

BEST U.S. COLLEGES—AND THE ONES TO AVOID/Pg.82

# INDIA Forbes

PRICE RS. 100. AUGUST 23, 2013

# TIME TO BREAK FREE

INDEPENDENCE  
Day Special Issue  
Pg.37

The boundaries of  
economic, political  
and individual  
freedom need  
to be extended



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# Towards Greater Freedom

**F**or a country that became politically free in 1947 and took a stab at economic freedom in 1991, the script in 2013 could not have been worse: An economy going downhill, a currency into free fall, and a widespread feeling of despondency and frustration. A more full-blooded embrace of markets should have brought corruption down and increased competition for the benefit of customers and citizens alike. But that was not the path we took over the last decade. An expanding pie should have provided adequate resources for offering safety nets to the really poor even while leaving enough with the exchequer to fund public goods. But India is currently eating the seedcorn of future growth with mindless social spending.

Corruption has scaled new heights, politicians have been found hand-in-glove with businessmen to hijack state resources for private ends, and a weakened state is opting for even harsher laws and an ever-expanding system of unaffordable doles to maintain itself in power. Politicians have raided the treasury for private purposes, and businessmen find more profit in rent-seeking behaviour than in competing fairly in the marketplace. As for the citizen, she is angry with the steady whittling down of freedoms, a crumbling education and health care system, and pathetic public services.

The current political power arrangement between centre, states, cities and villages is coming apart at the seams. The impending carve-up of Telangana from Andhra shows that super-large states are not inclusive enough, even as super-cities such as Mumbai and Delhi are being misgoverned due to a misalignment between political power and accountability to citizens.

Indians are not taking it lying down anymore—as the Anna Hazare movement and the public protests over the Delhi gangrape of 2012 indicate. Governance has become the talking point of the next election. The people are fighting back. They may not have succeeded in organising themselves too well, but they are speaking up.

India, in short, is getting ready for the next freedom struggles, the next million mutinies.

In our Independence Day special issue that is now in your hands, we asked several eminent businesspersons, experts, independent thinkers and non-conformists to share both their diagnosis and remedies for India's next phase of growth and movement towards greater personal, political and economic freedom.

This year's I-Day comes when the country is on the cusp of major political change. The ideas in this issue should thus be fodder for the electoral battles of 2014 and beyond.



**India is getting ready for the next freedom struggles, the next million mutinies**

Best,

**R JAGANNATHAN**

Editor-in-Chief, *Forbes India*

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Tracks the world of business from the rear seat



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### Lessons From Detroit's Demise

Detroit is a very real and sad example of how a boom turned into bust in less than a generation. The newfound prudence in the bond markets from investors who have been burnt by this default, may perhaps be the real driver of change in getting municipal leaders and planners to make the difficult choices they need to



### The MOOC Question

Massive Open Online Courses are here to stay. Question is: In what form?

share their groceries with. Indians, too, have a slightly different approach

### Chhedda Internet Supermarket... Now Open!

Even in the West, e-portals are creating robust front-end touch-and-feel stores. People aren't comfortable with only an IVR system to

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Why don't we engage in scientific public debates on critical issues; why do our scientists remain socially insensitive?

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By R Jagannathan & Dinesh Narayanan

**WHY BANKING IS AN ATTRACTIVE SECTOR**  
By R Jagannathan

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Crowdfunding promises to democratise funding of startups. But is that necessarily a good thing?

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Forbes India is printed & published by Mr B Sai Kumar on behalf of Digital18 Media Limited & Printed at Print House India Pvt. Ltd.

R - 847/2, T.T.C. MIDC, Rabale, Navi Mumbai - 400 701 & Published at Empire Complex, 1ST Floor, 414, Senapati Bapat Marg, Lower Parel, Mumbai - 400 013.

# Readers Say



**India needs more search engines. Without that, one can't blame Google for monopoly**

## Pharma Buzz

Refer to 'Fortis's U-Turn' (August 9, 2013, issue). Great story on Fortis and its promoters. I appreciate the effort that obviously went in, but I stopped reading once I read that "...the rental that Fortis is paying to Religare Health Trust is more than the earnings before interest, depreciation, tax and amortisation...". This, coupled with the lemon that Ranbaxy has turned out to be, is all that an investor needs to know about the company, its promoters and their business practices.

Amit Bhandari, via email

## Gas Bubbles

Refer to 'How India has Punctured its Gas Balloon' (August 9, 2013, issue). Imports are not a solution to the long-term vision of energy independence. It only helps serve the immediate need of industries invested in gas-based energy production—for internal consumption or sale. It is ironical that ministries resort to measures like restricting gold imports when policy reform is what can serve the dual purposes of reducing current account deficit and bridging the demand-supply gap in energy.

Varun Narula, on the web

## Water Woes

Refer to 'No Country for Pure Water' (August 9, 2013, issue). Impure water is the root cause for many diseases. Fifty percent of people in developing countries suffer from one or more water-related diseases. Eighty percent of these diseases are caused by contaminated water. Providing safe drinking water to people has been a major challenge for governments in these countries. The need of the hour for rural areas is mobile water purification systems.

Dr A Jagadeesh, on the web

## Web Wars

Refer to 'Gobble Gobble Google' (July 26, 2013, issue). A great research topic would be why American companies like Google, Apple and Amazon have failed to crack the Chinese puzzle while here in India they are doing significantly better. The key to this is the dominance of English language in India that makes it an easy market for Western multinationals, whereas in China, government 'help' is provided to local companies.

Rajesh Tyagi, on the web

This is bound to happen when there is no competition in the search space. Everyone is busy launching ecommerce sites; who will build a search engine? China couldn't afford to kick Google out before building Baidu. I strongly feel that India needs more search engines. Without that, one can't blame Google for monopoly.

Arun Y, on the web

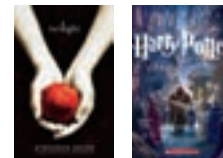
## Corrections & Clarifications

### Issue August 9, 2013

On Page 14 — By 2015 [wrongly mentioned as 2005], nearly half of the world's largest companies will have their R&D facilities in India.

On Page 84 — The article 'Why Banaskantha Loves lady Rosetta' by Vivian Fernandes was made possible by the Inclusive Media Fellowship of Delhi's Centre for the Study of Developing Societies.

### Issue July 26, 2013



On Page 72 — In the article 'The Franchise Four', the images for Stephenie Meyer's and JK Rowling's books were interchanged. The error is regretted.



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# Check-in



/ APERTURE /



**THREE MILLION CONVERGED** on Copacabana beach in Rio for Pope Francis's mass on World Youth Day. He has emerged as an unlikely champion for the youth. "The world crisis isn't treating the young well. We run the risk of having a generation that doesn't work," he has said. As governments show little intent to fix this, faith, perhaps, is a useful friend to have.

Sergio Moraes / Reuters

# 73,800,000

The number of young people who are unemployed globally, according to Global Unemployment Trends 2013, released earlier this year by the International Labour Organization. The persistent economic crisis will probably push another half a million into unemployment by 2014. The youth unemployment rate had touched 12.6 percent in 2012, and is expected to increase to 12.9 percent by 2017.





/ CHANGE AHEAD /

## Professionals to Turn Babus?



**THE SONIA GANDHI-**led National Advisory Council (NAC) has reportedly recommended to the government that it hire professionals to run flagship programmes.

Clearly, this is an idea whose time had come long ago.

Lack of capacity and skilled managers has been a serious problem afflicting the numerous and large

government-sponsored programmes. For instance, Delhi ran 147 Centrally-sponsored schemes during the 11th Plan. At the village level too, there is a crunch of personnel who can use government funds to plan and execute projects.

The NAC reportedly wants professional managers only for the big-ticket programmes. The question is: Is it possible to rope in experienced professionals who've typically been dissuaded by the poor pay? Plus, babus often resent the lateral entry of professionals.

- DINESH NARAYANAN

/ GRADING THE CEO /

## Mayer's Mixed Marks



**UNLIKE HER THREE** predecessors, Marissa Mayer has now managed to make it through an entire year as the Yahoo CEO. She even got a \$1.1 million bonus halfway through. Did she earn it? Shares are up 80 percent, thanks mainly to Yahoo's appreciating stake in Chinese internet phenom Alibaba, but doubts persist, especially after activist investor Daniel Loeb announced he was selling most of his stake back to the company. Here's how her freshman year went:

**PRODUCTS: B-** A revamped home page is more real-time and social. Mail got a facelift, as did some mobile apps and Flickr. Mayer axed at least two dozen old products. But there's still no killer app, and holes remain in mobile, social, video and automated ad buying.

**EARNINGS: C** Revenue, flat since 2011, fell 7 percent to \$1.14 billion in the second quarter. Profit jumped, but most of it comes from how Yahoo accounts for its share of Alibaba earnings. Beyond vague promises of a year-end lift, Mayer isn't saying when things will improve.

**ACQUISITIONS: B** She's on a shopping spree, with 17 small acquisitions and one blockbuster, \$1.1 billion for Tumblr. She's still eyeing ad tech and consumer services.

