IndiGo's absurd bid

Why IndiGo expressing interest in Air India sounds both bizarre and brave

OUT OF THE BLUE

ANJULI BHARGAVA

Last week another strange development took place in the aviation sector. The ink had barely dried on Cabinet's in-principle decision to sell national carrier Air India when IndiGo president Aditya Ghosh shot off a letter (the same evening in fact) to the government expressing its interest to buy the carrier, waxing eloquent on how it was best placed to do so and so on.

The letter struck me – and several industry insiders – as very odd and didn't quite ring true. One, the letter came within hours of the decision and found its way happily into the Whatsapp groups of most aviation reporters in the country. Surely if there was any serious intent, both the government and IndiGo wouldn't want it broadcast the way it was. Aren't buy-outs and takeovers usually pretty hush-hush? Ghosh might as well have called the TV channels over and announced his interest over the airwaves.

Second – quite uncharacteristic of IndiGo and its promoter's style – the move was highly premature. As anyone who has been observing governments can testify, an in-principle decision by a government is just that and nothing more. There are several hills, streams and mountains to be crossed before Mohammed can actually get to the mountain. There are no modalities of the proposed sale as of now. I don't think anyone – and I mean anyone – can currently tell you whether this sale will actually see the light of day and if so in what form. So the speed with which IndiGo decided to express its interest seems rather desperate. It's hardly as if the first guy who expresses interest will be the chosen one.

So I am assuming someone in the government came up with the idea of asking IndiGo to show some interest – possibly to ignite some interest in others. After all, if IndiGo is thinking about it, maybe there is something worth thinking about.

Anyway, let's for a moment take IndiGo's word for it. On the June 28, it was interested in acquiring all of Air India and Air India Express operations. A few days later – after the markets reacted adversely – it had watered that down to the international operations of the airline. What on earth does that mean ? Does it mean the government should look for a separate buyer for the narrow bodies?

Anyway, let's not quibble over details. As I said, it's early days yet. But anyone who has spoken to or followed the thinking of IndiGo promoter Rahul Bhatia would find this hard to swallow since all through Bhatia has maintained that he would stick to a single fleet, low frills model. That has sort of been the cornerstone on which this airline was built.

But then IndiGo already broke ranks when it decided to add 50 ATRs to its fleet to go regional. And now it is proposing to buy Air India – with its delightful *khichdi* of airplanes and 30,000-odd employees including contractual staff – to go international.

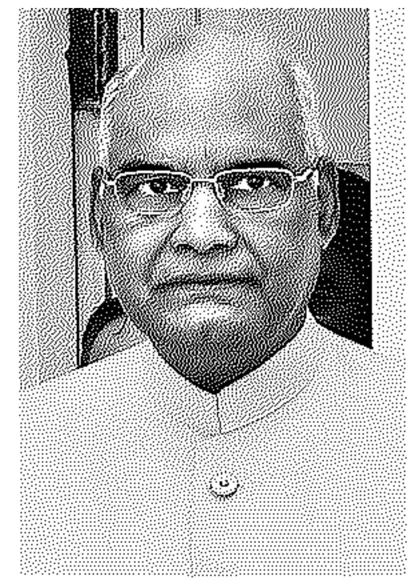
This brings me to another point. Whenever an airline in India has so far taken over another, it has resulted in disaster. I don't know if readers remember a small airline called NEPC (it was doing quite all right on its own). Then NEPC bought Damania and It was the last we heard of both. Kingfisher and Deccan? Both recent history. Jet bought Sahara, almost became history, was saved by the skin of its teeth but is still paying for the mistake. Even the merger of the two government airlines – Air India and Indian Airlines – has been anything but happy. I can also give around 10 international examples of failed takeovers but this would need another column. Faced with this fact, what can one say to IndiGo other than all the best.

I have another question. What makes IndiGo's promoters feel that there is a market for long haul, no frills flying (a new unknown creature by and large) if that's what they are planning to offer? Yes, there is Air Asia X but they should note that it is a separately listed public company with a different CEO, board and management. Sure, there are people all over the place trying things out but the model remains largely unproven.

This brings me to my final question: If indeed IndiGo sees a future in long haul no frills, why not just set up a new airline? Grow organic. Ask any airline expert, CEO, analyst, professional and he will tell you that starting a new airline is a much easier task than buying something that already exists and needs to be fixed.

And needs to be fixed is of course putting it mildly in the case of our famed national carrier. Fixing Air India is something I wouldn't wish on my worst enemy.

CHINESE WHISPERS



Guessing game

The National Democratic Alliance had kept everyone guessing about the name of its presidential candidate. It had led to much speculation among its political opponents. Trinamool Congress office staff and party leaders at its Kolkata headquarters has held a pot luck to identify the possible candidate. Not one of the two dozen people who participated in the gathering had got it right with NDA surprising everyone by announcing the name of Ram Nath Kovind (*pictured*). The TMC members plan to hold a similar pot luck to guess the vice-presidential candidate.

