Startling parallels between Tiffany, Flipkart

The two got new owners at an identical deal size. But the similarity ends there...

NOT FOR PROFIT

NIVEDITA MOOKERJI

What's common between the 182-year-old New York jewellery major Tiffany and a little over-a-decade-old Bengaluru-headquartered Flipkart? Nothing at all, you would say, but think again. If Tiffany was acquired in the largest luxury deal of the world earlier this week, Flipkart got a new owner last year. And, what's striking is the identical size of the two deals — $16 billion.

Made famous by Audrey Hepburn-starrer *Breakfast at Tiffany's*, perhaps more than by the diamond it sells to the rich and the famous, the chain with its flagship store in Fifth Avenue has a similarity with Flipkart's origin too. The destination store for top-end jewellery had started out as a stationery outlet almost two centuries ago. Needless to say that Flipkart had begun its start-up journey from a two-bedroom Koramangala flat in Bengaluru as an online book store.

If Tiffany & Co was founded by two 20-something entrepreneurs, Charles Lewis Tiffany and John B Young, it was the same at Flipkart — co-founded by Sachin Bansal and Binny Bansal. In both the cases the founders became friends as students. And if Flipkart entered into a trans-national deal with American retail giant Walmart, so did Tiffany to strike a cross-border transaction with French major LVMH or Louis Vuitton.

Beyond that, Flipkart and Tiffany hardly converge. Tiffany, with more than 300 stores across the world and $4.2 billion in annual revenue, is treated as a heritage brand in America, looked up to by stars and politicians alike. Its iconic engagement rings and the blue boxes are a reference point in the deal documents with LVMH. Flipkart, though a posterboy of Indian e-commerce, is just an online marketplace hosting thousands of vendors who in turn sell products — electronic goods to furniture, grocery to apparel — to pin codes spread across the country. Why then are Tiffany and Flipkart being acquired at the same price, barely one year apart from each other?

When Walmart bought a 77 per cent stake at $16 billion last year, valuing Flipkart at around $20 billion, its shareholders had reacted with anger. But one year later, in the recent earnings call, Walmart sounded pleased with Flipkart operations. "We're excited about what's happening at Flipkart and PhonePe," said Doug McMillon, president and CEO of Walmart.

Walmart, having failed to start its multi-brand business in the country because of regulatory issues after waiting for long, possibly saw Flipkart as a gateway to the increasing buying power of the Indian middle class. With that, the Bentonville (Arkansas)-headquartered retailer also opened a front to compete with its American rival Amazon in a new battle-ground — India.

In that context, $16 billion was a price Walmart was ready to pay for the opportunity it was getting. With e-commerce still having a single-digit market share in the overall retail universe of the country, $16 billion was perhaps the world's largest retailer's bet on the future of shopping.

In the case of Tiffany, which caught the imagination of many generations, LVMH wants it as part of its 75- plus brands including Dior, Vuitton, Fendi, Celine, Dom Pérignon, Tag Heuer, Sephora, Moët & Chandon, spanning categories such as fashion, watches, jewellery, wine, spirits, retail, beauty and hospitality. In fact, in 2017, the French fashion house had acquired Dior in a deal worth $13.1 billion. In that sense, Tiffany, not really in high spirits due to falling tourist demand in the current economic slowdown, may not immediately add to LVMH's bottom line. In fact, the effort will be to revive and re-invent the Tiffany brand, which is not as popular with the millennials looking for deals and may be less expensive engagement rings. Reports show that lab-grown diamond, believed to be cheaper, is gaining in popularity with the younger lot. Tiffany hasn't offered that option yet.

Bernard Arnault, founder, chairman and the largest shareholder of LVMH and one of the richest in the world, may attempt to change that to attract high-earning-but-not-rich-yet millennials to Tiffany. Depending on whether or not he's able to revive the fortunes of a brand made memorable through Hollywood, the $16-billion deal may find a new meaning.

CHINESE WHISPERS

Onion protests

As onion prices touched ₹100 a kg in some parts of the country, an MLA of the Opposition RJD in Bihar turned up in the Assembly wearing a garland of onion bulbs on Wednesday. Raja Pakar (Vaishali) MLA Shiv Chandra Ram raised slogans and attacked Chief Minister Nitish Kumar for his "empty promises" of setting up stalls where onions were supposed to be sold at ₹35 per kg. He said his protest was aimed to "compel the CM to take some serious action". Earlier this month, some of his Congress counterparts in Delhi had worn onion garlands as a mark of protest against the state government over the issue of increasing onion prices. They were protesting in front of the state secretariat.