**MORALE: B+** Mayer has made Yahoo a destination workplace again, importing engineering and product-management talent from Google. Her approval rating on the employee rating site Glassdoor is 84 percent, despite her controversial ban on working from home.

/ TRANSITIONS /

## Industry Movements



**EA SUNDARAM, ONE OF THE** most experienced fund managers in India, has recently joined Pramerica Mutual Fund to look after portfolio management services. Sundaram, along with Prashant

Jain and Chandresh Nigam, was part of Zurich Mutual Fund where they had collectively decided to stay away from IT stocks in 1999. Pramerica MF is sponsored by Prudential Financial Inc.

**USHA SANGWAN** has been named the first female managing director at the Life Insurance Corporation (LIC) of India. Sangwan, an LIC veteran since 1981, has worked for the company in areas like housing finance, direct marketing, international operations and, most recently, served as executive director of communications.



**UNILEVER HAS APPOINTED** Nitin Paranjpe as the head of its global home care business. Replacing him as Hindustan Unilever MD is Sanjiv Mehta (*in pic*), who heads operations in the Middle East and North

Africa. Mehta has been with Unilever for 21 years but has never worked for the company in India.

From Top: Getty Images; Marissa Mayer: Lucas Jackson / Reuters; EA Sundaram: Prasad Gori for Forbes India





## / AUTO TALES /

## GM India's Cup of Woes

### AS THINGS STAND,

General Motors (GM) India is not in the driver's seat.

Late last month, the company announced its decision to recall 1.14 lakh units of its utility vehicle Tavera, manufactured between 2005 and 2013, because they failed to meet emission and specification norms. There has been no official statement on the cause, but media reports suggest GM engineers manipulated emission tests to comply with government standards. Post the controversy, GM has fired about 25 people, including Anil Mehrotra (India CFO),

### 1.14 lakh

Chevrolet Taveras were recalled. Manufacturing of Sail U-VA suspended. Final recall number not announced

### 25

Senior management personnel were fired

### 3%

GM India's market share

### WHAT NEXT?

- Salvage serious loss of reputation and brand equity
- Deal with government investigation
- Costly and tedious recall process

Sheila Jain Sarver (head of GM's India technical centre at Bangalore) and Sam Winegarden (vice president for global engine engineering).

The problem doesn't

end here. From early July, GM has halted the production of its Sail sedan and hatchback citing quality issues. It is contemplating a recall.

Dealers believe this will affect business. And it's not as if GM India's cars have been selling big. In June, it sold 6,575 vehicles, down 11 percent year on year.

- ASHISH K MISHRA

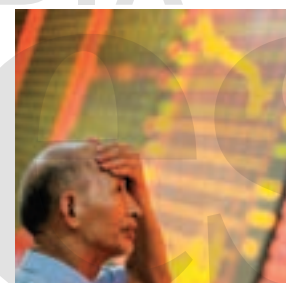


## / CHINA EFFECT /

## Spot the Opportunity

**A CLUTCH OF** investment banks, including Nomura and Barclays, recently lowered expectations of China's growth. Media reports say the gloomiest forecast came from Nomura which does not rule out the Asian giant's output growth falling below 6 percent next year.

The probability of a hard landing in China may be beneficial to India if it manages its economy



## / MARKET WATCH /

### Slowdown Begins to Impact FMCG Stocks Too

**THE DOWNTURN IN** the India growth story spares no one, not even the Sensex's top performers. Consumer companies have been stock market darlings for close to five years. During this time,

the BSE FMCG Index has risen by 227 percent to 6,948. When nothing else was performing, consumer (and pharma) stocks along with private banks seemed to be the best bets. As a result, valuations have sky-rocketed; the index trades at an earnings multiple of 41. Compare this to 14 for the Sensex and the disparity is stark. So now, as FMCG stocks get hit too, it is a grim affirmation

of the slowdown.

Private banks received a setback last month when the RBI tightened liquidity to protect the rupee. There are also initial signs that well-known consumer names are slipping. In the recent round of earnings, market leader Hindustan Unilever disappointed the street with a 7 percent top line growth. HUL said it has seen growth rates slipping since the first half of 2012. ITC also let the street down with its top line as cigarette volumes declined by 1-2 percent, according to brokerage estimates.

- SAMAR SRIVASTAVA

and currency slightly better. Chinese demand over the past decade fuelled a rally in global commodity prices such as those of metals and oil. Those are now coming off as its economy slows. For instance, some expect oil prices to even drop to \$70 a barrel, which bodes well for India.

But the recent fall in the value of the rupee has eroded any gains from lower oil prices. If the government is able to stop the erosion, it may be able to take advantage of the dipping prices, thus easing the pressure on the trade balance.

- DINESH NARAYANAN

	HUL	ITC	Dabur	Marico	FMCG Index
22-Jul	696	368	170	215	7,433
26-Jul	663	368	171	217	7,267
31-Jul	615	336	161	208	6,814

Stock price in Rs

Right: Getty Images



/ IT GROWTH /

# Bigger, but not Bulkier, the Incubator Way



**TECHNOLOGY SERVICES** companies across the country face what its executives call ‘a linear growth’ problem: The more they grow, the more they have to hire. Managers worry about

logistical problems associated with larger teams. Also, investors and stock markets tend to give a premium to companies showing non-linear growth—the kind that does not

involve bulking up staff. Typically, companies use solution accelerators, automation and portfolio changes to achieve this. Tata Elxsi, a Bangalore-based Rs 622-crore design services firm, has taken a different route by setting up a business incubator.

The concept isn’t new—it started in the US as a way to encourage entrepreneurship. In India, incubators were mostly associated with academic institutions. In recent years, a variant of incubators called accelerators is taking off, driven by the private sector.

Tata Elxsi’s initiative, incub@TE, is different from all these, says Rajesh Kumar, VP, Strategic Initiatives. “We are more

focussed about business than academic incubators, and our programmes are much longer than those of a typical accelerator [which last about three months]. The idea is to help create companies that will help us strategically.”

Tata Elxsi benefits from a 10 percent equity stake. The selected start-ups get 18 months of ready-to-use infrastructure, dedicated mentors and help from Elxsi’s marketing and business development teams.

Elxsi, which recently signed up its first startup, a telecom firm called Big V, expects to incubate 30 companies in the next three years. If it succeeds, it might just pave the way for other mid-sized companies.

- NS RAMNATH

/ STARTUP FUNDS /

## Student VCs

**IN 2012, FIRST ROUND** Capital, a Philadelphia VC firm, put \$500,000 into a fund for students to invest in startups. Dorm Room Fund has since expanded to colleges in two more cities. Its 15 investments, mostly \$10,000 to \$20,000, include screen-sharing software Firefly and online used-car retailer ZenKars. We spoke to First Round partner Phin Barnes.

**Where did the idea originate?** “First, college students can create



incredible companies. Second, the best VC funds are run like startups, so we should find students who want to build a VC startup.”

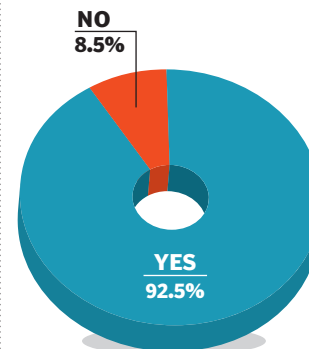
**How do you choose your committees of students?** “We have an open application for anyone from undergrads in liberal arts to people

getting their PhD in biology. And as they graduate they select their replacements.”

**How do they find their investment opportunities?** “They tap their personal networks. They work to deeply understand problems and meet incredibly smart people.”

/ ASK 50 BILLIONAIRES /

## Is a College Education Worth the Time and Money?



—Results of an Anonymous Poll of 50 Members of The Forbes World’s Billionaires List

From top: Indiapicture; Dorm Room by Meghan Casserty



## / SMART TECH /

## Google Wants to Plug into Your TV, Too

**GOOGLE'S LATEST LAUNCH**, Chromecast, is a sleek \$35 USB dongle that plugs in behind an LCD TV, allowing it to 'cast' videos via smartphones, tablets and PCs. Because screen resolutions, distance to the viewer and remote control devices vary greatly across models, bringing a powerful yet intuitive user interface (UI) to a TV is tough. Google, therefore, is betting that the best UI is

no UI. It relies on the smartphone, tablet or PC to provide control, while the TV merely plays the video or audio 'cast to it'.

Through this simple concept and rock-bottom pricing, Google is attempting to disrupt three well-entrenched sets of players positioned to control the modern living room: The likes of Apple and Roku who bring

games and apps to the TV with their entertainment 'hubs'; companies such as Microsoft and Sony who want to morph



their gaming consoles, like the Xbox and PlayStation, into family entertainment devices; and TV makers like

Samsung and LG who want to make their units 'smart'.

Industry insiders like Vishal Malhotra, the head of Zee's internet-based TV offering Ditto TV, feel Chromecast is a mere gimmick. "I've used Android-based HDMI devices that do video and gaming, and cost just \$27. They've never caught on because users find them too complex," he says.

But initial reviews indicate Chromecast is very easy to use and is near-seamless in terms of playback.