Preparation in full swing

The presidential election is by secret ballot and party whips don't apply. But some regional political outfits still want to guard against cross voting, and to ensure that have come up with their own strategies. The Trinamool Congress legislators, including its Members of Parliament, will vote in Kolkata despite the fact that on the day of the voting, July 17, Parliament will start its monsoon session. The Janata Dal (United), which has decided to break away from much of the Opposition to vote for the NDA's candidate, has asked it's MPs to collect at the residence of party leader Sharad Yadav and leave together for Parliament on the voting day. JD (U) MLAs will vote in Patna.

Restart the machine

For any technology problem the quintessential solution is "restart the machine". The National Stock Exchange (NSE) suffered one of its worst-ever trading disruption on Monday due to a technical glitch that halted trading for three hours. While India Inc wondered how such a sophisticated and large exchange could face such a calamity, one broker who appeared on a business news channel offered a simple solution. "We often face such technical glitches. The easiest solution is to restart computer. If NSE does that, trading can resume easily," she proffered.

Getting the complete picture

The use of judgment in the preparation of financial statements is pervasive; Ind-AS forces companies to be foresighted in their conclusions and use financial statements to tell their story as it unfolds or rather before it does

SIDDHARTH TALWAR

The Indian economic environment has seen some rapid changes in the past half decade. A new corporate law (Companies Act, 2013) which places prime focus on corporate governance, a national indirect tax (GST) regime that has the potential to converge the whole of India into one market, a series of steps to curb black money (demonetisation, benami law, et al) and a crusade against bad loans — these are only a few of the several reforms ushered in to create a "new India".

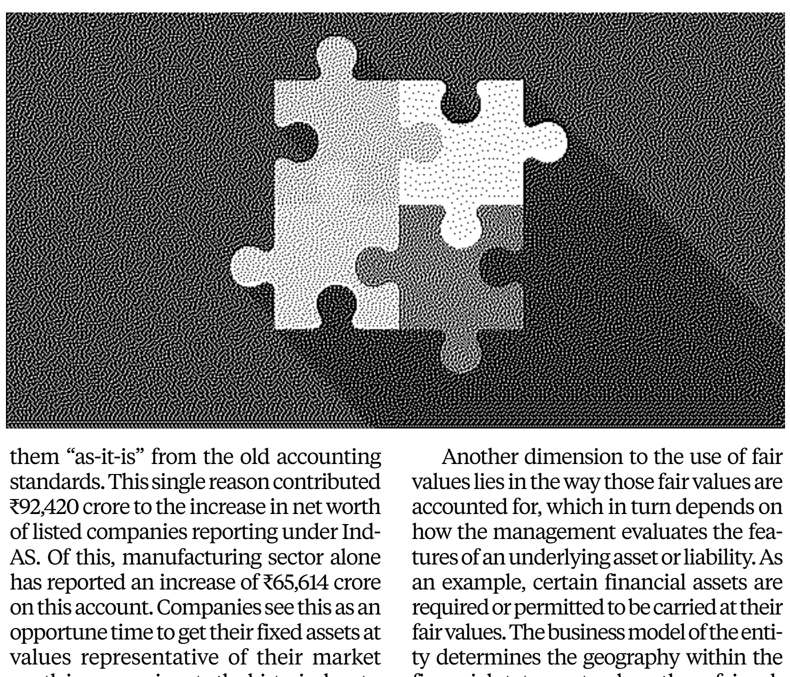
In this whirlwind of changes, India Inc has also taken the first giant leap towards a progressive financial reporting regime — adoption of Ind-AS or Indian Accounting Standards, the accounting standards converged with International Financial Reporting Standards (IFRS).In the past few weeks, a set of large listed companies have successfully reported their first annual financial results as per Ind-AS. Now it is for the analysts to pull out every weapon in their armoury and penetrate into this high quality, yet complex financial reporting environment.

Mark Twain, the great author said, "Facts are stubborn things, but statistics are pliable." That is somewhat the story of an overall analysis of the impact Ind-AS has had on the corporates. To be more specific, think about these statistics derived from a study conducted by Grant Thornton India of 522 listed companies who declared their annual financial results for financial year 2016-17: on a like-to-like basis with the old accounting standards applied for the comparative period (FY 2015-16), profitability dwindled by a whopping ₹13,680 crore or an average 6.2 per cent. On the other hand, net worth of these companies increased by 1.8 per cent as a result of the transition.

