https://telegram.me/TheHindu_Zone https://telegram.me/PDF4EXAMS

Public sector chiefs deserve better

Quarterly appraisal of ONGC's new chairman beats logic

HUMAN FACTOR

SHYAMAL MAJUMDAR

The petroleum ministry's reported proposal to appoint Shashi Shanker as chairman and managing director of ONGC with just a year's validity is extraordinary. It is a classic example of all that is wrong with senior-level appointments in public sector companies. According to a report in *The Indian Express*, Petroleum Minister Dharmendra Pradhan has sought the approval of the Appointments Committee of the Cabinet (ACC) for Shanker's appointment initially for a year, during which his ministry will conduct quarterly appraisal of his performance before seeking a fresh mandate for further employment. In defence of his decision, the minister has cited exploration challenges before ONGC to raise crude oil and natural gas output.

The minister is well within his rights to recommend his choice for the next CMD of ONGC. The question is why choose someone only to put him on trial from the very first day? After all, the Public Enterprises Selection Board (PESB) had shortlisted nine candidates for the top job and Pradhan had a wide choice to select the person he thought was most suitable for the job. India's biggest oil and gas producer surely deserved better.

Also, at a time when there is a clamour for giving longer tenures to heads of public sector units so that they can make a meaningful contribution, this decision beats logic and shows why the government needs to institute a new process that incorporates the best practices for the selection of the leader of a public sector undertaking (PSU).

Appointments to top positions in PSUs are now a lengthy and complicated process, with candidates selected by the PESB requiring clearances from the administrative ministry, Central Vigilance Commission and finally the ACC. These layers often delay the appointment. There have been several instances of the appointment panel finalised by the PESB being scrapped without reason, delaying the process further. The PESB itself should behave more professionally — there have been several cases where it initiated the selection process barely days before the current CMD was due to retire. The fallout: The PSUs concerned remain headless for months on end, leading to delays in taking critical decisions.

The situation is no better in other organisations. According to a report in this newspaper last month, the current chairman of the National Highways Authority of India (NHAI) is the fourth in a span of two years. In the past, several chairmen had a tenure of two to six months. This is strange for an organisation, which is in the thick of things on highways construction and needs more autonomy.

Some things never change, it seems. While Prime Minister Narendra Modi is particular about meritocracy, it appears that the principle does not apply to PSUs. Consider the large number of politicians affiliated with the ruling party appointed as independent directors of various PSUs. The question is how a politician with no experience in the core competence of the PSU concerned will add any value to the decision-making process. In that sense, the current government is no better than its predecessors.

The same story is being played out in public sector banks (PSB) as well. The current appointment process of board members has given rise to the ridiculous practice of bank chairmen having no say in who all are inducted as non-official directors. As a result, if some of these directors are of poor quality or get on to the board with parallel agendas, the chairman starts viewing them as unhelpful to the interests of the bank. That's the reason why many bank boards have seen internal fissures leading to poor governance.

Similarly, the Banks Board Bureau, which the government set up with much fanfare as per the Indradhanush plan, doesn't have any role in choosing the so-called non-official directors at the boards of PSBs, who typically constitute one-third of the directors. Besides, the Bureau can only recommend names for the position of managing directors. They are all scrutinised by the finance ministry. There have also been cases where the services of board members were terminated without consulting the Bureau.

In his book, former State Bank of India chairman P G Kakodkar has narrated the peculiar position he faced before retiring. On his last day as chairman, he called the finance secretary, who told him that the selection of his successor had been done, but it was awaiting the Prime Minister's signature.

Things have changed for the better now. Or have they?

Tale of the 1855 twins

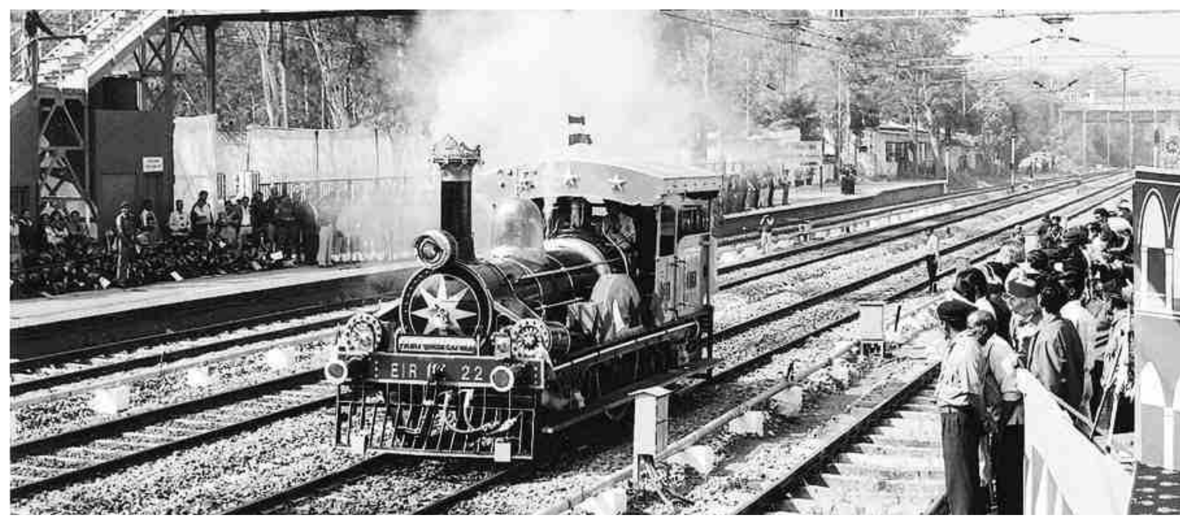
There's some intrigue and unanswered questions about the Express and the Fairy Queen