- ROHIN DHARMAKUMAR

## / MOBILE TIE-UPS /

## How Next-Gen Smartphone Users are Being Bought & Sold

**AFTER FACEBOOK AND GOOGLE**, Twitter became the latest to buy millions of Indian smartphone users in July.

Now, the actual announcement was about how Twitter had partnered with Vodafone India to offer its services 'free of cost' to mobile subscribers for three months. It had already inked similar deals with Airtel and Reliance, according to Medianama, a digital media news site. Google and Facebook, too, announced such agreements during the past year, whereby mobile subscribers could use their service 'free of cost' through their phones.

Nothing is really 'free' on the web, which is why we have the adage: "If you're not paying for it,



you are the product". So these large web companies are actually buying millions of first-time mobile internet users by paying off their respective mobile operators. Of India's 137 million internet users, roughly 120 million access mobile internet.

Sunil Abraham, director of the Centre for Internet & Society in Bangalore, thinks India could be going down the Indonesia route. "If you ask the average Indonesian mobile user if he or she has internet access, they might say no. Ask them

if they have Facebook or Twitter, and they'll say yes!" Incidentally, 96 percent of Indonesians use social media, mostly from their phones.

Smaller competitors to Facebook, Google and Twitter who can't afford to pay mobile operators on similar terms will find their competitiveness shrinking. Meanwhile, a large number of Indians will balk at paying for internet usage on their phones because the social networks are all 'free'.

- ROHIN DHARMAKUMAR

## / MED INDEX /

# Health Care For All? That's Still a Joke in India

IMS Health, which provides information and services for health care, unveiled India's first physician-chemist census in order to fill gaps in the health care value chain. The census covered 120 cities,

3.73 lakh doctors and 99,000 chemists. We list some key findings that point towards the skewed reach of medical care and decode what the numbers mean.

- SEEMA SINGH

↓ **44**  
 ➤ of the top 120 Indian cities fall below the global median of 1.2 doctors per 1,000 people

*Shows the poor penetration of health care facilities across the country*

↓ **9**  
 ➤ cities account for 52% of the total doctor universe; 42% of chemists in India are concentrated in the top 9 most populated cities

*Leads to high migration as well as bankruptcy; nearly 3% of the Indian population slips below the poverty line every year due to health care expenses*

↓ **29%**  
 ➤ of chemist sales are performed without any prescription

*Confirms the cause behind the alarmingly high antibiotic resistance that is spreading rapidly*

↓ **37%**  
 ➤ of chemist outlets are attached to doctor clinics, polyclinics, hospital facilities and nursing homes

*Explains why some of the busiest commercial districts in even some top metros don't have a drug store to address an emergency*

↓ **30-35%**  
 ➤ of a chemist's sales are from non-pharmaceutical products

*Validates that 70% of health care expenses come from drugs and that the government should give free essential medicines to all*

↓ **20%**  
 ➤ higher consultation fees are charged by doctors in Mumbai. Number of patients seen by super specialists per week: 82 (Metro A), 130 (Non-metro)

*Tells us why big hospitals should open tertiary care branches in small towns or address those patients through remote technology*

**Data source:** IMS Health Physician-Chemist Census July 30, 2013.

## / BETTER LIFE /

## Salt for Thought

OVER THE YEARS, THE link between higher salt intake and rising blood pressure has been well documented by several studies. So much so that the World Health Organization has set a global goal to reduce dietary salt intake to five grams (about one teaspoon) a day per person by 2025. National

guidelines are being set in many countries. "Genetics has a role to play in about 20-30 percent of the patients who respond to salt restriction or excess," says Dr Anoop Misra, director, Centre of Internal Medicine, Fortis Hospital, New Delhi. It also depends on habitat: A person who works in a hot climate and perspires through the day is unlikely to develop hypertension since he's losing salt anyway.



For Indians, the national guideline recommends salt intake of less than five grams of sodium chloride per day.

Meanwhile, there seems to be a connection between the brain and salt as well, or at least to the iodine in it!

In July, a group of economists released a report which showed a rise in IQ among the US population, linked to the mandatory use of iodine in salt. Chew on that too!

- SEEMA SINGH

## / CUTTING EDGE /

## Shaping the Future

ARJUN KALYANPUR

and Sunita Maheshwari, co-founders of Bangalore-based telemedicine company Teleradiology Solutions, are true pioneers. A decade ago, they entered a nascent industry and built workflow systems from scratch. In just a few years (by 2010), they started selling the software which they'd created for themselves, and helped deliver diagnostics for CT scans and MRIs in just 30 minutes, 24x7.

The company is now transforming itself from a service provider to an industry enabler. Its cloud-based teleradiology



workflow software RadSpa has been in the market for a little over two years with 60 installations globally. They claim a 20 percent increase in the productivity of radiologists.

The software works by connecting one diagnostic team in a central location to a number of clinics. The enterprise version costs a one-time fee of \$200,000 while the cloud-based model is \$1 per scan.

But lack of sales and marketing resources can still pose a challenge for the duo.

- SHRAVAN BHAT

From top: Mallikarjun Katakoti for Forbes India, Corbis



# Young Turks

In the decades following India's independence, many new countries were born. Over the years, they have fared differently on various parameters. We take a look at the nations on the top of the heap, in terms of per capita income, and compare them with India.

## Qatar

🚩 **Sep 3, 1971**

▲ **UK**

◆ **183.4**

🏠 **89,902**

👤 **2.04**

Was a protectorate



## Kuwait

🚩 **Jun 19, 1961**

▲ **UK**

◆ **173.4**

🏠 **64,222**

👤 **2.70**

Was a protectorate



## Ireland

🚩 **Apr 18, 1949**

▲ **UK**

◆ **210.4**

🏠 **4,4017**

👤 **4.78**

Independence declared in 1919; the Irish Free State seceded from the UK in 1922. Legislative independence conferred in 1931. All constitutional ties severed in 1948.

## The Bahamas

🚩 **Jul 10, 1973**

▲ **UK**

◆ **8.0**

🏠 **25,134**

👤 **0.32**

Occupied by Japan during World War II; became a British protectorate thereafter. In 1959, a new constitution was written, declaring it a self-governing state.

## UAE

🚩 **Dec 2, 1971**

▲ **UK**

◆ **358.9**

🏠 **65612**

👤 **5.47**

Was a protectorate



## Singapore

🚩 **Aug 31, 1963**

▲ **UK**

◆ **276.5**

🏠 **50,641**

👤 **5.46**

After independence, was part of Malaysia; didn't get sole sovereignty until 1965



## Brunei

🚩 **Jan 1, 1984**

▲ **UK**

◆ **16.6**

🏠 **39,595**

👤 **0.42**

Ranks 2nd highest in the world on the Human Development Index



## India

🚩 **Aug 15, 1947**

▲ **UK**

◆ **1,825**

🏠 **3,900**

👤 **1,220.80**

Sources:  
worldbank.org, cia.gov, imf.org

Text by Abhivyakta Chaturvedi, Palakh Chhabria  
Infographic by Sameer Pawar

🚩 Date of Independence / ▲ From Whom / ◆ GDP (\$billion) / 🏠 Per capita income (\$) / 👤 Population (in mln)

# The Pursuit of Happiness

Does a higher income make people happier? The jury is still out on this

BY SMITA PRANAV KOTHARI

**M**oney and happiness have been married and divorced umpteen times by economists. A recent study by University of Michigan professors Betsey Stevenson and Justin Wolfers united moolah and mirth after Richard Easterlin, an economist and professor at the University of South Carolina, separated them in 1974. While the Easterlin Paradox stated that rise in income does not necessarily increase happiness, the new research refutes

A rice farmer in Bhutan; Bhutan was the first country to institute Gross National Happiness as a measure of prosperity



Corbis

it by proving that the higher the income or the GDP (Gross Domestic Product), the more happy the person or the country is. No conditions apply.

Between the two polar studies, several researchers tried to bring money and happiness together by establishing a threshold till which they hold hands before parting ways. For instance, in 2003, British economist Richard Layard set \$15,000 as the point beyond which money does not fetch happiness. In his 2005 work, Layard reset the point at \$20,000 a year.

But on a macro level, what does the country's GDP say with regard to the happiness-meter of its citizens?

Carol Graham, who is a senior fellow at the Brookings Institution, a nonprofit public-policy organisation based in Washington DC, and author of several books on happiness including *Happiness Around the World: The Paradox of Happy Peasants and Miserable Millionaires*, says GDP is a comprehensive indicator of happiness. "GDP per capita captures country-level unobservables such as freedom and governance, public goods, environment, etc, all of which matter a lot to well-being (economists' term for happiness)," Graham says.

However, Terry Babcock-Lumish, a professor of social sciences at West Point, thinks the contrary. She says GDP rarely considers components of quality of life like pollution, crime, or how unevenly goods and services are enjoyed by a nation's citizenry.