These statistics don't tell the true story in isolation. One needs to go deeper into constituents of our very complex economy to understand what is the message underlying the fine print. To illustrate, while certain sectors like Telecom, Infrastructure, Logistics, Real Estate and Services have witnessed 5-10% decline in their net worth, Manufacturing, Media, Automotive and Retail have reported a 5-10% increase. What led to these varying degrees of changes across the spectrum of corporate India applying the same set of accounting standards (Ind-AS)?

A general answer to this question lies in the way management of these companies have exercised the accounting policy choices available to them upon transition to Ind-AS. One of the buzz words in these new accounting standards is determination of "fair value" and that is where lies the crux of the matter.

Firstly, there are few areas where use of fair values is optional. For instance, upon transition to Ind-AS, companies have a choice to either measure their property, plant and equipment at fair value or carry them "as-it-is" from the old accounting standards. This single reason contributed ₹92,420 crore to the increase in net worth of listed companies reporting under Ind-AS. Of this, manufacturing sector alone has reported an increase of ₹65,614 crore on this account. Companies see this as an opportune time to get their fixed assets at values representative of their market worth in comparison to the historical costs, which,especially for immovable assets, lose relevance and reliability with time.



Secondly, and more importantly, the determination of fair value itself is judgmental. However, analysts and investors should stay assured that these humongous changes are made by companies with mandatory disclosures. Flip through the heaps of "notes to accounts" and you will find good amount of qualitative data to facilitate your decision making. A word of caution here — analysing Ind-AS financial statements is by no means an easy task and hence expert advice must be sought before drawing conclusions.

Another dimension to the use of fair values lies in the way those fair values are accounted for, which in turn depends on how the management evaluates the features of an underlying asset or liability. As an example, certain financial assets are required or permitted to be carried at their fair values. The business model of the entity determines the geography within the financial statements where those fair values are recorded — in statement of profit and loss or in other comprehensive income (OCI). The veracity of this can be understood from the fact that entities within the infrastructure sector reported decrease in their net worth by ₹13,196 crore on account of fair value changes in financial assets recorded in P&L whereas the oil and gas sector parked gains of ₹26,135 crore due to fair value changes in financial instruments in OCI (i.e. reserves).Across all sectors, over 50 per cent of the companies have elected to carry some or all investments at fair value through OCI, with both positive and negative impacts on net worth. There are various decision making points before management concludes the best accounting policy choice for its business. It is important that directors, particularly the independent directors of companies review those decisions and test them against highest standards of corporate governance.

The use of judgment in preparation of financial statements is pervasive and there are innumerable circumstances where management is faced with multiple scenarios to choose from. Ind-AS forces preparers to be foresighted in their conclusions and use the financial statements to tell their story as it unfolds or rather before it does. A good example of this new requirement is the way companies will account for credit losses or bad debts. While much of the financial services sector will adopt Ind-AS from financial year 2018-19, the non-financial sector has given a flavour of this already. Indian corporates have reported a decline in their net worth by a staggering ₹10,032 crore on account of expected credit losses. Does it mean the old accounting standards permitted books of account to lag behind business realities? It's a difficult question to respond.

Winston Churchill once said, "Men occasionally stumble over the truth, but most of them pick themselves up and hurry off as if nothing ever happened." As one reads Ind-AS financial statements, it is important that one doesn't overlook scattered pieces of information which need to be joined together to see the complete picture.

The writer is a partner at Grant Thornton India LLP

CONSUMER LIFE

1.5 mn jobs lost in four months of 2017

MAHESH VYAS

About 1.5 million jobs were lost during January-April 2017. The estimated total employment during the period was 405 million compared to 406.5 million during the preceding four months, Septem ber-December 2017.

These estimates are based on consecutive Waves of CMIE's Consumer Pyramids Household Surveys (CPHS). These are all-India household surveys over a sample size of 161,167 households that included 519,285 adults. The most recent Wave was conducted over January through April 2017. This was the first complete Wave after demonetisation. Demonetisation began in the middle of the preceding Wave which was conducted from September through December 2017.

Capture of the employment/unemployment status of adults began with the Wave of January-April 2016. We estimated the employed force at 401 million then. This grew to 403 million during May-August 2016 and then to 406.5 million in September-December 2016. Then, it fell, 405 million. This is the total employment in the country — including organised and unorganised sectors, and agricultural and non-agricultural sectors.

The workforce (persons greater than 14 years of age) swelled by 9.7 million to 960 million during January-April 2017. But, the number of employed did not grow, it shrank. This implies that the stock of persons to be provided with employment has increased. While the number of employed persons has dropped, the unemployment rate has also fallen. This is odd and it merits an explanation. The unemployment rate is the ratio of the unemployed to the labour force where the labour force is the sum of the employed and the unemployed.

While the number of persons employed fell by 1.5 million, the number of people who declared themselves unemployed fell much more — by 9.6 million. As a result, the labour force fell by 11 million. This substantial fall in the denominator is responsible for the fall in the unemployment rate.