INFRA DIG

BIBEK DEBROY

The advent of railways in India is generally dated to April 16, 1853. At 3.35 pm on that date, a train left Bori Bunder for Thane (then Tannah), with three steam locomotives (Sindh, Sultan and Sahib) pulling it. No photographs exist of that journey or the locomotives. Sindh, Sultan and Sahib have vanished into the pages of history. No one knows what became of them. Between 1852 and 1853, the Great Indian Peninsular Railway (GIPR) imported eight locomotives from Vulcan Foundry. Sindh, Sultan and Sahib must have been from that lot. Down the years, the postal department has issued several stamps with locomotives on them. A set of such stamps was issued on May 15, 1976, and one of these stamps shows a locomotive with the explanation "GIP No. 1". This is one of the first locomotives to be used in India and Sindh, Sultan and Sahib must have looked like this. Since the cylinder was inside the engine, these locomotives had a longish appearance, a bit like the locomotives George and Robert Stephenson designed. For steam locomotives, a classification system known as Whyte (named after Frederick Methvan Whyte) is used. In essence, the Whyte notation counts the number of leading wheels, driving wheels and trailing wheels. GIPR locomotives such as Sindh, Sultan and Sahib were 2-4-0 — two leading wheels, four driving wheels and zero trailing wheels. When you look at an image of the postage stamp, such as on the Net, this will be obvious.

On April 16, 1953, the postal department issued another 2 anna postage stamp, with two locomotives on it. For this, too, you will find an image on the Net. The first locomotive was from 1853, the second from 1953. That 1853 locomotive has flummoxed me and no one has been able to answer my question satisfactorily. In 1855, Kitson, Thompson and Hewitson built several locomotives, including some for the East Indian Railway (EIR). In the Whyte notation, these were 2-2-2T. This means two leading wheels, two driving wheels and two trailing wheels, but the suffix "T" needs an explanation. A steam locomotive needs to carry coal or other fuel and water. This may be on a separate tender pulled by the locomotive, in which case, it is called a tender locomotive. In the Whyte notation, a tender locomotive has no letters as suffixes, beyond the numbers. Those GIPR locomotives were tender locomotives and in the image, you will see the tender behind the locomotive. Alternatively, the locomotive can carry coal and water inside the locomotive itself. This is called a tank locomotive, indicated by the suffix "T". The EIR locomotives were tank locomotives. If you contrast the two images in the two stamps, the difference in appearances will be clear. Incidentally, for these EIR locomotives, the cylinder was on the outside.



VINTAGE TRAIL Withdrawn from service in 1909, Fairy Queen was restored in 1997 and did a two-day excursion from Delhi to Alwar. It entered the Guinness World Records as the world's oldest functional steam locomotive

Thus my question. In 1953, a hundred years of the 1853 run was commemorated. Why use a locomotive not used in 1853? The 1953 stamps show an EIR locomotive, not a GIPR one. Indeed, the locomotive shown in the stamp as being of 1853 vintage had not even been built in 1853. It was built in 1855. There are records of two such EIR heritage locomotives in working order, EIR-21 and EIR-22. Both were built by Kitson, Thompson and Hewitson. Later, they were known as EIR 91 and EIR 92. Much later, in 1895, they came to acquire the respective names of Express and Fairy Queen. The old locomotive shown in the 1953 postage stamp is the Express, not the Fairy Queen. I don't detect any numbers on the stamp, so I don't know how one can tell. However, since railway experts say so, it must be true. It is believed that Express was used for ferrying British troops to suppress the 1857 War of Independence. Subsequently, it retired and was preserved at the Jamalpur Locomotive Workshop. It then became an exhibit at the Railway Museum, Howrah. Later, it moved to the Perambur Locomotive Works. As for Fairy Queen, it is a famous locomotive. It was withdrawn from service in 1909. But restored in 1997, it did a two-day excursion from Delhi to Alwar, with an overnight stay in Sariska. The locomotive entered the Guinness World Records as the oldest functional steam locomotive in the world and is now housed in the Rewari steam locomotive shed. Express and Fairy Queen are like twins. But since Express was numbered EIR-21 and Fairy Queen EIR-22, the former must be the elder twin.

Perambur restored Express to working condition in 2010 and once in a while, it has been used to run heritage specials. On September 10, 2017, Southern Railway used Express to haul a single compartment between Egmore and Kodambakkam. (There are pictures and a wonderful video on the Net.) Does this mean the Fairy Queen loses its status as the oldest functional steam locomotive in the world? I suspect this might be a premature deduction, though I am unsure. Express has been restored to working order. Among working heritage steam locomotives in India, Express and Fairy Queen are from 1855. Chronologically, the next one is Pawan Doot, from 1905. That's the gap between these two and the others. However, the record seems to be about the oldest functional (in operation) steam locomotive, not the oldest locomotive in working order. Therefore, like Delhi-Alwar, Express will need to have a regular run. Nevertheless, Fairy Queen's record, which has existed since 1998, is under threat.