Perhaps for this reason, Bhutan, the first country to introduce Gross National Happiness (GNH) as a measure of prosperity, considers three factors besides socio-economic development to compute GNH: Cultural preservation, environmental protection and good governance. Sangay Dorji, programme officer at Bhutan's GNH commission, says, "GDP is heavily biased towards increased production and consumption, regardless of the necessity or desirability of such outputs by continuously inducing people in labouring for higher

income at the cost of relationships, peace and ecological stability."

For Babcock-Lumish, GNH is a useful indicator as, along with other metrics like GDP and Consumer Price Index (CPI), it provides a more textured understanding of an economy. However, Graham says that of the above pillars, the top priority for the Bhutanese government is to boost the country's economy as it will be the key to reducing poverty and improving health and literacy. "GNH emphasises environment, governance and culture but half their game is not that far off Gross National Product," she says.

Many organisations conduct surveys across the globe and rank countries on the basis of happiness or aspects of it, calling them emotional well-being, prosperity and so on. The Gallup World Poll (used in most happiness surveys like Legatum Prosperity Index, UN's World Happiness Report, etc)

**High income improves one's evaluation of life, but not emotional well-being, which is the quality of one's everyday experience**

measures emotional well-being across 160 countries by asking its citizens five questions like "Did you smile or laugh a lot yesterday?"

Daniel Kahneman and Angus Deaton, scientists involved with the poll, define emotional well-being as "the emotional quality of an individual's everyday experience". In their article, "High income improves evaluation of life but not emotional well-being", the duo mentions that traditionally well-being was limited to life evaluation (what people think about their lives).

In 1974, Easterlin measured life

evaluation in his study, basing his research on open-ended questions on what people want out of life—what they would need for their lives to be completely happy. [The recent Stevenson and Wolfers research also measures life evaluation but they base it on a more closed question like "how does your life fare on a 10-point ladder where 1 is the worst and 10 is the best?"]

According to Graham, open- and close-ended questions generate different responses. "A closed question is framed in relative terms for the respondent and answers to this question correlate more closely with income within and across countries than open-ended life-satisfaction questions," she says.

Moreover, Graham adds that the ladder question used in the new study is the most framed life-evaluation question and is linked most closely to income.

The new study utilises Gallup data on the life-evaluation question and not queries on emotional well-being. Interestingly, Gallup rankings based on the latter parameters show that money doesn't impact happiness, results that are contrary to the new study.

(Latin American countries like Panama top the rankings in the 2012 Gallup Poll, while Singapore languishes at the bottom. However, on the basis of their GDP per capita, CIA World Factbook ranks Singapore at 7, while Panama is way behind at 89).

Graham adds that life-evaluation questions that consider a longer time-period in a respondent's life correlate more closely to income as it includes people's ability to do what they want to do with their lives. In contrast, emotional well-being questions incorporate a shorter time-period (daily experiences) and are less associated with money because, after a point, money can't make you smile more. This is probably why the study by Stevenson and Wolfers with the life-evaluation question, and that too a closed one, as its basis proved that money is married to happiness. **1**

# HOW ETIHAD WILL DIGEST JET

Abu Dhabi-based Etihad has a unique airline-cum-airport strategy that is likely to change the way Jet operates. It promises to be an interesting partnership.

BY CUCKOO PAUL

Etihad Airways's Australian CEO James Hogan doesn't have to think too hard about what to say. This week, he said: "Etihad will discuss ways to further integrate the two networks and help the airline achieve efficiency, build revenue and reduce costs."

He wasn't talking about Jet Airways, his most high-profile investment which is likely to be given permission for take-off any time now. He was speaking in Belgrade, where he signed an agreement with the Serbian deputy prime minister to pick up a majority stake in Air Serbia, the



Jet Airways Chairman Naresh Goyal (left) and James Hogan of Etihad Airways signed a code sharing agreement in 2008. In 2012, 19 percent of Etihad's revenue came from codeshare with partner airlines.

latest carrier to come into Etihad's embrace. When the formalities are complete over the next few months, Etihad will own 49 percent in the loss-making Serbian national carrier.

At different times in the past two years, Hogan has made very similar statements about Air Berlin, Aer Lingus, Air Seychelles, Virgin Australia and Jet Airways. Just a decade old, the mid-sized Etihad (70 planes, mostly wide-bodies) has been executing its own version of the 'string-of-pearls' strategy around the world, and Jet is only one of them. At the core is not just an equity holding, but a well-crafted airline-cum-airport

strategy where Abu Dhabi becomes a crucial hub in this part of the world. Etihad's expansive web of bilateral agreements with many airlines is built on the reality that airline hubs bring economic prosperity. In many ways, Hogan is thus not only shaping the future of Etihad, but even the future of the Emirate of Abu Dhabi.

In financial terms, Etihad's investments have just begun to pay off. In 2012, revenue from codeshares with partner airlines was about 19 percent of total revenues. Codeshare and equity partnerships delivered close to \$629 million. In terms of scale, though, Etihad is still far behind

its older and possibly more glamorous rivals Emirates and Qatar Airways. Yet it is gradually making a mark through its unique model. It already boasts of the largest network for any Middle East carrier, even if less than a third of it is operated with its own metal birds.

## REBUILDING JET

Hogan's strategy for Jet Airways and India is unlikely to be very different from what he has done around the world. Though the Foreign Investment Promotion Board cleared Etihad's proposal to pick up a 24 percent stake in Jet, the deal drew much flak for being a sellout. Reality

is that Naresh Goyal's business model was broken and would not have been able to last very long (see: *Jet Airways: Heading South*). Old Jet soldier Saroj Datta, who has been part of the airline since its inception, minces no words on the situation. "Raising funds was proving to be extremely difficult, and survival would have been tough if not impossible," he says. Datta had been part of Jet's senior management for 18 years and has been reading the writing on the wall for years now.

Jet Airways lost its lead position in the Indian market over the past five years after low-cost carriers (LCCs) hit their stride. Goyal was unable to adapt to this shift in market preference for LCCs, but not for want of trying. In fact, he tried too hard and fell flat. From acquiring Air Sahara to fend off Vijay Mallya and Kingfisher, to lobbying fiercely against foreign airline investment, to trying to make his own low-cost airline Jet Konnect click, he tried everything in the book and outside it. Nothing worked. Jet's debt mounted to \$2.1 billion and needed rescuing by a white knight.

Will Etihad save Jet? Addison Schonland, president of Innovation Analysis Group, an aviation-focused market research company based in the US, says: "We have seen airlines tied into the Etihad network; [they] all show big improvements once they come under the umbrella. So I would expect to see the same at Jet." According to Schonland, the challenge will be how the people at Jet deal with this change. Change is coming, he warns, no doubt about it.

Schonland says the folks at Jet will have to realise that their focus is not on Indian competition, but global competition. Etihad and its partners compete against global

## Measuring Up



ETIHAD		ETIHAD + EQUITY ALLIANCE PARTNERS	
Net Profit (\$ million)		Passengers (million)	
2011	2012	2011	2012
14	42	—	74
Passengers (million)		Fleet Size	
2011	2012	Destinations	
8.4	10.3	70	86
Fleet Size		Destinations	
70		379	384



JET AIRWAYS			
Net Profit (\$ million)		Passengers (million)	
FY 2011-12		2011	2012
-89.4		17.3	16.9
FY 2012-13		Fleet Size	
-243		98	69

Source: Company website

alliances. Jet will have to "up its game" and that would mean a change of pace for its people. Every alliance is only as good as its weakest partner, and Jet wouldn't want to be the weak link, he says.

Looking ahead on the changes in Jet's network, Amber Dubey, partner and head of aviation at KPMG, says Etihad will now have access to 26 Indian cities. A lot of the key decisions will obviously be taken jointly. The new deal will change the nature of international routes for Jet. Most European services are likely to be

dropped and the focus will be on connecting to Etihad's hub in Abu Dhabi. Jet will become more regional, with a heavy focus on providing passenger feeds to Etihad. Ernie Arvai of aviation consulting firm AirInsight says the two airlines will try to provide a more seamless experience for passengers. Aircraft acquisition, seat configurations, and cabin service will be much more integrated.

Arvai says the only question mark is on how deep the alliance will be in operational as well as marketing activities. Given the strong management team at Etihad, they are likely to establish a plan that will slowly integrate the aspects that could result in savings, and aggressively move forward with those. The first focus could be on ground handling at jointly used airports, in which one airline will handle the other's passengers and baggage without duplication of efforts.

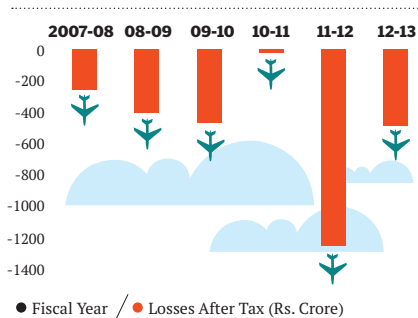
Yet, to really understand what Jet is likely to go through, it might help to look at what Etihad has done with other airlines globally.