Turmoil continues

The turmoil in the Uttar Pradesh unit of the Congress party refuses to die down. Now Raebareli MLA Aditi Singh (*pictured*) is in the line of fire. The party moved a petition in the Uttar Pradesh Legislative Assembly seeking her disqualification. She had been served a show-cause notice after she defied the party whip and attended the special session of the Vidhan Sabha on October 2. But she failed to offer a response, said Congress Legislature Party leader Aradhana Misra. Earlier on Sunday, the party expelled 10 senior leaders for opposing the state unit leadership at a public forum and "tarnishing the party's image".

Philippines can wait

Uttar Pradesh deputy chief minister Dinesh Sharma (*pictured*), who was scheduled to visit the Philippines during November 25–28, has had to shelve his travel plans after the foreign ministry failed to clear his tour. Although the UP deputy CM had applied for permission three days before his scheduled departure, the approval could not come on time. Such applications are routed from the Union home ministry to the foreign ministry; the requisite nod in this case could not be processed as External Affairs Minister S. Jaishankar dashed off to Colombo on an unscheduled visit last week ahead of his of trip to Japan.

Getting station redevelopment on track

After 15 years of unsuccessfully trying to attract the private sector, the public sector seems to have taken the lead in developing the mega-programme

SHINE JACOB

It was way back in 2004-05 that the Indian Railways first thought about the redevelopment of a railway station. Old timers in the Railway Board still believe the masterplan for the New Delhi station submitted in 2006 by Terry Farrell and Partners, a Hong Kong-based architectural firm, including a project of 16 commercial towers extending up to Connaught Place from the Paharganj side of the station, would have transformed Lutyens' Delhi.

On February 8, 2008, at least 35 companies — including Reliance Energy, GMR, DLF and Videocon Industries — had expressed interest in modernising the station too. The project, which was seen as a showpiece ahead of the Commonwealth Games in 2010, was dropped after objections from the Delhi Development Authority (DDA) over the proximity of the project to Connaught Place.

TAKE TWO

ANALYSIS BEHIND THE HEADLINES

The government is now planning to commission upgraded versions of the Habibganj and Gandhinagar stations by March 2020. If this deadline is met, it would mark the realisation of an ambition that has been a non-starter for the past 15 years. "A major reason the New Delhi project did not take of was the lack of co-ordination between various government agencies, including the DDA. Concerns among industry players over the real estate revenue potential may be another prime reason for its slow pace," said R Sivadasan, former finance commissioner with the Railways.

These uncertainties remained when the Railways launched the first phase of station redevelopment programme covering the commercial development of 23 stations for ₹9,000 crore in February 2017. This plan to revamp the appearance of stations by providing digital signage, escalators, self-ticketing counters, executive lounges, restaurants, malls and movie halls attracted scant industry interest. No matter, the project was later extended to a ₹1 trillion project covering 400 stations. But the interest remained tepid. "Following demands from real estate players, the government extended the lease period from 45 years to 99 years but the risks of investing in a new venture and doubts over rates of return persisted," said Vijay Dutt, former additional member of the Railways.

Many point to the case of the commercial complex at the state transport bus station in Thiruvananthapuram to highlight the lack of potential in Indian transport hubs. The Kerala Transport Development Finance Corporation (KTDFC) had to invite as many as 11 tenders, after it remained a "ghost building" for several years. Initially, ideas were floated for the Railways too to join the project, but it did not go ahead citing viability issues. "A major concern for developers was the accessibility to stations as most of the approach roads were congested, a problem that we faced in stations like Jaipur. So the government will have to ensure there are access roads or elevated roads to approach these selected station," Sivadasan pointed out.

In October 2019, the slow pace of station redevelopment again came to limelight when it invited criticism from NITI Aayog Chief Executive Officer Amitabh Kant. In a letter to the Railway Board, Kant said despite the commitment to take up 400 stations for last several years, "actual implementation has not happened except for a few isolated cases in which a few stations have been taken up through EPC mode." The isolated cases that Kant mentioned were those of Habibganj and Gandhinagar. For Habibganj, the ₹400-crore project was allotted to the Bansal group in June 2016 and is expected to be on track by February 2019. Close to 80 per cent civil work is completed so far. On the other hand, the Rs 4,000 crore Gandhinagar hub project, taken up by Kunal Structure in January 2017, is to be commissioned by March. Kant asked the Railways to take up at least 50 stations on a priority basis.

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Kant also suggested a solution for the lack of co-ordination between the railway ministry and the urban development ministry over land lease clauses at Bijwasan and Anand Vihar in Delhi, that led to cancellation of tenders of those stations. He asked to set up an Empowered Group of Secretaries comprising the NITI Aayog CEO, Railway Board chairman, Secretaries of Department of Economic Affairs and Urban and Housing Affairs.