The writer is a member of the National Institution for Transforming India Aayog. The views are personal

CHINESE WHISPERS

Who's '*priya*', who's not

On the Congress website, its "Vichar Vibhag", or intellectual cell, is headed by "chairman" Girija Vyas. On Thursday, 71-year-old Vyas, a former Union minister, chaired a seminar on the impact of demonetisation. The speakers were party leaders Anand Sharma and Randeep Singh Surjewala. It was attended by students and lecturers from several colleges and universities in Delhi. The old versus new guard struggle was evident at the seminar. As Vyas introduced the subject, Sharma, who sat on her right on the dais, appeared to be grimacing and shaking his head. She said the international price of crude was ₹56 a litre; Sharma pointed out that it was $56 a barrel. Vyas also said the government breached its fiscal deficit target and it was at a low. Eventually, Vyas introduced 64-year-old Sharma and 50-year-old Surjewala as leaders who are "priya", or liked by Congress President Sonia Gandhi and Vice-President Rahul Gandhi. "*Aap bhi unki priya hain* (you are also liked by them)," Sharma said. Vyas seemed unconvinced.

'Code of conduct' for Durga Puja

Pandal hoppers in Bihar will not see any political cartoons, cut-outs or caricatures this Durga Puja. Till a few years ago, caricatures of political party bosses were a common sight at pandals. Last year, too, authorities had urged *puja* organising committees to avoid such caricatures, but stopped short of issuing an order to that effect. This time around police station house officers have been instructed to keep a check on pandals and take action in case of violation. This might dampen the mood of *puja* committees supported by the Rashtriya Janata Dal that were preparing to "give it back" to Chief Minister Nitish Kumar, as they blame him for the party's ouster from the government.

New boss for RSTV?

Beleaguered television channel Rajya Sabha TV (RSTV) could soon get a new chief executive officer. A A Rao, additional director general of the Press Information Bureau, could be asked to fill the post vacated by Gurdeep Singh Sappal, who left after former vice-president Hamid Ansari's term ended. Rao has worked for a long time with Vice-President M Venkaiah Naidu, ex-officio chairman of the Rajya Sabha. Rao would bring with him years of experience in Doordarshan News, which could help RSTV. Naidu recently ordered an audit of RSTV after discovering that huge costs — to the tune of ₹60 crore annually — were incurred by the government-owned channel.

INSIGHT

Why India is an FDI magnet

The country satisfies several preconditions to attract FDI

SONAL VARMA

Foreign direct investment (FDI) is looking for a new destination. Rising labour costs in China and an ageing population in North-East Asia mean the major countries involved in global supply chains have become expensive in terms of manufacturing. Moreover, growth opportunities globally are sparse, and all the while multinational corporations (MNC) are on the lookout for high-growth markets.

India satisfies many preconditions required to attract FDI. First, it offers a large market. Favourable demographics, rising per capita income and low penetration of consumer goods and services suggest immense potential. Income growth is likely to be the fastest in the top income bracket, but the number of middle-income consumers is also rising, which can translate into a multi-year consumption boom.

Second, while India always had a large market, it attracted less FDI than its potential because its investment climate was not necessarily as attractive as elsewhere. This is set to change. A swathe of ongoing reforms — including the goods and services tax, FDI liberalisation, public spending on transport infrastructure, bankruptcy laws, crackdown on corruption, the scrapping of obsolete laws, online clearances — should pave the way for a better investment climate. Specifically, a comprehensive overhaul of the transportation sector targeting roads, railways, inland waterways, ports and shipping investments will lower costs and enable higher efficiency.

Third, MNCs are looking for countries that offer sound economic management and are politically stable. In this context, the govern-ment's

India has a large market, an advantage for FDI inflow PHOTO: ISTOCK

commitment to fiscal consolidation and the Reserve Bank of India's focus on ensuring low inflation should ensure macro stability.

Fourth, while the availability of skilled and low-cost labour is not a primary determinant of FDI — especially, in the age of robots — both manufacturing and non-manufacturing wages in India are much lower than they are in China. This, along with a growing labour force, could be an added advantage.

To estimate just how much potential FDI India could attract, we use two approaches. In the first, we take a period of rising FDI inflows into North Asia as a benchmark. In the second, we empirically estimate the impact of different macroeconomic pull factors in driving FDI inflows using a cross-country panel regression.

An average of the two approaches suggests that gross FDI flows into India could almost triple from $44 billion in 2016 to $126 billion by 2025. Unlike the open economies in Asia that attract vertical FDI because of their presence in the overall supply chain, we believe that India will attract more horizontal FDI, or FDI largely attracted by the growing domestic market (rather than for just exports).

There is growing evidence of rising interest in India. We looked at the investment commitments made by several MNCs over the last few years and segregated these by country and sector and found two interesting trends.