The unemployment rate during September-December 2016 was 6.8 per cent (29.6 million unemployed out of a labour force of 436 million). In January-April the rate fell to 4.7 per cent (20 million unemployed out of a labour force of 425 million). Note that the 9.6 million fall in the unemployed count is close to the addition to the workforce. This is like saying that almost the entire new workforce of January-April 2017 did not offer themselves for employment. This is odd. Is this a seasonal phenomenon?

A longer time-series could help us deseasonalise this to understand this phenomenon better. For now, we can make some intelligent guesses of what might be at work. September-December is a busy season as the kharif crop is harvested during this period and most festivals fall during these months. 2016 was a good kharif crop and this could have kept employment levels high. January-April is a relatively lean season. Further, demonetisation could have had its full impact during these months while its impact during September-December was partial. After the demonetisation of November 8, it was evident to the new labour force that there was a serious dearth of jobs. This is evident in the drop in the labour participation rate. The average labour participation rate was 46.9 per cent from January through October 2016. This average had a narrow range between 48.4 and 45.9 per cent.

In November 2016, it was still the festive season but, the labour participation rate fell to a new low of 44.8 per cent. It is apparent that this was an immediate impact of demonetisation. This is because the rate recovered a bit, to 45.2 per cent in the following two months.

The lasting effect of demonetisation is apparent in the fall in the labour participation rate after these two months. The rate fell to 44.5 per cent in February, then to 44 per cent in March and 43.5 per cent in April. During January-April 2017, labour participation rate was 44.3 per cent. This was much lower than the 46.9 per cent recorded in the corresponding months a year ago. The drop in labour participation is in line with CMIE's observation that new investments have been falling. For a developing economy like India, a drop in labour participation rate is a sign of an economic slowdown. Unlike in developed countries where labour participation is falling because of structural (ageing) reasons, India is a growing economy with a young population. A slowdown hurts the younger new labour force. This is already evident. During January-April 2017, job losses were concentrated in the younger age-brackets.

The writer is the Managing Director and CEO, Centre for Monitoring Indian Economy P Ltd

LETTERS

Another misadventure

Please refer to "Tax defaulters beware: I-T dept initiates plan to prosecute serial dodgers" (July 7) in the *Business Standard*. The CBDT has given a proposal to the government for introducing prosecution before adjudication in the case of serial tax dodgers. The CBDT does not explain how the income tax officer signing the prosecution order can declare before the court that he has satisfied himself that a case exists on merit that the tax payer should be prosecuted. When the adjudication has not been done and obviously the client has not been heard, on what ground can the officer come to the conclusion that the client should be prosecuted?

This idea of the CBDT seems to be designed for striking terror in the minds of tax dodgers. But why cannot the adjudications be completed? The fact is that most of the cases fail at the Tribunal, high court and Supreme Court stages. This is true for indirect tax also. The minister of state S S Palanimanickam had given the data of unsuccessful cases (only 5 per cent to 10 per cent success in Supreme Court) before courts in reply to a Parliament question in the Lok Sabha on September 5, 2012 in regard to the CBEC cases and the situation was similar for CBDT. In the last five years things could not have improved strikingly.

This noble proposal of the CBDT will be an absurdity, publicity and atrocity all combined under one wrapper. All cases will be set aside at the initial stage only. I have appeared as a witness in such cases of prosecution and if I could not satisfy the court that I had satisfied myself about the merit of the case, the court would set aside the prosecution in limine. I know a case of a public sector bank where the court set aside the prosecution in limine because the officer sanctioning the prosecution confessed to the court that he sanctioned it under the pressure of the CBI. If adjudication is not done and prosecution is launched, then the officer who signs the prosecution order will be made to look

like a fool in the court. This system also will most certainly be misused by officers and political bosses. I know this subject very well and feel proud that I said "no" to two such orders to me, (one in writing and another oral) for filing prosecution before adjudication. I hope the government throws out the proposal of the CBDT.

Sukumar Mukhopadhyay New Delhi

Together they can

This refers to Debashis Basu's piece "Bad loans: The bungling and farce continues" (Irrational Choice, July 10). Being a regular reader of "Irrational Choice" I am tempted to take the author's claim that he could prophecy the current stressed assets management scenario last year, at face value. I wish policy makers take columnists more seriously!

I believe the Centre and the RBI are interested in moving forward in the direction of clearing the stressed assets mess in the banking sector by doing whatever is needed to overcome the initial hurdles they are facing. Action by regulators and governments will continue to be subject to judicial scrutiny and where there is a will, always there will be a way. One need not get disheartened by the view taken by Gujarat High Court over the RBI's selection of top defaulters. Earlier also, GOI and statutory bodies in India have got over such issues by 'following legally valid procedures'.