"What lies deep among all these issues is slow pace of real estate growth in the country for the past few years. The government can compensate with more attractive proposals for land usage, as it did by allotting 30 per cent for housing," said Prateek Kumar, an analyst with Antique Stock Broking.

As things stand, the state will now bear the burden of modernising India's stations. Some experts indicate that the government may have to consider charging the passengers for a dedicated station redevelopment fund, so that the Railways can take up the project on its own. Indian Railway Stations Development Corporation (IRSDC), the nodal agency for station redevelopment, is in talks with Indian Railway Finance Corporation (IRFC) and the World Bank for funding of station projects. These includes Anand Vihar, Bijwasan and Chandigarh. Apart from that, private equity players and pension funds have also been invited for partnerships to fund redevelopment for at least 10 high-potential stations.

To speed up the process of redeveloping another 39 stations, five public sector undertakings — NPCC, Engineering Projects, MECON, RITES, Bridges & Roof Co — have also been roped in. The companies are cushioned by the commitment that if the contract is not awarded in three years, they will be paid an 8 per cent return on expenditure.

For the time being, the iconic station redevelopment plan is still a work in progress after 15 years.

INSIGHT

Why trust laws need a makeover

J N GUPTA

Among the other issues that trusts face its corpus, tax status and withdrawal are also open to interpretation.

The Free Dictionary describes the term corpus as "the capital or principal amount, as of an estate or trust". In the normal course, the corpus of a trust is sacrosanct and cannot be touched unless the settlors have given directions to the contrary. Therefore, if settlors make any contribution in the form of shares and the income arising out of these shares is intended to be used for charitable objectives, the trustees cannot liquidate this investment and the law should not override such stipulations unless there are cogent reasons for doing so. Therefore, if Tata Trusts are holding on to shares they are doing so at the express wish of the settlors. This practice could still be a case of a technical violation of law, but it does not pass the litmus test of rationality.

Tax exemption: It appears that the trusts could not treat dividend income as exempt following the amendment of the IT Act in October 2014 (effective April 2015) relating to general exemption provisions applicable to trusts and cancellation of registration of trusts in case of non-compliance.

The Tata Trusts deriving the major chunk of their income from dividend were hit badly. And it is at this stage that the trusts made their biggest mistake of The The second part of an analysis of the laws governing trusts shows how the current imbroglio is the problem child of an amendment to the IT Actsecond part of an analysis of the laws governing trusts shows how the current imbroglio is the problem child of an amendment to the IT ActseekThe second part of an analysis of the laws governing trusts shows how the current imbroglio is the problem child of an amendment to the IT Acting cancellation rather than questioning the logic of amendment. The amendment begs the question: Was this intentional or unintentional? Logical or illogical? Nothing could be more illogical than the proposed amendment. Why?

While the trust does not pay any tax on its income derived in form of interest, which is not taxed at any stage, it would be required to pay tax on dividend income, which is already taxed twice in form of corporate tax and dividend distribution tax! Keeping in mind the public good that trusts are serving, this change was not at all in consonance with objective of exemptions given to trusts. Therefore, the trusts should have sought clarification and requested exemption because it appears that the provision was not well thought out -- unless the objective was to ensure that trust would only invest in government securities. Could this have been done? Probably not, since it would amount to a situation that government was using tax provisions to force trusts to invest in its securities. In such cases, would dividend received from public sector companies be taxed or exempt?

Voluntary withdrawal: In a knee-jerk reaction to tax changes, finding that a trust would be a loser from all sides if the status quo continued, trusts decided to voluntarily surrender their exemptions and registration in early 2015, rather than fight and test waters with the authorities and later possibly with the courts.

The present imbroglio is the problem child of tax amendments and the trusts' decision to voluntarily surrender its exemption. Without going into detail, suffice it to say that if exemption and registration are treated as a favour by the tax authorities, the law cannot force anyone to avail of the favour.

Thus, the argument of the trusts that they surrendered their registration and exemption, and such surrender be recognised as complete from the day the application was made has merit. There can't be even an issue that application was incomplete, because the application was to surrender a notional benefit and not to seek something new. It is not prepayment of a term loan, which needs the lenders' approval. The authorities also cannot make the case that they have fundamental and unquestionable right to delay taking a decision and the burden of delay is to be borne by the applicant.

The way forward: Having come to this stage, unless the tax authorities take a suo motu decision to review the tax laws and its inconsistency with objectives, a legal remedy is the only option. And in times like this that the trusts would be missing a legal luminary such as the late Nani A Palkhivala.