The sectoral breakdown shows that the largest FDI commitments are in the manufacturing sector, with industrial parks, pharmaceuticals, consumer non-durables, electronics and railways all standing out as areas that have seen large investment commitments. After manufacturing, renewable energy attracts the next largest FDI commitment. So it is not just the erstwhile telecom, information technology and auto sectors that are seeing an interest from MNCs, but a number of new-economy sectors are also emerging.

The second trend is that unlike in the past, when the bulk of FDI inflows came from the West, the largest FDI commitments are now coming from within the region, especially from Japan and China. Both the countries are looking outwards due to ageing populations; the former is affected by a contracting market and the latter by overcapacity and rising labour costs.

As FDI inflows into India pick up, the economy can experience a virtuous cycle as rising investment boosts productivity and potential growth, which in turn attracts more FDI. Rising FDI inflows can also ensure a stable source of financing for the current account deficit. The benefits are immense.

Overall, the FDI opportunity has been presented on a platter; it is up to India to seize it.

The author is managing director and chief India economist, Nomura

LETTERS

Focus on the mundane

Money managers of the Bharatiya Janata Party (BJP) seem to have taken a leap of faith — from launching MUDRA to considering the introduction of an Indian cryptocurrency, "Lakshmi" — within a short span of two years. While the editorial, "Avoidable 'Lakshmi'" (September 20), ably discusses the technical pros and cons of introducing an Indian cryptocurrency, I am baffled as to why it should be named after a revered Hindu goddess and consort of Lord Vishnu.

Yes, Lakshmi is synonymous with prosperity and Hindu households pray for its arrival, especially during Diwali. Several families name their girls after the goddess, too. But prosperity and currency are different things.

If a digital currency is named after the goddess, news headlines in the future may read like "Lakshmi has been devalued", "Black Lakshmi of terrorists seized by the police", "Lakshmi worth so and so confiscated". Whether we have a cryptocurrency of our own or not, it would be better to choose a non-controversial name for it.

Cryptocurrency is coined from "crypto", from which is also derived the word, "cryptomania". One website, *Termwiki.com* defines it as "a pathological striving to hide intents or thoughts, to do many things in secret".

The government should concentrate on mundane issues in currency management such as enforcing the acceptance of its ₹10 coin. Restoring faith in the existing currency should be a bigger priority than generating euphoria over the possibility of a new digital currency.

Y P Issar Karnal

Not a good time

The hike in petrol and diesel prices will hit exports. Already plagued by huge capital stuck due to hurdles caused by the goods and services tax, exporters are keeping their fingers crossed over the government's move to raise prices.

Exporters are not interested in accepting new orders as there is hardly any profit in transactions; hence, overseas buyers are placing their orders with neighbouring countries.

The government's move is unwarranted as it comes at a time when international oil prices are low and rupee appreciation has brought down prices of buying oil from other countries. Prices of oil in neighbouring countries are about 50 per cent less than those in India.

The government is only concentrating on widening the tax base, mopping up tax collections and levying higher excise without considering the trade impact, especially exports. None of the recent government steps seems to be alleviating the problems of exporters or the common man.

A Sathyanarayana New Delhi

Bonus irony

This is with reference to the report, "Railways staff to get productivity-linked bonus ahead of Diwali: Cabinet" (September 21). It's an irony that the government has decided to grant the Productivity Linked Bonus (PLB), equivalent to 78 days of wages — as against the bonus payable for 72 days according to the existing formulae — to Indian Railways staff so as to "motivate" them. Are they not being paid enough to be reasonably "motivated" to perform their duties? In any case, I would want to know the methodology used by the government to "assess productivity".

Should such a "generosity" not have been avoided at a time when the Indian Railways is facing public criticism due to its poor safety record? It is also under obligation to bear the huge financial burden with respect to accident-related aspects such as the immediate replacement of smashed/badly damaged rail coaches and urgent repair of affected rail tracks, among others.

The railway authorities might soon come up with "innovative" and out-of-the-box ideas to conveniently pass the financial burden to passengers. Where are we actually headed, then?

Kumar Gupt Panchkula

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

HAMBONE BY MIKE FLANAGAN

https://telegram.me/TheHindu_Zone https://telegram.me/PDF4EXAMS

Business Standard
Volume XXII Number 29
MUMBAI | FRIDAY, 22 SEPTEMBER 2017

Keep the fisc in mind

Govt cannot spend its way to economic growth

It is now clear that the Indian economy is undergoing a growth slowdown. Since early 2016, India has seen six successive quarters of slowing growth; the last data print for growth showed it had hit a multi-year low of 5.7 per cent, year on year, in the April to June quarter of 2017. It is, therefore, welcome that the government is finally showing signs of urgency and considering methods to revive the economy. After meeting his colleagues in other ministries, Finance Minister Arun Jaitley has said the government will take any "additional moves that are necessary" to this end and that he will unveil them after consultation with the Prime Minister. However, it is to be hoped that these measures correct policy errors and delays of the past, and are not merely additional spending.