Just as opening several thousands of schools has not helped India become 100 per cent literate, the measures taken in 2014 onwards will not extinguish bad assets of the banking system that fast. Showering abuses at RBI or discrediting every initiative by GOI and regulators to put in place mechanisms to resolve a long pending problem will improve the readership of a column or a newspaper. But when a government and the central bank are jointly making some earnest efforts to meet the challenges which have arisen from decades of pampering of the rich and the powerful by a political system, efforts to divert attention from the main menu could easily get exposed.

M G Warrier Mumbai

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HAMBONE

BY MIKE FLANAGAN

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Ten days on

Govt must keep GST transition steady and predictable

It has been just over a week since the new goods and services tax (GST) regime was introduced. It has already shown its potential as a transformative policy. There has been some disruption, but whether this will swiftly decline or only increase depends upon the government's problem-solving agility. One major test will come when the digital backbone, the GST Network, is called on to deal with a large number of simultaneous submissions — but that is still some time in the future.

The GST's advantages are already becoming apparent. For one, several reports suggest that logistics costs may indeed be on the decline. The crossing points between several states that had featured long queues of trucks have now been made irrelevant. As many as 22 states have removed these barriers already leading to significant savings in time and expenditure. This should cascade through the system, making goods cheaper and opening up new business opportunities. Of course, the continued success of this depends crucially on the administration of the tax and of the inter-state checkpoints. If, for example, all trucks crossing between Maharashtra and Gujarat are checked for alcohol, then the queues will rapidly re-develop and the major benefit of the GST so far will be lost. It is also up to the state governments to try to maintain uniform rates; the introduction of state levies might once again cause some benefits of common national indirect tax rates to be lost. State governments must crack down on rogue bureaucracies, including transport officers, who will seek to take advantage of the situation by "enforcing" long-dormant rules at such checkpoints. The question of "entry taxes" imposed by some urban local bodies should also be examined, as this has the potential to impede the free flow of goods.

The government must stand ready to address any problems that arise. In particular, the informal sector is likely to be hit hard. So far, evidence of any difficulties is only anecdotal. But a movement away from small providers to larger, GST-ready suppliers is possible. This might aid in the formalisation of the economy. On the other hand, it might have negative medium-term effects on employment and on entrepreneurship. If so, the government must stand ready to introduce remedial measures. Some murmurs of dissent have come in from sectors, such as textiles, which are labour-intensive. It is worth recalling that the purpose of the GST is to make it very easy for small companies to pay tax, not to push them out of the economy. If it appears that the latter is happening, then the government must work swiftly to further simplify compliance requirements and reduce compliance costs.

Obviously, the government must not add to the confusion. One quick fix could be the swift introduction of a single nodal point to disseminate information about the application of the GST, and to respond to queries. There are worries that multiple ministries have issued complex and contradictory advisories — even the official GST Twitter handle has been accused of providing misleading information. This can easily be fixed. Clarity from the authorities is essential in an already chaotic environment.

Bengal on the brink?

The CM is battling a problem of her own making

The recent communal troubles in West Bengal – seven in the past month, according to the state police – should sound loud alarm bells for Chief Minister Mamata Banerjee. Already battling a crisis over Gorkha rights in the hills, West Bengal can ill afford flare-ups in Muslim-majority districts abutting Bangladesh, with which it not only shares a 2,217-km border but which is being roiled by Saudi-financed Islamic fundamentalism. True, the deliberate spread of incendiary fake news feeds via social media bears a large share of the blame. But Ms Banerjee must surely bear responsibility for not responding quickly enough to restore law and order — if the police forces were inadequate in quelling a riot by Muslims protesting against an offensive Facebook post, she could well have agreed to the Centre's offer of central forces. This would have sent out an unambiguous message that breaches of law and order would not be tolerated.

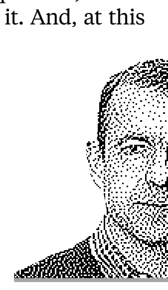
By allowing the crisis to fester, she has played into the Bharatiya Janata Party's (BJP's) hands as it focuses on the state ahead of the 2019 elections. In this, thus, Ms Banerjee is facing the consequences of the ill-advised identity politics in which she herself has indulged in the past. The absence of communal violence since the Partition riots – except the 1964 one – in a state in which 27.5 per cent of the population is Muslim was one of the few achievements of 34 years of the Left Front's otherwise deleterious rule. West Bengal saw no anti-Sikh riots in 1984; nor communal riots after the demolition of the Babri Masjid in 1992-93, even as other parts of India burned. The question of illegal immigration from Bangladesh, which the BJP has built up into a significant issue, was a non-issue in the state, principally because politicians of all hues were happy to legalise these cohorts to swell their vote-banks. The absence of political encouragement meant that communalism was a non-issue in public life in West Bengal. Ms Banerjee opened the door to these forces.