**THE ETIHAD WAY**

In some ways, Hogan and his backers in Abu Dhabi are like the Lakshmi Mittals of the airline industry. Just as the steel billionaire fashioned an empire by buying up key, mostly-distressed, steel projects and turning them around to form a larger empire, a big part of Etihad's 'multilateral' strategy is to identify loss-making airlines with access to key source markets. For example, the deal with Air Berlin provided access to the German domestic market—one of the largest in Europe—in the face of bilateral restrictions. Like Dubai and Qatar, Abu Dhabi too has little to boast about in terms of a home market. The latest deal with Air Serbia allows access to the Baltics.

The second feature of all of Etihad's

**Jet Airways: Heading South**



Source: Company website

**Etihad's Global Stake**

	% Stake
Airberlin	29
Aer Lingus	2.9
Air Seychelles	40
Virgin Australia	19.9
*Jet Airways	24
*JAT Airways (Now Air Serbia)	49

\*Deal not yet complete

tie-ups is the careful nurturing of loyal customers. Hogan has developed a collection of frequent flier programmes (FFPs) from airlines that it has a stake in and plans to weld them into his own. In India, an early step was to pick up half of Jet's FFP Jet Privilege flyers for \$150 million. The ability to earn and burn miles is critical to the creamy layer of airline customers. Etihad also owns 70 percent in Air Berlin's FFP Topbonus.

The third is increasing efficiency. Though Etihad's equity tie-ups are still in the early stages, Hogan says they have led to costs going down by over 5 percent last year. This can work in not so conventional ways. For example, Air Berlin was cutting jobs last year, mostly pilots and crew. Half the pilots were transferred to Etihad even as the German carrier cut its fleet and its majority shareholder prepared for international expansion.

The Etihad group has been able to renegotiate deals with suppliers. The first meeting of all the CEOs in the group was held in May this year.

The airline industry is notorious for losing money hand over fist. Alliances, tie-ups and sharing of resources have been standard practice around the world for decades. Code-sharing is a tool used in dozens of variations by airlines to fill their seats. In many ways, Etihad is likely to succeed because unlike open-ended alliances, it has equity and control. The large alliances (like Star or Oneworld) are co-operative. The Etihad version comes with a lot more power because equity means enforcing rather than persuading traffic to board Etihad, says Schonland. He is convinced the model is scalable as long as it continues to be financially strong and can afford investing in each deal.

Speaking on the sidelines of the IATA annual general meeting in Cape Town earlier this year, Hogan had shared his global plans with the media. He is convinced that Etihad will grow organically. Real acceleration for the airline begins in 2015-16, when it starts taking deliveries of big birds like the A380 and Boeing 787. In his mind, the day is not far when Air Berlin could fly directly to India. This seems to be wishful thinking, considering the opposition there was to the Jet-Etihad tie-up. Amber Dubey, who has been advising both the Ministry of Civil Aviation and airlines, is among the few opinion leaders bullish on the deal. He says it will help the Indian civil aviation industry by enhancing capacity, increasing competition and bringing down fares. He is all for freeing the airline business from FDI restrictions. "Let there be as many foreign airlines operating in India through their 100 percent subsidiaries or by buying into Indian carriers. India will only gain," he says.

So will Etihad. **F**





Bal Krishn Birla (left) and Mukesh Singh, Zopnow founders, at their warehouse in Bangalore

# ZOPNOW TAKES A CRACK AT ONLINE GROCERY

Few companies have managed to crack the online grocery challenge—a hyperlocal business. Can Bangalore’s Zopnow break the jinx?

BY ROHIN DHARMAKUMAR

serendipitously, Zopnow ended up unearthing a huge market for products sold under a yoga guru’s name in what is arguably India’s most modern retail market.

“Because they are not available everywhere, Baba Ramdev’s [products] are what I would call ‘low-distribution’ products. So the store loyalty you can get by satisfying a fan of Baba Ramdev’s Amla Candy, you’ll never get by selling someone Maggi,” says Damodar Mall, the head of customer strategy for Reliance Retail’s value business.

impossible. Very few companies have managed to crack the economics of this low-margin space anywhere in the world. Everyone knows of Webvan, one of the ‘stars’ of the dotcom implosion, by virtue of going belly up after spending and raising over a billion dollars by 2001. Even Amazon, a company possessed of almost boundless ambition and capital, spent nearly five years delivering groceries in just a few Seattle neighbourhoods before expanding into a couple of more US cities earlier this year.

“Don’t forget to get me a 2-kilo pack of Baba Ramdev’s detergent powder,” said the voice on the other end of the phone to Bal Krishn Birla. Birla, as he is known to most people in Bangalore’s closely-knit startup ecosystem, is a jovial 40-year-old who defies classification by virtue

of being an IIT graduate, former CTO at online classifieds company AskLaila, one-time restaurant owner, brainchild behind a 20,000-member-strong global community of old Hindi music aficionados and the source of an unending supply of “PJs” of dubious antecedents.

The person Birla was talking to was a former colleague and friend

who he was going to meet. The detergent wasn’t to be picked up at Patanjali Yogpeeth in Haridwar, where Ramdev’s business empire is headquartered, but from a 2,500-sq ft warehouse in Kudlu, Bangalore.

The warehouse belongs to Zopnow.com, a two-year-old Bangalore startup operating in that infernal hell of ecommerce: Groceries.

Birla is co-founder and CEO. “We stock over 100 SKUs [stock-keeping units] of Baba Ramdev’s products and he is one our fastest-selling brands,” he says. From soaps to spices to flour to cosmetics, these products are apparently giving competitors from the likes of Hindustan Unilever, Nestle or ITC a run for their money.

Ironically, and somewhat

## NO COUNTRY FOR SLOW MEN

The grocery space has long held a mythical status among ecommerce entrepreneurs because of its sheer size and repeatability. Every household needs groceries. And very few derive enjoyment from buying them.

It’s a category that is ideal to be “disrupted” by the internet.

Except that doing so is damn near

**THE GROCERY SPACE HAS LONG HELD A MYTHICAL STATUS IN ECOMMERCE DUE TO ITS SHEER SIZE AND REPEATABILITY**

In India, the last three years have seen a mushrooming of grocery ecommerce sites in many metros (see chart). Everyone is blinded by the size of the overall market: \$35-40 billion worth of FMCGs across the country, of which modern retail accounts for around 5 percent. “In cities like Mumbai, almost 40 percent of grocery orders already happen over phone, so the customer is ready for non-store offerings, including the internet,” says Mall.

Though none of the players gives out revenue numbers, research indicates that the largest player in the space is BigBasket with an estimated revenue of \$4 million, followed by Zopnow, which is around \$2 million in revenue, and MyGrahak.

By and large, the majority of players restrict themselves to pre-packaged food and consumer goods, staying clear of easily perishable produce like vegetables, fruits or meats. Those that do deliver fresh vegetables, like BigBasket or Town Essentials, have a much more complex supply chain.

Yet, selling groceries online is quite unlike most other forms of ecommerce. For one, you cannot create economies of scale across the country. Grocery retailing makes sense only at a “hyperlocal” level, because products need to be stored and shipped at as minimal a distance from the customer as possible. Even the assortment of products is specific to local tastes and preferences: What sells in Bangalore may not in Gurgaon or Pune.

“In grocery retail, there is little advantage gained from a national presence because the supply chain and assortment in each city needs to be localised. So each city ends up being largely like an independent business,” says Mall.

Margins are often razor-thin, and deliveries cannot be outsourced to third parties.



## Grocery shopping: Who's checking in

### BANGALORE

Big Basket (VC-funded, growing aggressively)

Zopnow (VC-funded)

Town Essentials (self-funded, has a great reputation for fresh vegetables & fruits)

### DELHI-NCR

MyGrahak (self-funded, largest player in NCR)

Aaramshop (self-funded, works with local kirana stores to deliver orders)

### PUNE

Pune Express

Ration Hut

PulsesNbeans

### MUMBAI

BigBasket

LocalBanya

EkStop

“Raising money turned out to be very tough for us. Many VCs told us they’d write us a cheque only if we decided to start any other ecommerce business,” says Birla. But he and Mukesh Singh, Zopnow’s other co-founder, persisted, drawn towards groceries because it represented a “multi-billion dollar domain” and because they figured that sooner or later Indians were going to want to spend their weekends vacationing or entertaining, instead of worrying about groceries.

And though the results are

still tentative and confined to one city, they are promising.

Zopnow’s average order size has gone from approximately Rs 700 when it started to around Rs 1,300 today, claims Birla. That’s about the same ballpark as most leading ecommerce sites in India.

But the “stickiness” of the grocery category combined with the loyalty of its customers, three out of four of which order regularly from Zopnow, allow it to generate much more revenue from each. “Many of our customers order as often as three times a month from us,” he says. That means a revenue of nearly Rs 47,000 per loyal customer annually.

“When we started out, we were told by many people, including venture capitalists, that 6-7 percent was what we could expect in terms of gross margins,” says Birla.

While it’s true that many staples and foods offer only low single-digit margins, concedes Birla, the objective should always be to sell the customer a more profitable “basket” that combines, say, sugar at 6 percent along with organic staples at 30 percent and steel utensils at 60 percent margin, respectively.

Free from the constraints of in-store display and checkout formats, Zopnow uses custom analytics to get customers to add more products into their virtual baskets.