Of late, several voices have called for more lax monetary and fiscal policy. Interest rates are set by the monetary policy committee of the Reserve Bank of India (RBI) and respond strictly to price-related signals. The RBI's monetary policy committee has made it clear that, as far as the restoration of the high-growth path goes, the ball is in the government's court. But looser fiscal policy would be dangerous too. The government has been at pains to establish the credibility of its fiscal consolidation path. Sequential policy documents, including the NITI Aayog's three-year action plan and the medium-term fiscal framework, have reiterated the importance of keeping the fiscal deficit under control. A repetition of the "taper tantrum" of 2013, when the Indian economy teetered close to a balance-of-payments crisis, seems unlikely. Foreign exchange reserves are at record levels. But macroeconomic stability is fragile as long as it is dependent on stable and relatively low oil prices and steady inflows of foreign capital.

Now that the United States Federal Reserve has indicated that it will begin unwinding its extraordinary bond-buying programme, India must brace itself anew. Under such circumstances, abandoning fiscal restraint would be deeply irresponsible. In any case, the fisc is under pressure following the introduction of the goods and services tax (or GST). The new tax regime has caused a degree of uncertainty about the future revenue stream for both state and central governments. No new spending programme can be embarked upon under such uncertain conditions.

The focus should thus continue to be on the government living within its means, such as they are. The Centre must not replace a commitment to reform with a false belief that it can spend its way to growth. It has already demonstrated a weakness for such thinking in the past; but conditions, as the oil bonanza dries up, are now more difficult. There is no substitute, therefore, for working on structural reforms. It is to be hoped that, when consensus within the government is achieved, that it will be for deeper reforms, especially to labour, land, and agricultural markets, and not for a sizeable expansion of spending. Fiscal consolidation has been one of the prized achievements of the present government. This year the budgeted fiscal deficit of the central government is 3.2 per cent, which will fall further to 3 per cent in the following year. The expert committee on fiscal responsibility and budget management, too, has recommended bringing down the fiscal deficit to 2.5 per cent by 2023. Voices calling for a deviation from the path of fiscal consolidation must be ignored.

Wrong approach

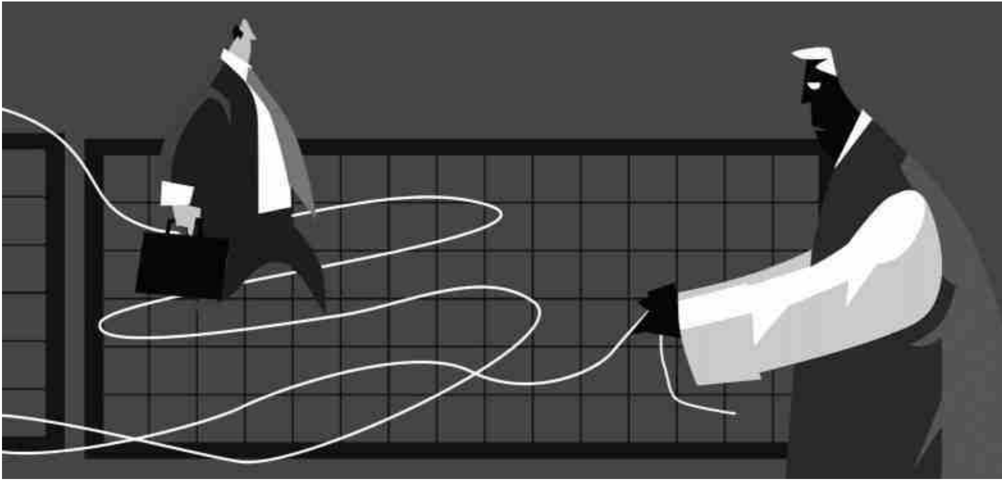
Farm incomes will not double by productivity increases alone

The government's much-hyped seven-point plan to double farmers' incomes by 2022 is essentially no more than a repackaging of the ongoing agricultural development schemes. As a whole, the package suffers from some fundamental flaws and glaring deficiencies. For one, it is focused more on raising farm productivity than on improving the profitability of farming. The fact it disregards is that higher output does not necessarily lead to higher income. In fact, bumper harvests often cause a slide in prices, denying growers the anticipated economic gains. The recent slump in the prices of most crops in the wake of the last year's monsoon-induced record agricultural production is a case in point. Far from bolstering farmers' earnings, it worsened their economic plight, accentuated rural unrest and triggered stirs in several states to demand higher prices, loan waivers and reservation quotas. Even if prices do not plummet to unreasonable depths, the additional income from incremental output can, at best, be marginal because the operational holdings of most farmers are too small (less than 1.5 hectares) to produce sizeable marketable surpluses.

Besides, doubling of income by 2022, from a 2015-16 base, would require an estimated income growth of over 10 per cent a year. Such an acceleration is hard to come by through the productivity route alone. Past experience bears this out. A substantial step-up in farm output in the past few decades, which has made the country self-sufficient or surplus in most crops, has failed to bring about a proportionate rise in farm incomes. The need, therefore, is to lay equal, if not more, emphasis on various lucrative farm and not-farm economic activities. These can include, among others, high-value farming involving horticulture, floriculture, herbal farming and farm forestry; agriculture's ancillary and allied activities, including novel ventures such as rabbit and quail rearing; waste reduction and value-addition of farm produce; and effective market support. Though some of these aspects find a mention in the income-doubling strategy, yet the weight given to them is grossly inadequate.