In her first term as chief minister came the extraordinary decision to pay a monthly stipend to imams and muezzins of ₹2,500 and ₹1,500, respectively. This pandering to a particular community provided a useful foothold for the rising BJP to tap into Hindu disaffection. The Trinamool Congress' claim that Karnataka and Telangana spend more per capita on Muslims than West Bengal is irrelevant in the circumstances. From a non-existent electoral presence in 2009, the BJP won two seats in the 2014 Lok Sabha elections, and six seats in the 2016 Assembly elections. The Trinamool Congress' stunning comeback last year may have caused Ms Banerjee's failure to anticipate that the BJP would inevitably target West Bengal in the run-up to 2019, and low-intensity communal riots spread through doctored social media feeds are part of its playbook. In that sense, her community outreach programme to track social media feeds may be too little, too late.

ILLUSTRATION BY AJAY MOHANTY

The inflation target trap

The ECB need not reverse course completely, but it could stop the fight against deflation and start exiting emergency policies



DANIEL GROS

Central banks have a problem: Growth in much of the world is accelerating, but inflation has failed to take off. Of course, for most people, growth without inflation is the ideal combination. But central banks have set the goal of achieving an inflation rate of "below, but close to 2 per cent," as the European Central Bank (ECB) puts it. And, at this point, it is hard to see how that can be achieved.

Central banks never pretended that they could steer inflation directly. But they thought that by providing rock-bottom interest rates and generous liquidity conditions in the wake of the 2008 global financial crisis, they could push investment and consumption upward. In 2009, when financial markets were in turmoil and the economy was in free-fall, the US Federal Reserve took matters a step further, initiating large-scale asset purchases, or quantitative easing (QE). The ECB followed suit in 2014-2015, when deflation appeared (wrongly, in hindsight) to threaten the Euro Zone.

The Fed's actions certainly helped to stabilise financial markets. The ECB also claims that its bond purchases, after financial markets had already normalised, sparked economic growth and fostered employment. But the impact ended there.

The tightening of the labour market should have led to higher wages, which would ultimately translate into higher prices. But this mechanism, the so-called Phillips curve, seems to have broken down. In both the United States and Japan, despite low unemployment, wages are not increasing, at least not at the rate historical experience would indicate. And the wage increases that <i>are<p> occurring, such as in the US, are not having the impact on prices that one would expect.

The reasons for this are not well understood. Last year, low oil prices could be blamed; but, even when oil prices rebounded somewhat, inflation remained low. Another, more structural reason is that the prices of the goods comprising a large part of the consumer price index tend to fall over time, because they can be produced increasingly efficiently in low-wage countries, particularly in Asia. In addition, retailers' margins are being squeezed, owing to competition from online shops.

This problem of "missing inflation" is especially acute in the Euro Zone and Japan. Because the Bank of Japan (BOJ) and the ECB have defined success exclusively in terms of achieving their inflation target, they are now in a quandary. The ECB, in particular, now has little choice but to continue its expansionary policies, including QE, until it sees some sustained increase in inflation.

For the Fed, the problem is less severe. The US is experiencing somewhat higher inflation than the Euro Zone and Japan are, and the Fed has a dual mandate: Not just price stability, but also full employment. Having achieved the latter, it can declare at least half a victory and gradually start lifting rates.

But there is another reason why missing inflation is more of a problem for the Euro Zone. During the bubble years before the 2007 crisis, prices and wages increased sharply in the Euro Zone periphery, relative to Germany, which was plagued by high unemployment and stagnant wages. Over time, those economies became uncompetitive. When capital inflows suddenly stopped, they could not cope, requiring them to increase exports.

Now Germany is practically at full employment, but wages are not increasing at much more than 2 per cent – far lower than the 5 per cent rate that prevailed when Germany last had such low unemployment (below 4 per cent), nearly 30 years ago. The resulting lack of inflation is not only contributing to Germany's very high current-account surplus; it is also making it harder for the peripheral countries to improve their competitive position vis-à-vis Germany.

The ECB must set its monetary policy on the basis of the Euro Zone average. But it would clearly be more comfortable if the competitive imbalances that arose during the boom years were corrected more quickly, and most European policymakers would welcome some rebalancing as well.

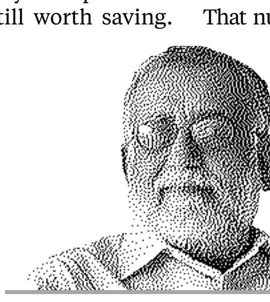
But the real question is not whether inflation closer to 2 per cent would be desirable. QE is a policy for desperate times. Today, the economic environment is totally different than it was just a few years ago: financial markets are buoyant, financing conditions are highly favorable, the economy is expanding satisfactorily, with no sign of deflation.