And as the average number of items in its customers’ baskets has gone up from 8-9 when they started out to 20-22 now, Birla claims Zopnow’s gross margin has risen to a healthy 15 percent with added scope to rise up to 20 percent over the next year.

That gross margin can easily translate into a net profit margin of 6-7 percent, says Singh, 38.

Most large grocery retailers, including Walmart, operate at nearly half that figure. Mall, a veteran of the modern grocery trade (before

Reliance Retail, he worked with the Future Group’s Big Bazaar and Food Bazaar, and Hindustan Unilever), says he doubts the ability of any grocery retailer to generate more than 3 percent in terms of net profits.

“An online grocery business needs to track its profitability at four levels—the SKU, the basket, the warehouse and finally, the company,” says Birla. He says Zopnow has always been profitable on the first two counts, and is six months away from becoming profitable on its first warehouse.

Birla expects the newer warehouses that he puts up, beginning with one in north Bangalore in a couple of months, to become profitable in 12 months compared to the 24 months it took his first one. The reason, he says, is volumes will pick up much faster because potential customers already know of his brand.

In July last year, Accel, Qualcomm and Times Internet invested \$2 million in Zopnow, according to Venture Intelligence, a research service focussed on PE and M&A. Big Basket, its larger competitor that also started from Bangalore and has now expanded to Hyderabad and Mumbai, raised \$10 million in venture funding last year.

But the ace up Zopnow’s sleeve is the “three-hour delivery” promise—either a stroke of genius or a millstone around their neck.

### THE THREE-HOUR DELIVERY

Six to 12 hours is the average delivery promise for most of Zopnow’s competitors, with a few even taking up to 24 hours. To be able to deliver orders within three hours, Zopnow has solved quite a few supply chain problems.

To begin with, the placement of products in its warehouse has been optimised for the fastest “picking time”—the time taken by one of its staff to assemble all the products

ordered by a customer. An in-house designed software (almost all of the IT has been designed in-house—the side-effect of having two CTOs as founders!) automatically generates “picking sheets” which tell an employee the exact sequence and location of products to be collected.

“We take around one minute to pick an SKU currently, compared to two to three minutes when we started out. Our goal is to bring that down to 20-30 seconds soon,” says Birla.

If that sounds unimpressive, consider the fact that it currently claims to stock over 10,000 SKUs. “An average *kirana* store stocks 1,500 SKUs while a Big Bazaar usually has 7,000-8,000 SKUs,” he adds by way of comparison.

Post picking, a barcode-based checkout process eliminates any manual errors. The bags filled with products are then assigned to one of the 35 delivery employees, once again based on an algorithm designed in-house, which takes a customer’s precise latitudes and longitudes into account. Deliveries to farther suburbs are done through vans that can carry enough orders for two three-hour slots (Zopnow offers four distinct three-hour slots for delivery).

“Unless you have a network of physical stores, doing a three-hour delivery profitably is impossible. Because it means you’re shipping every order without getting the time to aggregate. And small orders sent over long distances never work

## THE ‘3-HOUR DELIVERY’ PROMISE IS EITHER A STROKE OF GENIUS OR A MILLSTONE AROUND ZOPNOW’S NECK

out economically,” says Mall.

But Birla claims that thanks to volumes and technology, Zopnow today “clubs” nearly three times as many orders per delivery route than when it started. As a result the average distance travelled per order has fallen nearly 60 percent during the same period.

To even out the orders across slots, Zopnow claims it’s had good success through the use of proprietary reward points called “Zoppies”. Many customers are okay trading their delivery slots in lieu of extra points, says Birla. And once the order is on its way, a customer can track the location of Zopnow’s delivery staff live on her browser or mobile app.

Meanwhile, back at the warehouse, another software automatically sends out replenishment orders to manufacturers or distributors based on depleting inventory due to order fulfilment. Birla claims a three-hour delivery window helps Zopnow turn over its inventory much faster than competitors. “We currently turn over our inventory in 21 days, but want to improve that to 15 days. Our suppliers give us two to three weeks of credit in turn,” he says.

Added with the fact that customers pay cash the same day, Zopnow is close to achieving a zero cash flow status on inventory, thus freeing up its cash for more productive uses.

“After covering all of Bangalore, our next focus will be on Pune and Gurgaon—two cities with high internet penetration, highrises and people working in the IT sector. Over the next two years we want to be in five cities, going up to 20 cities in the long run,” says Birla.

Big dreams, those. But what the world will be watching is something else: How the business model for online groceries gets established. There is more at stake in Zopnow than merely its business success. **1**

# GLOBAL BRANDS FROM EMERGING ECONOMIES

Companies in emerging markets may not need to build brands. But, if they do, China can show how. It is far ahead of the game than India

BY VIVEK KAUL

**B**ig ideas often come out of small conversations. This seems to be the case with marketing guru Nirmalya Kumar's latest book *Brand Breakout: How Emerging Market Brands Will Go Global*, which he has co-authored with Jan-Benedict EM Steenkamp.

"This book started one evening in my apartment [in London] when I was sitting with my friend JB [Jan-Benedict]. The latest Interbrand

[a brand consultancy] 100 global brands list had come out. Not a single brand from the emerging markets was on it," says Kumar, a professor of marketing and co-director at the Aditya Birla India Centre at London Business School.

"JB and I started talking about why things are the way they are. First we came up with reasons why there were no emerging market brands on the Interbrand list. Then we

started to figure out how, if emerging market brands had to go global, they would need to go about it."

Kumar and Steenkamp found one part of the answer in the list of the top 500 companies in the world. China has 73 companies on it—the second largest after the US. And here's the nub: Most of these are business-to-business [B2B] companies, or those in the business of extracting natural resources, or

those like China Mobile that are monopolies in their local markets.

## B2B CAN DO WITHOUT BRANDING

"In B2B marketing, brands play a very small role," says Kumar. "You go to the man on the street and ask him to name any of the top B2B brands. Chances are he won't be able to name any. You ask people about ABB, nobody knows about ABB. Before it became Sony-Ericsson, nobody knew of Ericsson either."

Nevertheless, there are some B2B companies that have been able to build big brands. But they are exceptions. "General Electric gets a branding because of being in washing machines and other electronic goods. Shell gets a name because of gas stations. IBM has a brand name that is consumer-oriented because they were in PCs and they have been around for 100 years or more. Otherwise IBM would not be a known brand," says Kumar. "There are companies like Tetra Pak in packaging or Intel with its 'Intel Inside' campaign, which have been able to build brands."

Companies from emerging markets don't need to build global brands because most of them are not in consumer-facing businesses. Take Indian IT companies, for instance. They have concentrated on IT services, and not built products where they would have needed to create brands. "I suspect that the logic of a product company is very different from the logic of a service company," says Kumar.

This is precisely why contract manufacturers in emerging markets haven't developed brands. "Their existing business model is very successful. To evolve into a new business model with uncertain chances of success and doubtful profitability is unlikely," he says.

Kumar cites the example of contract manufacturers in Bangladesh.



Nirmalya Kumar, professor of marketing, London Business School

**"THE LOGIC OF A PRODUCT COMPANY IS VERY DIFFERENT FROM THE LOGIC OF A SERVICE COMPANY"**

"No country owns contract manufacturing like Bangladesh. When I was in Bangladesh, they told me, we have to have our own brands; we are tired of manufacturing for others. But their existing business model is so profitable, the question is do they need to develop brands?"

Also, to build a global brand in the business-to-consumer (B2C) space, companies need to create awareness among Western consumers through advertising and marketing—that may be an expensive proposition for emerging market countries. "The United States, Europe and Japan are probably the three most expensive places in the world to advertise. Given that, no emerging market can rationally make a case for advertising investment," says Kumar.

Besides this, the country-of-origin

effect [a psychological effect on customers when they are unfamiliar with a product] is also at play. "All Western consumers, when asked what they think of a brand that comes from India or China or any other emerging market, say it will be of poor quality," says Kumar.

The irony, of course, is that consumers from emerging markets think the same about brands from their own countries. "Even Indian and Chinese consumers would say that brands coming from emerging markets, including their own, are of poorer quality than Western and Japanese ones."

## BUT BRANDS CAN BE BUILT

The dearth of global brands from emerging markets can be corrected in the time to come. There are a number of strategies that companies in these countries can follow in order to build brands in the West.

One is to use the diaspora route. "This strategy involves companies targeting immigrants from their own country and building enough scale and sales to support a brand push. You see a lot of brands doing that, including Pran [Foods] from Bangladesh, Dabur, ICICI Bank and, to some extent, SBI, Nando's from South Africa, and Corona from Mexico," says Kumar.

The second is the cultural resources route. Even though brands from emerging markets are considered to be of inferior quality by Western consumers, there are certain things that are regarded positively. "Even though Brazil has a poor image for any brand that comes out of it, nobody questions Brazil for fun, beach, sun and sand. That's why they have a brand called Havaianas that sells flip-flops," says Kumar.