The two critical elements sorely missing in the seven-point agenda and which are absolutely imperative to raise farmers' earnings are a stable policy regime governing agricultural pricing and trade and the creation of employment opportunities in the off-farm rural sector. The current pricing policies seem to have a pro-consumer bias, dictated chiefly by the need to keep inflation down. This spurs uncalled for interventions such as frequent opening and shutting of imports and exports of farm goods, changes in import and export levies, and imposition of stock-holding and other curbs on trade. Unless the interests of the consumers and producers are evenly balanced, farmers' incomes are unlikely to swell. The minimum support price (MSP) mechanism, which has failed to show results except in a handful of crops and in some areas, needs to be supplemented with other measures to ensure remunerative crop prices. The new price deficit reimbursement scheme of Madhya Pradesh could be one of them. It seeks to compensate farmers for any shortfall in realising the MSP. Also, the creation of supplementary sources of income in and around rural areas is essential. Unless such aspects are taken care of, the goal of doubling farmers' incomes may remain elusive.

ILLUSTRATION BY BINAY SINHA



Reviving investment

Instead of trying to achieve a cyclical correction, the government should put in place a long-term agenda for boosting growth

The stock market is booming but there is gloom in many boardrooms. In many, a spirit of caution reigns and in some balance sheet woes are the source of concern. Foreigners are pouring their money into India. (Or, is it round-tripping by the money which may have fled through import over-invoicing and *hawala* during the demonetisation scare?) But the big players are being cautious and putting more into debt than equity. The Sensex and Nifty may be soaring. But real investment intentions are not.

The mood of investment pessimism in the private sector is reflected in the steady fall in the rate of gross fixed investment from the level of 34.3 per cent of gross domestic product (GDP) in 2011-12 to 29.2 per cent in 2015-16. The continuing declines since then, with the level hovering around 27 per cent from the second quarter of 2016-17, points to a worsening situation. We cannot get 8-9 per cent growth with this fixed investment rate, particularly with capital-intensive infrastructure claiming a larger share of the investment pool.

NITIN DESAI

The fairly lengthy period of decline cannot be just cyclical. Some deconstruction of the problem is needed to identify sensible policies for reviving investment.

The fixed investment of private non-financial corporations remained about 11 per cent of GDP, and of public sector corporations and government at 7 per cent of GDP throughout this five-year period. But non-corporate and non-public sector investment fell from 15.6 per cent to 10.8 per cent of GDP. The national accounts label this as household investment, and a big chunk of this is construction; but it does include the investments made by unincorporated private enterprises. The investment pessimism in the unorganised sector may have worsened further, as it has taken a big hit from demonetisation and implementation of the goods and services tax (GST).

The organised private and public sectors are the prime drivers of investment demand. Rising investment demand from them raises wages and incomes in the household and unorganised sector enterprises, and this boosts growth. However, the stimulus provided by the organised sector's investments to the rest of the economy depends not on its gross investment but on the excess of this over its savings.

In the case of the public sector and the government, this net impact remained around 3-4 per cent of GDP in this period. But in the private corporate sector, this net impact fell from around 3 per cent of GDP to virtually nil in FY15 and FY16. Many corporations are parking their cash in mutual funds and their holdings amounted to ₹890,000 crore in June 2017, a staggering 62 per cent increase on the June 2015 level.

Had the fixed investment of private non-financial corporations been above their savings in 2014-15 and 2015-16 by just 3 per cent of GDP the extra investment would have been about ₹750,000 crore over these two years, a stimulus far in excess of what the budget could have provided. This is what we would have seen had investment sentiment in corporate boardrooms been comparable to what had prevailed just a couple of years ago.

One reason for the caution about new investments in the private corporate sector is the slowing of demand growth because of what is happening in the household and unorganised sector investment spending, the deceleration in export growth and the influx of imports (both attributable in part to a perverse movement in exchange rates lately) and a slowing down of autonomous demand growth from public spending on employment and infrastructure in rural India.

Another reason that is as important is the balance sheet problem of corporations that had overextended themselves in boom times, when easy money was available from public sector banks and low interest international borrowings. The real problem is that many Indian corporations do not manage good times well and that lands them in severe difficulties when bad times hit them.

This non-performing assets (NPA) problem has always been with us. But the scale has increased and continues to grow so that it poses a large scale systemic threat to the financial system and the economy. The old option of ever greening of unwise loans by pliant banks and influential promoters is no longer available. The Reserve Bank of India (RBI) and the government have of necessity to crack down and, perhaps for the first time in recent history, corporate heads face the threat of having to pay the price instead of passing the buck to workers and lenders. The new provisions for insolvency and bankruptcy have reinforced this very necessary pressure. What the government has done on this front is very desirable. But it is also partly to blame. Many of these NPA cases are linked to the way the programme for getting the private sector into long-term infrastructure investment through public-private partnership (PPP) was designed and run.

Given this perspective what can be done to revive investment optimism in the economy?