A relook at the laws related to trusts is vital because the laws are archaic, without any justifiable rationale, are not contemporary and are hurting the objective of public good. Those violations that occur must be addressed and punished adequately, with individuals at fault penalised rather than the trusts, unless there is a doubt about the charitable activities of the trusts. While the jury is still out, very few Indians would doubt the charitable intentions and activities of the Tata Trusts. (**Concluded**)

The first part appeared on Wednesday

The author is founder and managing director of Stakeholders Empowerment Services

LETTERS

Act responsibly

This refers to the editorial, "Get down to business", dated November 27, 2019. That politicians make strange bedfellows was visibly evident from the emergence and subsequent coming together of regional satraps with divergent views and conflicting ideologies in the aftermath of the 2019 Assembly elections in Maharashtra. It was not surprising to see bitter relations among various traditional rivals turn cordial and demagogues finding commonality in their views on secularism, social justice, agrarian crisis, and governance to "save democracy". Each faction was led by an overly ambitious political leader who tried to flame regional passions for more political space. The incumbent Bharatiya Janata Party dispensation was projected as arrogant, anti-development and anti-minority that could only be defeated by a "pro-poor" and "secular" alliance.

It is unfortunate, however, that despite the BJP-Shiv Sena combine being rewarded with the mandate to form government, the two parties could not iron out their differences. The BJP's nocturnal capture of power and the governor intervening in a partisan manner was an equally reprehensible and dispiriting episode in Indian democracy. Former Prime Minister Atal Bihari Vajpayee, when faced with a floor test in Parliament, made an oblique reference to Sharad Pawar and very cogently said, "If power comes in my hand by breaking the party and forming a new alliance for power, I would not like to even touch such power with a pair of tongs." It is time the central government refrained from indulging in political misadventurism by attempting to install a government either run or backed by defectors. Toppling popularly elected state governments and then resuscitating them by offering outside support in. It is imperative for all stakeholders to act as guardians of the constitutional order rather than as collaborators in a clandestine, political schemes.

Shreyans Jain New Delhi

There's many a slip...

The BJP's ignominious attempt to grab power in Maharashtra, illegally and illegitimately, has come to an end, at least for now, with the resignation of Chief Minister Devendra Fadnavis (*pictured*) on Tuesday evening. Fadnavis had no option but to quit after Ajit Pawar of the NCP, who had promised to the BJP the support of the Sharad Pawar-led party, and had been made the deputy chief minister, resigned in the wake of the Supreme Court directive to hold a floor test on Wednesday. The court did well to order the early test, though the BJP wanted two weeks' time to prove its strength in the Assembly, which itself was a sure sign of lack of majority in the House. The court could have issued the order for an immediate trial of strength as soon as the matter came before it, because the issues to be decided were clear and simple even then. Unfortunately, and unnecessarily, the issue got prolonged and perhaps more complicated. It may be assumed that the stage has now been set for the Shiv Sena-NCP-Congress combination to come to power, but there may also be more surprises to unfold.

Tarique Anwar Karnataka

A vicious cycle

With central GST collections going down, states have begun to feel the pinch. States with less than 14 per cent per annum tax revenue growth are to be compensated by the centre. At least five states claim overdue transfers of up to ₹40,000 crore. This needs timely attention. The decline in growth is at a seven-year low at 5 per cent. The erosion in the economy is wide ranging -- banks, businesses, exports and hence job creation. The unemployment rate is the highest in decades and investment — government and private — has dipped; the manufacturing index has gone negative. Against the estimate of revenue collection at ₹24.5 trillion, the April-September inflow is at just Rs 9.3 trillion. By its very construct, GST disadvantages manufacture-oriented states and should these now be denied equalising central transfer, our manufacturing base itself gets destabilised. A vicious cycle then follows.

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The Mudra problem

Directed lending always builds up bad loans in banks

On Tuesday, Reserve Bank of India Deputy Governor M K Jain highlighted a dangerous trend: The rising levels of bad debt in the small-scale loans being handed out under the government's Mudra scheme. The location where he made this remark is significant: He was speaking at a microfinance conference organised by the Small Industries Development Bank of India, which is the underwriter and the owner of the risk management protocols for the Mudra loans. Mr Jain said that banks would have to do both a better job of establishing the capability to repay when the potential loan is being evaluated, and also "monitor the loans through the life cycle much more closely". Although Mudra loans are typically relatively small in size, a large number of them has been handed out and they are generally free of collateral, making them a significant point of vulnerability for banks that are just beginning to emerge from an existing crisis. It is not surprising, therefore, that the banking regulator is worried — even the Governor, Shaktikanta Das, has raised concerns about this in the past.