Similarly, China is known for its ancient medicine and silk. India is known for ayurveda, a culture of history, yoga and religion. If a brand



If there are 1,000 contract manufacturers in China, maybe 100 of them will decide to build their own brand and at least 10 will succeed

Aly Song / Reuters

Susanne Hakuba

from an emerging market country positions itself around these things, it has a good chance of being accepted.

### BRANDING COMMODITIES

Another route, which is very important for India, is through branding commodities. India has several such opportunities from Darjeeling tea and Mysore coffee to Basmati rice and Alphonso mango.

Once countries are able to brand commodities, they are able to get a price premium on that. “We have shown it with Columbian coffee (in our book). Even when coffee prices dip, Columbian coffee prices don’t dip as much. And Columbia is not even the largest producer of coffee. It is Brazil,” says Kumar.

First, the geographical region where a particular commodity is produced needs to be defined properly. “I have not seen any effort on this front in India. I know there is a Tea Board [of India] but there is a need for a Darjeeling tea board that authenticates things,” says Kumar.

Second, the production process needs to be tightened. “There are 14 steps that go into making some kind of wine in France. I bet you that even nine of them are not necessary. But it’s a way to show people that a lot of care is being taken in producing the wine to give it special qualities.

“Also, a very tough enforcement scheme needs to be put in place. If you try to put champagne on any sparkling wine produced anywhere else, it cannot be called champagne. Only sparkling wine from the Champagne region in France can be called champagne,” says Kumar. And any company using ‘champagne’ for sparkling wine gets sued by the French.

“Even the Americans had to remove the word champagne from their California sparkling wine,” says Kumar.

### WHY CHINA IS AHEAD

Kumar is of the view that companies in China are better poised than those in other emerging markets when it comes to creating global brands.

“When Japan, South Korea and Taiwan started going down the path of globalisation, their quality of products was poor. Over time they put in R&D investments to improve the quality. China is the only exception as an emerging market; they have world-class manufacturing and nobody questions the quality of Chinese products when they are produced to Western specifics,” he says.

And it is easier to brand a product that is already high on quality. Kumar explains this with a thought experiment from his book. “Assume there are 1,000 Chinese manufacturers on contract for Western product companies and brands. They are manufacturing iPads and iPods for the world. So they can’t be bad. Out of those 1,000, let’s say 100 decide to build their own brand and try to diversify out of the low-margin contract manufacturing business where they are always at the mercy of Western companies. Out of the 100 who decide to do their own thing, 10 succeed. That means you will have 10 global brands coming



out of China in the next decade.”

What also aids Chinese companies is that they think long-term. Indian companies don’t.

“Chinese companies have a long-term orientation, which comes from Confucius. They are playing for the next 100 years. They are not playing for the next 10,” says Kumar.

“And there is a reason for that: Indian companies are borrowing at very high rates from the capital markets. The major Chinese companies have state banks that are supporting them to some extent. So they are not paying the same interest rates, and can play the longer game much better,” he adds.

The Chinese government, too, has an eye for the future.

“We might complain that the Chinese state is oppressive, but I have to grant one thing to the Chinese government—they do make big bets for the future,” Kumar says.

Take, for instance, their bet on urbanisation: “China knew 30 years ago that urbanisation is going to take place and they needed to have the infrastructure in place. They built that infrastructure. Today you can say that the Shanghai-Beijing train looks half empty. Yes, maybe it does. But they are not building it for today. You have to build the infrastructure for the next 20 years. I am sure it is going to be full some day,” says Kumar.

He adds, “The same thing is true for Shanghai and Beijing airports. They realise that they are building infrastructure for the next 20 years. We can’t be building an airport every two years.”

*This interview was done when Nirmalya Kumar was professor of marketing at London Business School. He is now a member of the Group Executive Council, Tata Sons*

**“ANOTHER ROUTE, WHICH IS VERY IMPORTANT FOR INDIA IS THROUGH BRANDING COMMODITIES”**

Network **18**

INDIA  
**Forbes**

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To nominate candidates for the three open categories of the Forbes India Philanthropy Awards 2013, please visit <http://forbesindia.com/awards/philanthropy/nominations>

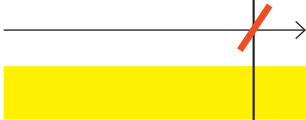
Last date for sending nominations is August 15, 2013.

INDEPENDENCE  
DAY SPECIAL



1991  
2011?

Business and government  
need to redefine their  
spaces to expand economic  
**FREEDOM**



# INDIA CAN'T BE A JUGAAD ECONOMY FOREVER

India has to implement key reforms in at least three areas—energy, land and labour—to get its economy back on track. It also needs to expand the ambit of economic and political freedom

BY DINESH NARAYANAN

**W**orld Bank data suggest that India was ninth in the world in terms of new businesses registered in 2011. The cost of starting up a business is still high but it has steadily fallen from 70.1 percent of per capita gross national income in 2008 to 49.8 percent in 2012. The time taken to start a business in India has fallen from 33 days four years ago to 27 days in 2012. Newly released Planning Commission numbers show that India reduced extreme poverty by 15.3 percent in seven years; that is, 138 million people were lifted out of absolute misery between 2004-05 and 2011-12. In the same period, millions of Indians moved up the social ladder to be counted as middle class. Sales of luxury cars, designer clothes and high-tech gadgets have been growing at 15-20 percent. A Bain & Company report on luxury has been quoted as estimating the number of people with disposable incomes of over \$100,000 to top 132,000 in 2013, up 60 percent since 2006.

So, is it time to bring out the bubbly? Not quite. In a competitive world, you gain only when you outpace your rivals, and not merely by doing better than before. Despite all the improvements mentioned above, India ranks a lowly 132 in the World Bank's list of countries for 'Ease of Doing Business'. Growth has stagnated at a decade's low of near 5 percent. Reflecting the economic weakness, the rupee is plumbing record lows against the dollar. Industrial growth is barely above zero. Consumption demand continues to slump and investments have ground to a halt while retail prices continue to rise. According to Reserve Bank data, private listed non-finance companies' sales grew just 4.1 percent in the March quarter. These companies are slowing production and cutting

## THE ECONOMY IS NOW TEETERING ON THE BRINK BECAUSE OF FAULTY POLICIES, ENDEMIC CORRUPTION AND POOR GOVERNANCE

costs. India has the largest number of young people among major economies but does not have the mechanisms in place to train them or find decent jobs for them.

A recent survey by the Centre for the Study of Developing Societies (CSDS) for CNN-IBN shows that the number of people who are satisfied with their personal financial situation has dipped over the past two years. The dissatisfaction was most pronounced among the middle class. About a third of the 19,062 surveyed believed the country's economic condition was "so-so". Nearly half of those felt that the gap between rich and poor has widened. India's Gini coefficient (which measures income distribution) was 33.9 in 2010 compared to 30.8 in 1994, indicating that income inequality has been rising.



Sameer Pawar

### IS THE INDIA STORY PETERING OUT?

As the world was reeling under the impact of the US meltdown followed by Europe five years ago, the Indian and Chinese economies remained beacons of growth. After a mild slump in 2008-09, India quickly recovered the next year. Elections brought the United Progressive Alliance back to power with an improved mandate and the latter assumed that nothing more needed to be done. Hubris set in. It didn't help that the prime minister played the reluctant leader bogged down by 'coalition compulsions'. The euphoria soon paved way for despondency as scams rocked the government, forcing the administration deeper into inaction. The economy is now teetering on the brink because of faulty economic policies, endemic corruption, poor governance and crony capitalism that concentrates rather than spreads wealth. The government has lost political capital and is resorting to fiscally dangerous populism in a bid to get re-elected.

It is time to push the frontiers of economic and political freedom once more. Else, we've had it.

If 1947 brought us political freedom, we took the wrong road to prosperity by tying the hands of productive forces in the licence-permit-quota raj. That knot was untied in 1991, when the economy was opened up and

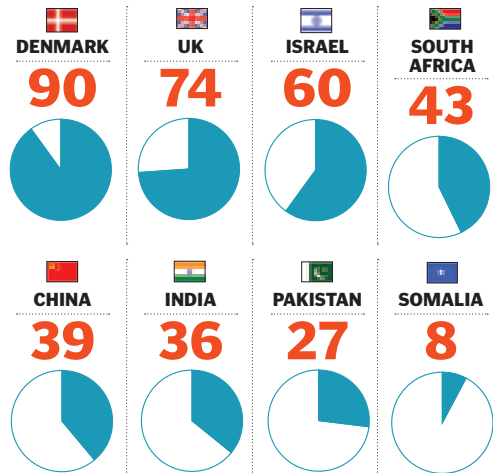
business freed. That burst of economic reforms opened the field to new competitors and widened the pool of wealth creators. But over the last nine years, the pool has remained stagnant, enabling only a limited number of businessmen to remain successful. Even though a

### DOING BUSINESS IN INDIA

	2013 RANK	2012 RANK
India's Overall Ranking	132	132
<b>TOPIC RANKINGS</b>		
Starting a Business	173	169
Dealing with Construction Permits	182	183
Getting Electricity	105	99
Registering Property	94	97
Getting Credit	23	23
Protecting Investors	49	46
Paying Taxes	152	149
Trading Across Borders	127	125
Enforcing Contracts	184	184
Resolving Insolvency	116	109