- Correct the perverse movement of the exchange rate and change the RBI's mandated goal in the Monetary Policy Framework Agreement from inflation control to that, and investment growth.
- Small and micro enterprises are in a very bad shape. Soften the immediate impact of the GST. For the longer term improve their access to credit, technology and skill development and provide purpose designed infrastructure in all MSME clusters. Reviving investment sentiment in this sector is vital for job growth.
- Redesign the PPP policy on the lines suggested by the Kelkar committee particularly to ensure more realistic risk sharing. In the longer term this partnership can only work if the infrastructure services markets are made more rational in terms of pricing, access to shared facilities, entry, exit, and inmarket competition.
- Put the fear of loss of control in the minds of promoters by creating a market for corporate control. This requires greater activism by institutional shareholders (separated by a firewall from the government if they are in the public sector), easing of takeover codes that tend to favour incumbent managements and actively promoting shareholder education.

This is not an agenda for cyclical correction but a long-term agenda for an economy whose dependence on private sector dynamism will only increase not decrease.

nitin-desai@hotmail.com

For whom a lower MTC?

The interconnection regime is really quite simple. If a call originates in network A and terminates in network B, then network A has to pay network B for the "work done" in terminating the call. This is called the mobile termination charge (MTC). The recent downward revision of this charge by the Telecom Regulatory Authority of India (Trai) is the subject of considerable controversy.

Trai's decision is: (a) lower MTC from 14 paise to 6 paise; and (b) mandate that MTC shall be zero from 1 January 2020. It has been reported that the first decision bestows a benefit of ₹5,000 crore on Jio and an equivalent loss on the other major operators. The second decision is also entirely in favour of Jio.

If traffic between networks A and B is balanced, the level of the MTC is immaterial. However, if traffic is imbalanced, then it makes a huge difference. Since the traffic from Jio to other networks is far higher than the incoming traffic on the Jio network, a lower MTC reduces Jio's payout, hitting the revenues of its rivals. And, if MTC goes to zero (in 2020), Jio will once again be the major gainer.

RAHUL KHULLAR

The decision has not gone down well because it appears as if the regulator is being partisan. And, this comes in the wake of the regulator's inaction since September last year on Jio's tariff plans. Even when Telecom Disputes Settlement and Appellate Tribunal (TDSAT) told Trai to take a view, the regulator dawdled. The result: Predatory pricing continued destroying value and financials of the sector. And the regulator remained mum. So, it is no surprise that there is a more vehement articulation of bias.

The explanatory memorandum (EM) accompanying the regulation provides the justification. The reasons advanced: It will encourage competition, force networks to upgrade technologically, and benefit consumers.

First, Trai's mandate is to balance the interests of consumers and producers. The government is seriously worried about the telecom sector's health. Hence, one would have expected some consideration of this by Trai. There is not a word in the EM about the precarious finances of the sector. Nor, about where the resources are going to come for the huge investments required for upgrading networks. Thus, the decision is heavily skewed, not one that balances competing interests.

Second, how can the decision compel tech upgrade, if there are no internal resources with the debt-laden sector? And, is it the job of the regulator to decide technology of an operator? That's what market competition is about.

Third, in the same breath the regulator claims it will promote competition. The EM is not clear how it will do it except for a few bald statements. However, consider the perverse incentives it creates. Jio can now afford to lower its consumer tariffs because the MTC has fallen. This will lead to another round of predatory pricing by Jio, now firm in the knowledge that its losses will be lower because of the smaller MTC payout. How can the regulator not see that this is destructive competition?

Let us now turn to how Trai reached the 6 paise decision. The MTC has always been cost-based (cost of work done). Trai decided to use a costing methodology (pure LRIC) that is employed in mature developed country markets. It is also known that this yields the lowest possible cost. In 2015, Trai used the LRIC+ methodology, arguing that the pure LRIC approach is a textbook theoretical model and unsuited to India. The difference: The 2015 method includes costs of spectrum and common costs; the pure LRIC omits them. In India, spectrum costs 10 to 20 times that in the rest of the world. It is the main cost: Just look at the debt of the telcos. How can we justify its omission? In the space of two years, Trai abandons an approach suited to India and plumbs for one used exclusively in developed countries. Is there any developing country that uses the pure LRIC method? Why abandon the earlier approach that Trai found suitable? The EM is silent on these matters, inviting the allegation that the method was chosen to yield the lowest possible number.

Now, the 2020 decision. This is an industry where technological change is a fact of life. And, few would risk predicting the course of change for just one year. Then, why not just wait and see how things evolve and then take a decision closer to the date. Why the unseemly hurry to announce that decision today? This provokes the allegation that it is merely to let Jio pocket this decision now. Moreover, the EM is completely silent on how Trai came to the date January 1, 2020. Why not January 1, 2019 or January 1, 2021?

In no country of the world – not one – has the regulator issued regulations mandating MTC equal to zero. This fact does not merit even a passing mention in the EM. Then why is Trai doing this? Any surprise that this decision too is inviting charges of partisan behaviour.

Another justification offered is: IP networks don't need the MTC and these are around the corner. Reality check. Jio is not a full IP-based network. None of them will be for quite some time, given resource availability. Spur the move to VOLTE? Rural teledensity at 40 per cent; low penetration of smartphones; internet access in rural areas… forget it; and 50,000 villages with not even 2G connectivity. As for NFON/BharatNet the less said the better. For which India was Trai taking this decision? An imaginary one it seems.