These concerns are entirely warranted. When collateral-free loans were first suggested, it was foreseen by many that the consequences would be a worrisome increase in bad debt. The question is certainly one of capacity, as the regulator seemed to argue. The number of Mudra loans is so large that the capacity to both evaluate and monitor is significantly constrained, especially at the level at which these loans are being handed out. Yet even beyond capacity, there are problems of intent that must be taken on board. The simple fact is that the government has made it very clear that handing out money through Mudra loans is a political priority. Senior politicians in the ruling party have consistently mentioned the amount and number of Mudra loans as an achievement, and tied it to claims about entrepreneurship and even job creation. Given these clear political signals, it would be futile to expect any change in how the programme is being implemented on the ground. No banker in the state sector is likely to defy a clearly stated government preference.

This combination of directed lending and a high presence for the state in the banking sector is a recipe for disaster. Government orders to the banking sector, whether sectoral or of the sort that the Mudra programme is, are detrimental to the due diligence work that is integral to a healthy financial sector. Loans where there is a government mandate are always going to be scrutinised differently than those where the bank's own concerns are at stake. The constraints put on the loan are substantially different. If the government wishes to retain a large stake in the banking sector, then it must realise that it simply cannot hand out directives. As in any bureaucracy, there will be a rush to comply with orders but such a rush is fatal to the health of the banking sector. Directed lending in a system like India's leaves the banking sector susceptible to crises.

The right blend

The present biofuel policy is invitation to ecological disaster

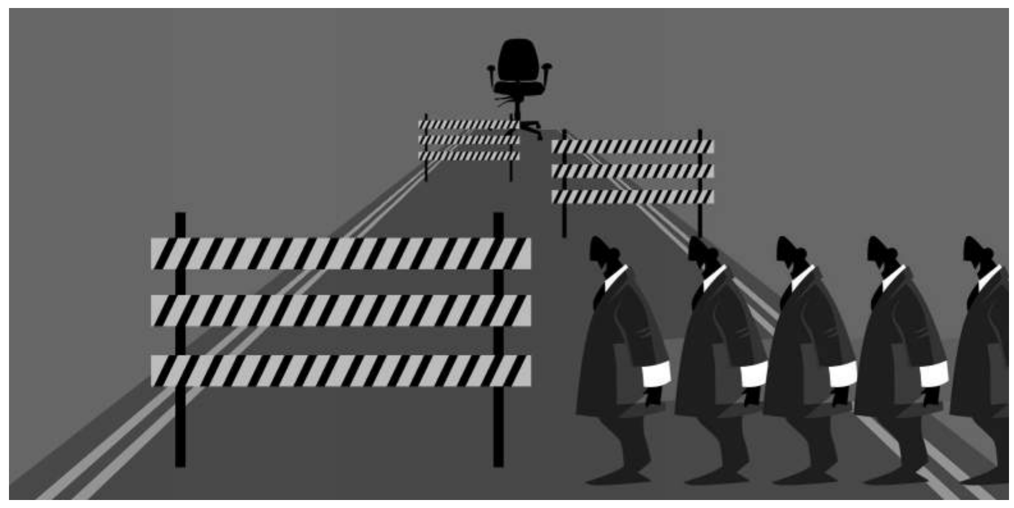
Given the huge gap in the availability and requirement of ethanol for blending with petrol, the need to step up its production is indisputable. But the same cannot be said about some of the measures mooted by the government to achieve this objective. The most debatable among these is the permission granted to ethanol manufacturers — mostly sugar mills that produce it from their byproduct molasses — to convert sugarcane juice directly into alcohol and also use surplus sugar and foodgrains, such as wheat, rice and corn, for this purpose. Going a step further, the government has chosen to incentivise the use of these questionable raw materials by fixing relatively higher prices for the ethanol produced from them.

This move would, obviously, open the doors for the sugar factories to buy sugarcane — and for the farmers to grow it — just for producing biofuel rather than for making sugar from it. Considering that sugarcane, wheat and rice are water guzzlers, besides being input-intensive crops, their use for biofuel production is virtually an invitation to ecological disaster. The true value of the scarce water that goes into the cultivation of these crops cannot be measured in economic terms alone. The social cost of such water use may be far higher than the economic gains from ethanol doping of petrol. Moreover, a land-stressed country like India — where land is hard to find even for infrastructure, industries and other purposes — can ill-afford to use it exclusively for growing biofuel crops.

Where foodgrains are concerned, though the present glut may give the impression that part of the surplus stocks can safely be diverted to biofuel production, given the rampant malnutrition and hidden hunger in the country, it may be difficult to justify it. In fact, many of the land-rich and industrialised countries, which have gone far ahead in admixing crops-based biofuels with gasoline, are also revising their policies. Studies have revealed that this has distorted the cropping patterns and spiked food prices in those countries. The advisability of clearing forests to grow biofuel crops, as has been happening in Brazil and some other land-surplus nations, has also begun to be challenged by environmentalists.

