: The Definitive History of Racist Ideas in America*, which questioned the "unwitting racism" of some of America's most respected progressive intellectuals.

So, is the hype justified? Yes, if you like good simplistic polemic; but no if you're looking for a dispassionate analysis of a complex problem. It's a sweeping in-your-face indictment of all liberals, however well-meaning and irrespective of their race or colour barring those who — like its author — are activist campaigners.

To show you're not racist, you must wear your anti-racism on your sleeves, call out any hint of racism, shout out from rooftops if you face racial discrimination. Silence on any ground, however seemingly justified, is inexcusable. It amounts to complicity.

Lately, we have heard similar arguments in relation to the #Me Too Movement: That victims of historical sexual abuse who remained silent for whatever reason — fear of being sacked, not being taken seriously, accused of making it up — were complicit in their own abuse.

Mr Kendi's is effectively a fundamentalist's charter: Either you're with us in the struggle against racism in which case you must come out on the streets and stand up to be counted; or you're faking it. There's a lot of hair-splitting around definitions but he insists definitions matter because they're often vague and don't convey the real meaning of racism. Expressions like "institutional racism", "structural racism", and "systemic racism" , he claims, are "redundant".

"We become unconscious to racist policymakers and policies as we lash out angrily at the abstract bogeyman of the 'system'...Racism itself is institutional, structural, and systemic," he argues.

The best part of the book is its account of the history of slavery and racism; and Mr Kendi's argument that the cause of racism is not ignorance — but the dominant classes' and policy-makers' "self-interest".

He ends on a hopeful note that "we can survive metastatic racism" just as people survive cancer. And they include himself, his wife, and his mother all of whom were at different times diagnosed with forms of cancer. But they all beat it. He describes racism as "one of the fastest-spreading and most fatal cancers humanity has ever known", but believes it's important to live in hope because "once we lose hope, we're guaranteed to lose". The book is high on passion, but offers little new to chew on.

**HOW TO BE AN ANTI-RACIST**
Ibram X Kendi
The Bodley Head, 305 pages, £16.99