The telecom sector is in dire straits. The finance minister (FM) says that the government cannot preside over its demise. Clearly, the FM and Trai are on different wavelengths. Urgent action is required. And, Trai's decision is not a good augury. Government cannot afford to be a silent watcher-on. This is not the first time Trai has been accused of bias; and, in my memory, never have such charges of bias been leveled against any other regulatory body. The government must beware: It is but one short step to crony capitalism.

The author is ex-chairman, Trai

Vladimir Putin's destiny

BOOK REVIEW

KANIKA DATTA

Russia's President Vladimir Putin has never looked more powerful. He has all but "won" – for want of a better term – the civil war for his client dictator in Syria, gaining access to an airbase and a port on the Mediterranean coast, a long-held Czarist dream. His Crimean conquest is intact. He has helped the world's sole super-power elect his favoured candidate to the White House. He and his patsy, Donald Trump, may be the pantomime villains for the West, sanctions and low oil prices may be pinching the Russian economy but his popularity at home in his 17th year in power remains buoyant.

So does the intriguing subtitle to this book predicting the imminent downfall of Mr Putin and Russia amount to little more than fervent wishful thinking by western foreign policy mavens? In the acknowledgements, Richard Lourie, a Russophile and consultant on Russia to Hillary Clinton during her 2008 presidential run, thanks George Soros for "a valuable idea". And the Hungarian-American investor's uncanny geo-political prescience should never be discounted.

Chapter 1 offers some less-publicised facts to support Mr Lourie's thesis. In April 2016, Mr Putin created by presidential degree praetorian guard. This 400,000 strong National Guard co-opted troops from the interior ministry (including the feared SWAT-riot police units called OMON), nine battle tanks, 35 artillery pieces, 29 aircraft and 70 helicopters and is headed by a thuggish loyalist. This presidential militia is "about half the size of the regular Russian army and among the world's ten largest," Mr Lourie writes.

This personal army has multiple stated functions – does the term Schutzstaffel ring a bell? – but its creation is a symptom of Mr Putin's sense of vulnerability, Mr Lourie argues. Its primary purpose is "to prevent Putin's personal nightmare scenario from becoming a reality" — that is, when the interlocking crises that assail Russia today combine to precipitate his overthrow. The core of this book is explaining each of these crises and how they threaten Mr Putin.

Anyone who has read histories of the Romanovs and Soviet Russia will understand why this sprawling country, one third of it in Asia, struggles to slough off the super-centralisation embedded in its governance structures. Or, how mega-existential crises – from the founding of the Romanovs, through the Russian revolution to the disintegration of the Soviet Union – ensure the eternal popularity of the strongman.

But Mr Lourie deftly ties the past and present in thought-provoking new perspectives. He reminds us of the chaotic last days of the Soviet empire, when the state literally withered away, and the US put its faith in a maverick, alcoholic upholder of democratic values, Boris Yeltsin.

He recalls Mr Putin's innate sense of betrayal when Nato, having promised not to progress one inch, gobbled up unified Germany, the Baltic states and Poland after the fall of the Berlin Wall (Strobe Talbott, from whose book, *Russia Hand*, Mr Lourie quotes frequently, could have explained that the requests came from these insecure new nations).

And most of all, he reminds us of how Mr Putin, the exemplary KGB man, saved Yeltsin an embarrassing probe into his family's corruption by implicating the prosecutor in a sex scandal. That explains the abrupt handover of power from Yeltsin to a little-known former intelligence agent in 2000.

Ironically, Mr Putin's vulnerabilities stem from the things that seemingly make him strong. The dynamics of oil and gas, which powered Russian prosperity in the first eight years of his rule, have weakened as prices languish, renewable energy gains converts, and Russia's traditional markets dwindle under the weight of sanctions. Exploitation of Arctic reserves are his last great white hope, but Mr Lourie explains the obstacles — technology (available only from western companies) and aggressive competing claims from the four other countries whose land mass falls within the Arctic Circle.

The cost of failing to diversify the economy is becoming evident in the publicly expressed dissatisfaction of jobless young people, with no memories of 1991 to convince them of Mr Putin's desirability as a beacon of stability. No wonder his most credible political opponents are conveniently assassinated — Alexei Navalny appears to be the last man standing.

Mr Putin's Ukrainian adventure, via support to a "Republic of Random Dudes", as one journalist described the turbulent east, ensures that this former Soviet republic remains destabilised enough to stay outside the European Union. But it may yet become Russia's Afghanistan, as could his Syrian entanglement, with Islamic *jihad* playing out on Russia's restless borders.

If the internet is Mr Putin's new weapon of choice to counter western democracies, Asia is becoming Mr Putin's new playground. But the rising superpower China remains, as on date, more frenemy, than ally of yesterday's giant.

This absorbing, fact-packed book was written before North Korea' leader began his Trump-baiting pyrotechnics. Mr Putin role here is growing in significance as the leader of the free world impotently thunders and blunders. Could this be Mr Putin's finest hour? Or the beginning of his end?

PUTIN
His Downfall and Russia's Coming Crash
Richard Lourie
Pan Macmillan
264 pages; ₹599