Another fact that needs to be kept in view is that India has substantial potential to produce ethanol and other types of biofuels from non-sugarcane and non-food sources that are currently under-exploited, if not wholly untapped. The National Biofuel Policy of 2009, amended in 2018, lists rural and urban garbage, cellulosic and lingo-cellulosic biomass (agricultural dry matter), and crop residues like wheat and rice stubble amongst the suitable raw material for making ethanol. Though such second generation (2G) ethanol turns out to be slightly more expensive than the molasses-based alcohol, it recompenses the additional cost by mitigating the dreadful environmental pollution due to burning of urban wastes and farm residues, including crop stubble. Fortunately, oil marketing companies have reacted favourably to this idea and are already in the process of setting up a dozen 2G ethanol refineries in 11 states. This trend needs further impetus. Promising results have also emerged from the ongoing research and development work on producing ethanol from a non-food and fast-growing bio-source like algae. Such novel technologies hold the key to augmenting supplies of environment-friendly biofuels without any adverse effect on ecology or food security.

ILLUSTRATION: BINAY SINHA



Competition versus reservations

Reservations have eroded human capital in the Indian government, regulatory and public sector institutions

JAIMINI BHAGWATI

The promise of India endures yet in Delhi and several urban areas in the country where we have been inhaling toxic air particularly during winter months. The June 2013 television images of buildings in Uttarakhand collapsing into swirling waters, annual floods in Assam, Uttar Pradesh and Bihar, disruptions during the monsoons in Mumbai add to a sense of outrage. Not everyone is that concerned though since the affluent counter pollution with imported air-filters. In such circles, the commentary is about escaping to alternative homes in the hills, flying off to stay with relatives abroad or emigrating for good.

A couple of days back while clearing out old papers I chanced upon letters I had written to my future wife in the mid-1970s. A letter dated April 27, 1977, when I was stationed in Jalandhar district training as a recent recruit to the Indian Foreign Service (IFS), refers to my meetings with the deputy commissioner and commissioner. When asked neither of them was willing to talk about why an under-trial prisoner accused of petty theft was tortured to death in a jail located in the heart of Jalandhar. That was 42 years ago and perhaps there is greater accountability now. However, the rape and murder in Badaun (Uttar Pradesh) of two minor girls in May 2014 and the rape of another girl and killing of her relatives in Unnao (UP) during 2017-19 paints a picture of despair about India's justice system.

As for the opportunity costs of the ongoing slowdown in India's economic growth and consequent frustrations caused by burgeoning underemployment, there is little left to say. To add insult to injury, we are subjected to inane homilies by central-state government officials/ministers about why it is someone else's responsibility. Glaring examples of personal interest driven politics, as was amply evident in Maharashtra on November 23, 2019, have become all too common. All this and more are the sad realities that Indians are witness to with regularity.

The environmental degradation, worrisome internal security situation and economic slowdown are not merely due to insensitive officials, inadequate domestic savings, doubts about corporate creditworthiness inhibiting fresh lending, overvalued rupee and so on and on. It is also about the significant erosion of human capital in government, regulatory and educational circles that has contributed to distortions in competent and impartial decision-making.

As of now, at least 49.5 per cent of vacancies are mandatorily reserved for Dalits, Scheduled Tribes and Other Backward Classes (OBCs) in most states and the central government. Tamil Nadu has passed legislation for a higher level of 69 per cent reservation in that state. There is talk about reservations of jobs in Madhya Pradesh and Maharashtra for those who are deemed indigenous to those states.

On January 12, 2019, the central government notified an additional 10 per cent reservation for "the advancement of any economically weaker sections (EWSs) of citizens". This reservation would be for families with income below ₹8 lakh per annum. This amendment of Articles 15 &16 of the Constitution thus raising total reservations to 59.5 per cent is inconsistent with a 1992 Supreme Court ceiling of 50 per cent for all reservations put together. In September 2017, the maximum family income for three consecutive years, to be eligible for OBC reservations, was raised to ₹8 lakh per annum. It is unclear how this maximum permissible annual family income of ₹8 lakh is estimated on a reliable and consistent basis across the country.

There have been numerous debates in the Constituent Assembly, in state Assemblies and the national Parliament about the need to correct past injustices by enabling weaker sections to obtain employment and entry to institutions set up by government. The consequent reservation policies have served India well. At the same time, over the decades, human capital has been diluted due to a progressive increase in reservation quotas and reductions in minimum educational qualifying standards. Further, caste and OBC reservations have unintentionally created privileged categories among the disadvantaged. For instance, reservations have not helped an overwhelming majority of those who are deprived because of their lower educational levels compared to the better off among the quota eligible communities. In any case, job quotas within the organised sector cannot address widespread Indian underemployment since about 77 per cent of the country's workforce is self-employed or casual labour.