In a recent speech, ECB President Mario Draghi observed that reflationary dynamics are "slowly taking hold." Taking him at his word, markets immediately traded the euro up, because investors concluded that, under these circumstances, negative rates and asset purchases would no longer be warranted. But the ECB quickly denied this interpretation.

That was a mistake. It makes no sense to continue with policies designed for a thunderstorm when the sun is shining again. The ECB need not reverse course completely, but it could declare victory in the fight against deflation and start exiting its emergency policies.

Daniel Gros is director of the Center for European Policy Studies

Other elephants in the room



ET CETERA

SHREEKANT SAMBRANI

The impending sale of the justly maligned Air India has caused much excitement. Apologists for the airline offer lame alibis such as the burdens placed by the merger with Indian Airlines and additional aircraft purchase and say that operations of the original Air India are still worth saving. Decades-long personal experience of both domestic and international flights of India's flag carrier convinces me that such is not the case. Air India's standards started falling soon after J R D Tata's removal as its chairman in 1978. That process has not bottomed out yet. The less said about our erstwhile one-choice-suit-all Indian Airlines the better. The suffocating experience of passengers of a recent Bagdogra-Delhi flight is not an exception.

Air India is in august company. I have used the Ashoka hotels in places ranging from the pre-IT days Bangalore to Shillong and Bhopal to Bhubaneswar, invariably because there were no other hostelries worth staying there in those days. Not one of those experiences was even remotely satisfactory.

I got a telephone in 1984 because the then communications minister, the late V N Gadgil, personally intervened. Those were the bad old days of the licence-permit raj. A generation later, I had to very nearly request the intervention of the current minister for getting that Bharat Sanchar Nigam Ltd (BSNL) landline disconnected. Maintaining accounts and a safe deposit box in a public sector bank proved so cumbersome that we closed these two weeks ago. We opened them 35 years ago responding to the request of the manager of the newly opened branch for a favour, but their closing met with complete indifference.

Welcome to the wonderland of public sector undertakings (PSU) in the business of providing hassle-free service to consumers, ca 2017, in the age of liberalisation and ease of doing business.

Wikipedia lists 298 central PSUs. About a quarter of them have a direct interface with final consumers in areas such as travel, hospitality, textiles and banking. That number is misleading, as many subsidiaries of companies such as Air India and India Tourism Development Corporation (ITDC) are listed separately but all public sector banks merit only a single entry. State public sector entities and departmental enterprises are also not in this list. We can safely infer that a very large number of government-owned and controlled bodies are directly engaged in providing services, some essential, to the public at large.

Therein lies the rub. These entities came into being (or were nationalised) in the time of shortages and strict government regulations covering distribution of goods and amenities. The *maibaap sarkar* took it upon itself to deliver everything, including, literally, our daily bread and butter. Rationing supplies and exercising control bordering on the coercive got ingrained in the PSU operations and became a part of their DNA. Public perception of and satisfaction with their performance affected not their business and certainly not their survival.

And survive many of these entities did well into an entirely changed atmosphere of competitive choice. Consumers abandoned their former providers of services in droves as soon as affordable alternatives became available. Neither patrons nor their business have registered growth with the likes of Air India, BSNL, ITDC, Doordarshan, interstate buses, among others. Public banks, too, face the wrath of personal banking clientele. Even when costs of private service are higher, as in education and health care, people shun public facilities as much as possible. So a decline in service and delivery quality is a result foretold.

That makes no difference to these relics of a bygone era. They continue in their indifferent ways. This manifests itself in not just poor service, but also shabby appearance. Air India planes are poorly maintained, with tatty interiors and non-functioning fixtures, matching the surly attitudes and looks of the cabin crew. Public banks, except in a few elite areas, resemble government offices in appearance and working.

Most PSUs, already bloated and top-heavy, show no signs of adopting lean ways of doing business. Subordinate staff resist stubbornly any changes, especially those meant to improve productivity. Personnel costs increase. The upper echelons follow the hierarchy-bound government structure. Managers often consider it infra dig meeting aggrieved customers, leave alone seeking their feedback. Complaints are registered but seldom produce results. Meanwhile, losses mount.

Consider BSNL. In 2015-16, its revenues were nearly ₹33,000 crore and losses nearly ₹4,000 crore, despite government patronage and universal service obligation subsidies. In that year alone, its long-term borrowings increased to ₹5,000 crore from ₹56 crore. No prizes offered for guessing where the funds came from. With a comparable turnover of ₹36,000 crore in that year, Idea earned a pre-tax profit of ₹4,000 crore after providing for interest on much higher borrowings. While Idea seeks to consolidate its position through a merger with Vodafone, BSNL goes its merry unaccountable ways.