The most valuable "capital" in any country has to be its stock of public-spirited non-partisan specialists, accomplished professionals and academics. Currently, many in crucial official, regulatory and specialised positions, including some who were selected on the basis of quotas, do not meet basic standards of domain knowledge. This tends to lower standards in non-official circles too. An important step towards better governance would be to mandate that all government, regulatory and public sector positions are staffed by those who have been selected through competitive processes. More than 70 years after independence, it is high time we started ending all forms of reservations including informal religious affiliation-based quotas. A reasonable approach would be to halve reservations by 2024 and drop these altogether by 2029.

Media reports suggest that to increase their vote share the National Democratic Alliance (NDA) parties led by the Bharatiya Janata Party (BJP) made a pitch for the support of the majority Hindu community in the 2014 Lok Sabha elections. The same strategy combined with an additional 10 per cent reservation for the EWSs probably contributed to an even larger number of seats for the BJP in the general elections of May 2019. Religion-based politics was a key element in the electoral strategies of most Indian parties from 1971 onwards and has proved to be divisive. Similarly, the political self-interest driven support for reservations has resulted in resentments within and across communities. One way to stem this inexorable slide towards mediocrity, and worse in matters that impact India's overall development, is for a new political party to represent the 50.5 per cent of the population who are currently excluded from reservations.

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Wanted: The woke corporation

SWOT

KANIKA DATTA

The reputation of corporate India has not stood up to scrutiny in the run-up to — and the Indian government's subsequent rejection of — the Regional Comprehensive Economic Partnership. Indian businesses apparently believe they will not be able to compete with Chinese enterprise over a 25-year framework, the adjustment period that RCEP negotiators had worked out. Then again, the pusillanimity of Indian business leaders when it comes to standing up to the government has long been its worst-kept secret — the rare CEO who voices even mild criticism publicly always makes headlines. Now it appears India Inc remains pretty regressive when it comes to its hiring policies too.

No, this is not an impending outburst against the lack of gender diversity in corporate India (though there's that too) but the readings from a recent eyebrow-raising survey on "Diversity and Inclusion" conducted by the jobs portal TimesJobs, owned by the Bennett Coleman media conglomerate. The biggest takeaway from the survey is that India Inc remains innately homophobic. More than 77 per cent of the 1,137 professionals surveyed across diverse companies said they have no LGBTQ colleagues and more than 83 per cent said they had no one with alternate sexual orientation in senior leadership positions.

The question to ask, of course, is how the employees in the survey above thought they could judge their colleagues' and leaders' sexual preferences to answer the surveyor's question. It is inconceivable that there are no gays working in Indian corporations but obviously, the subject remains taboo enough in the workplace for those of alternate sexual orientation to feel safer remaining in the closet.

This perception should not be surprising, judging from the loud silence from corporate boardrooms when the Supreme Court read down section 377 of the Indian Penal Code, effectively decriminalising homosexuality. The issue of LGTBTQ rights is not seen as a cause worthy of the public relations energies that are poured into CSR programmes for building toilets and dispensing midday meals to poor schoolchildren.

It is also striking that some 65 per cent of employees say they have not seen any change in policies after section 377 was read down — though the survey does not reveal what kind of changes were effected in corporations employing the 35 per cent of respondents who presumably say they have seen some change.

What kind of policy changes should be expected? Extending benefits to same sex/common law spouses (since same sex marriage hasn't yet been enabled by the law) and their children is the most basic of them. A handful of companies have made some changes in their HR policies — the Godrej group and Infosys, for instance, extend such benefits to the "partner" without specifying the gender and OYO's group insurance policy covers a "significant other".

A big part of the problem is that the Indian banking and insurance industries are yet to change their policies to enable account-holders to nominate non-relatives as beneficiaries. Multinationals get around the problem by buying insurance policies from global service providers that do offer such facilities, but they employ a minuscule proportion of India's white and blue-collar workforce. These initiatives are but progressive drops in an ocean of homophobia on which corporate India floats. No surprise, then, that 54 per cent of the respondents say their companies will never hire any LGBTQ professionals.

There is much more disheartening information in the survey about corporate hiring policies towards specially-abled professionals, and women, most of which are so well known that people have stopped commenting on them. That private sector promoters remain distressingly communal, too, was highlighted by the Sachar committee report long ago. But one small finding offered an interesting insight into the kind of culture that typifies most Indian corporations. Some 40 per cent of respondents said "physical appearance" — ethnicity and personal likes and preferences — were the principal factors on which they were judged in the workplace. That's human nature, of course, but surely managements operating in competitive environments should force themselves to give some importance to ability and talent. For those who wonder why work culture in 21st century Indian corporations is mired in the early 20th century, the answer could lie in micro-findings such as this.