T N Ninan persuasively argues that "there is no escape from building state capacity" ("Be careful what you wish for," *Business Standard*, July 8, 2017). But surely that should not cover redundant and dysfunctional enterprises such as BSNL and ITDC. Pulling the plug on these other elephants in the room would be an act of mercy for their hapless customers and the managers of government finances.

The writer is an economist

Islam and the misguided liberal

BOOK REVIEW

TALMIZ AHMAD

Tarek Fatah describes himself as a secularist and liberal activist. He was born in a Punjabi family that moved from Bombay (now Mumbai) to Karachi after Partition. Canada is now his home where he has involved himself with different political parties, and challenges what he sees as the increasing accommodation of conservative, even radical, Islamic trends in Canadian politics.

Mr Fatah does not mince his words: He sees Muslims mired in a "nightmare of despair and failure", with an "addiction to victimhood" and suffering from "self-inflicted wounds". He berates Muslim political and religious leaders for their "lack of honesty", and insists that "it is not Islam that needs to be revised or reformed, but Muslims' relationship with their faith", commencing with a thorough review of Islamic history "without prejudice".

The author distinguishes between Muslims and Islamists: The first seek the "state of Islam", the state of spirituality, while the latter seek an "Islamic State", a theocracy built on a gross misunderstanding and misinterpretation of Islamic doctrine and history. This book is a robust corrective, seeking to expose Islamism as a "fascist ideology" that is pursuing a "worldwide Caliphate" by eliminating or dominating all infidel non-Muslims.

In this context, Mr Fatah examines the attempts to set up Islamic theocracies in Pakistan, Saudi Arabia and Iran, and notes their oppression of their citizens and the "bankruptcy" of the idea of the Islamic State. He then provides a thumbnail sketch of Islamic history over a hundred pages, pointing out along the way how the opportunism of political interests has consistently diluted the essential spiritual message of the faith.

Mr Fatah's approach is aggressive, shrill and polemical. This leads him frequently into over-statement, misrepresentation and gross error, so that he is finally more of a pamphleteer than a judicious scholar. This seriously weakens what might have been an important contribution to the debate relating to contemporary Islam.

While castigating the increasing influence of rigid doctrines masquerading as "Islamic" in Muslim polities, Mr Fatah fails to note that today every major faith has a political tendency that is rigid, doctrinaire and often violent, and seeks to influence state order on this basis. All three Semitic traditions have strong messianic content, which has been used to inflict horrendous violence against the "Other" based on divine sanction.

Mr Fatah seems to have a simplistic understanding of Political Islam. He fails to see its diverse articulations, ranging from rigidity and literalism to extraordinary moderation and plurality. The pioneers of Islamic modernity, Jamaluddin Afghani, Mohammed Abduh and Rashid Rida, had very different approaches to reconciling Islam with contemporary challenges, one strongly anti-imperialist, the other moderate and accommodative, while the third was more conservative, though all three advocated the need to reinterpret old texts to make them relevant to modern times.

Mr Fatah's history of Islam is glib and highly selective. No, Muslims do not disdain the West or reject the Enlightenment; they rejected imperialism and what the colonies experienced was not enlightenment but racism, abuse and exploitation.

Yes, there are racist attitudes among Muslims, in violation of Islamic tenets; but, racism is alive and kicking in all contemporary Christian, Jewish, Buddhist and Hindu societies.

No, most authoritarian states across West Asia are not informed by Islam: they are the product of deliberate western interventions and manipulations over the last century. And, republican tyrannies that emerged from coups d'etats are "secular", not Islamic, in character, and generally enjoy western support.

And, no, most Muslims globally do not support the Islamic State or jihad, nor do they suffer from a "collective sense of despair and loss of confidence". While at home, they often live under authoritarian rulers who subserve western interests to remain in power, in the diaspora they are upright and productive citizens, even though they are increasingly the targets of Islamophobia.

Mr Fatah spends a lot of space pointing out that many beliefs and practices that are promoted as Islamic do not enjoy sanction from the sacred texts of the faith. This is not surprising: Islam is not monolithic; it is over 1,400 years old and covers the entire global landscape. Its texts have been commented on over centuries by diverse scholars whose thinking was generally influenced by contemporary events. Modern-day movements draw on this earlier scholarship most selectively, largely to imbue their own beliefs and actions with doctrinal approval.

Mr Fatah's ideal is a liberal and secular order. But, he would have done well to recognise that these principles are already under threat in the very societies that spawned them, societies where racism, intolerance, violence and abuse of the "Other", often the Muslim, is now widespread.

The reviewer, a former diplomat, holds the Ram Sathe Chair for International Studies, Symbiosis International University, Pune. A longer version of this review appears on www.business-standard.com

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Tarek Fatah
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