Financialisation and its discontents

BOOK REVIEW

PRAVEEN CHAKRAVARTY

Amazon recently acquired a large office in the HITEC City office campus in Hyderabad. It is very likely that you have heard of Amazon, the world's largest e-commerce company. HITEC City is a project developed by Larsen & Toubro (L&T). It is very likely that you know of L&T too, the business conglomerate that also develops commercial real estate. This transaction between Amazon and L&T was brokered by Colliers International. It is perhaps unlikely that you have ever heard of Colliers International, a real estate agent.

Amazon and L&T are real businesses that contribute to the economy, create thousands of jobs and add immense value to the economy. Colliers is an intermediary that enabled a smooth transaction, which is a valuable service but perhaps not as vital to the economy. So, logically, companies like Amazon and L&T will be better known, attract better talent and its employees will typically earn more than those working in Colliers.

Let's now assume that Amazon also needed fresh capital to expand. Capital is available with investors such as mutual funds, pension funds or wealthy individuals. For Amazon to get access to the available capital, it typically hires an intermediary such as a JP Morgan to broker this transaction, similar to how Colliers brokered a property transaction for Amazon. But in this case, JP Morgan, the intermediary, is more powerful, more valuable, deemed more systemically important to the economy and attracts better talent with vastly higher pay than Amazon.

What is it about the world of finance and capital, that the intermediary agent is more valuable and powerful than the principals? How have things come to such a pass where firms that add much lower value to the larger economy are valued higher? What does this mean for society at large? These are the kind of questions that the book *Rise of Finance. Causes, Consequences and Cures* attempts to answer. When I received the request to review this book, my eyes lit up because the deleterious impact of "excessive financialisation" in modern economies is an issue on which I hold strong views. Further, one of the authors of the book is a fine scholar with extensive domain expertise in financial services, which made it even more interesting for me to review.

THE RISE OF FINANCE: Causes, Consequences And Cures
Author: V Anantha Nageswaran & Gulzar Natarajan
Publisher: Cambridge
Price: ₹750

The book is expectedly erudite and scholarly. It even has an evocative start, quoting an ethicist as "a pill-dependent smoker who, on the way to his divorce lawyer, crashes his oversized car into a school bus because he is texting about an impending derivatives trade". Such a description beautifully captures everything that is wrong with the world of finance, albeit with some moral judgements. The debauchery and sins of rapacious finance professionals have been well documented and even portrayed through mainstream cinema.

What is less understood is the larger social ramifications of how have we reached a stage where finance professionals that add so little value to larger society have appropriated so much wealth, wield enormous influence and perpetuate a vicious cycle of "tails they win, heads we lose". The book's Introduction chapter promises to shine the spotlight on these exact issues and recommend solutions in an "easy and accessible" read.

The book is a masterful collection of charts, data, research references, important personalities, theoretical constructs and historical events. It delves deep into the causes of excessive financialisation in today's economy and lays the blame primarily on loose monetary policy that fuelled the addiction to debt and the US dollar's primacy as the global reserve currency. These points are argued cogently backed by copious empirical evidence. The authors also have strong words for former Federal Reserve Chairmen, Alan Greenspan and Ben Bernanke for their complicity in exacerbating financialisation. While three-quarters of the book is devoted to global events and trends, there is an entire chapter on "Finance in India". The authors conclude that financialisation is not yet a big problem for India since Indian finance is dominated by banking and banking is dominated by public sector banking. In a somewhat contrarian way, the authors even highlight the benefits of the 1969 bank nationalisation programme, citing evidence from another book.

Financialisation is a big social malaise, not just an economic one like the way the book treats it. The best brains in society are drifting to jobs that merely move money rather than solving real problems of health, education and livelihoods. The best brains are lured to these inane pursuits of predicting future stock prices due to the potential to earn vast sums of money by doing so. Betting on future stock price predictions pays a lot more money than say building satellites because of excessive financialisation of the economy. Such enormous wealth earned relatively easily is being used to shape a nation's democracy through control of political funding. With control of politics, heads of hedge funds, investment banks and stock exchanges exercise clout and mould tax and other policies to suit their interests, which perpetuates this vicious cycle. This is the real social problem of financialisation.

The book is a valuable addition to university libraries and students. But it will perhaps not add much to the issue of excessive financialisation, similar to the issue of income inequality.

The reviewer is a political economist and a former scholar in a think tank