Source: World Bank

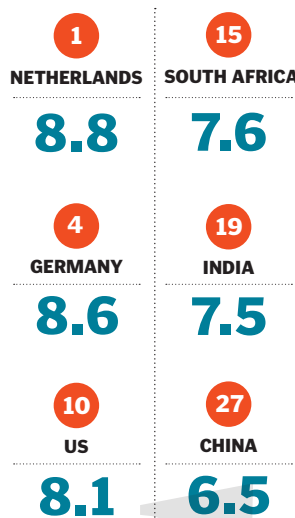
## Corruption Perception Index (Public Sector)



● Score

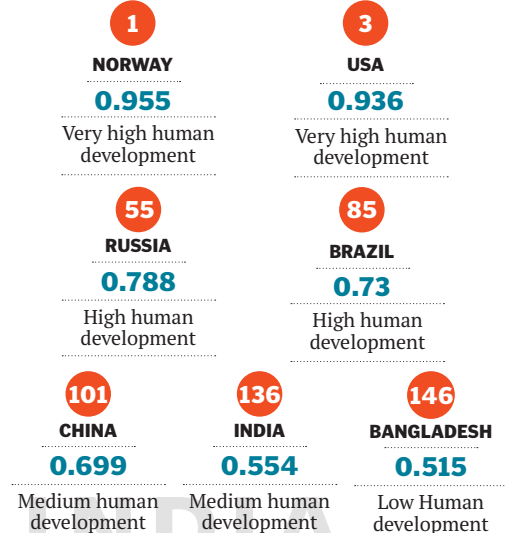
Source: Transparency International  
Note: Higher score means less corruption

## Bribe Payers Index (BPI)



● Rank ● Score  
Note: Higher score means less perceived likelihood of the country's firms to bribe abroad

## Human Development Index (2013)



● Rank ● Score Source: UNDP

second stage of economic reforms has been awaited and demanded for several years, it has not happened.

Economists like Columbia University's Jagdish Bhagwati have long argued for it. "Further liberalisation of trade in all sectors, substantial freeing up of the retail sector, and virtually all labour market reforms are still pending. Such intensification and broadening of Stage 1 reforms can only add to the good that these reforms do for the poor and the underprivileged," Bhagwati told Indian Parliamentarians three years ago.

But the din of multi-crore scams, scandals and a dysfunctional parliament has buried the chances of any near-term improvement in the business climate.

### THE BIG DRAG

So what can be done? Although there are several areas that are crying out for policy reform and entrepreneurial freedom, three major ones—land, labour and energy—are creating the biggest bottlenecks to the India growth story. None of the problems in the three areas has easy answers.

The Confederation of Indian Industry has presented a list of 62 stalled infrastructure projects—each worth Rs 1,000 crore or more—to the Project Management Group in the Cabinet Secretariat for fast tracking. Of these, 35 are power projects and 11 are for construction of roads and highways. Most of these projects are stuck because of lack of environment approvals, state level clearances or

inability to acquire land. As on May 1, 2013, nearly half of 566 Central sector projects (of Rs 1,500 crore and above) got delayed due to problems such as lack of clearances (mainly environment-related), inability to acquire land and insurgency. The cost overruns for these are estimated to be around 18.2 percent, the Reserve Bank of India says.

Many of these projects would displace people, destroy forests and overrun fertile farmlands, all politically sensitive issues. Some industrialists have given up. South Korea's Posco and Arcelor Mittal have quit after trying for several years to set up mega steel plants in Odisha. The state is set to lose lakhs of crores in investments. Industries are also struggling to find skilled workers. Thousands of students passing out of schools and colleges are unemployable. The government's skill development policy is in a shambles and what may have been a demographic dividend now threatens to become a burden.

Some of the issues are vexed but some are easily addressed provided there is a committed leadership. Institutional structures need to be reviewed and predictability and consistency restored to government policy. In the following pages, experts in various fields analyse some of the key problems facing the country and what can be done to address them. India cannot afford to waste its entrepreneurial energy and spirit of innovation. The time for *jugaad*, in the multitudinous meaning of the word, is over. **F**



# HOW TO RESCUE THE GOVT-BUSINESS EQUATION

Business needs an enabling environment from government. But the relationship between government and business has fallen to a new low. This needs fixing



**Profile:** Keki Mistry is vice chairman and CEO of HDFC; he's been associated with it since 1981. Instrumental in setting up HDFC group companies, including HDFC Bank. A chartered accountant, he has consulted for Mauritius Housing Company, Asian Development Bank and Commonwealth Development Corporation in Thailand, Mauritius and the Caribbean Islands.

BY KEKI M MISTRY

**A**s India marks its 67th Independence Day, there is growing trepidation as to what the future holds for the country. Any assessment of the current economic scenario is swathed in pessimism. The heady days of aspiring for double-digit GDP growth rates have long since been put to rest as we appear to have squandered the opportunity. Nonetheless, not everything in India needs to be painted with the brush of doom. There are a number of sectors that have performed well despite varying economic cycles. Sectors like FMCG, IT/BPO, pharmaceuticals and retail finance have remained resilient despite the economic downturn.

Rising rural incomes have been a shot in the arm for FMCG companies. The \$100 billion IT/BPO industry has created over 12 million jobs, as India became the back office to the world. Another striking example of a well-performing sector is retail finance. Given the huge demand, home and personal loans, credit cards, two-wheeler and car loans have grown exponentially over the past decade. Retail credit penetration at 10 percent of GDP is extremely low, so the potential to grow is immense.

Perhaps the most radical, structural change in India's economy in the recent period has been the rise of its middle class. McKinsey estimates that the size of India's middle class will cross 600 million by 2025, making the country the world's fifth largest consumer market. What characterises this middle class is its high aspirations, a 'wanting more' consumer mindset and its confidence and

optimism about its future. Driven by India's vast domestic consumption, several multinationals have recognised the importance of having a slice of the Indian market.

The irony is that in India, consumer confidence has sustained, while business confidence has taken a beating—particularly with regard to companies in the industrial and infrastructure sectors.

Though global economic conditions continue to remain fragile, India's problems today are mostly self-inflicted. Persistent bottlenecks in infrastructure have resulted in the drying up of the investment pipeline. Prolonged sluggish industrial growth, an unsustainable current account deficit, constant flip-flops on foreign direct investment (FDI) policies and a rapidly depreciating currency have taken a toll on the economy. Having barely scraped 5 percent GDP growth last year, prospects of



a significantly improved growth scenario in the current year remain bleak.

Twenty-two years after ushering in liberalisation, India once again finds itself on a precipice. However, unlike the 1991 crisis which brought in 'big bang' reforms, the current milieu most urgently calls for administrative reforms to re-instil confidence in the economy. Government approval processes are often perceived to be fraught with delays, vested interests, opaqueness and speed money of large proportions. Any benchmark comparison of India with other countries—be it Transparency International's Corruption Index, Ease of Doing Business or the Economic Freedom Index—has India at the bottom of the heap. This perception has to be removed, as India needs large amounts of foreign investment to support long-term growth.

Take the example of the approval processes for real estate projects. No one disputes the acute shortage of homes in India or that an increase in supply will make housing more affordable for

The irony is that in India, consumer confidence has sustained, while business confidence has taken a beating

the masses. Yet it is estimated that a developer in Mumbai requires over 50 approvals from different bodies to put up a residential building. These approvals result in severe time and cost overruns, the burden of which eventually falls on the buyer of the home. It has been a long-standing

demand of developers to put in place an online, single-window approval mechanism. This will not only bring in much-needed transparency, but will also streamline co-ordination between approving bodies. This is a simple administrative process and an IT platform can easily be built. Unfortunately, this is not being implemented.

The relationship between government and business appears to have fallen to an unprecedented low. It has been reported in the media that some leading industry houses have said that they find it easier to make investments overseas rather than wait endlessly for approvals. Nothing is more unnerving for business sentiment than uncertainty in the regulatory environment. In the infrastructure

**NOTHING IS MORE UNNERVING FOR BUSINESS SENTIMENT THAN UNCERTAINTY IN REGULATION**



Inside a Honda factory in Greater Noida. Many crucial reforms lie within the realm of state governments. These include clearances for infrastructure projects and improving industrial productivity

sector—be it telecom, power, or roads—lack of clarity on policies has eroded investor confidence.

The wheels of the government machinery are not moving because the governance system has broken down. Today, why would a bureaucrat risk taking any decision when there is no penalty for inaction, but there could be repercussions even after relinquishing the post for a decision that is later perceived to be wrong? As a result, the decision-making process has slowed down. For every policy decision, empowered groups of ministers are created. Delays in infrastructure projects have severely strained the balance sheets of the banking system. Effective governance entails quick decision-making by putting aside vested interests.

Business freedom entails an enabling environment that supports the growth of business in a fair and transparent manner with minimal government intervention. India's greatest undoing has been how immune its citizens have become to corruption. Irrespective of which political party rules, the bottom line remains that corruption in India will remain pervasive unless the judicial system is fixed. If justice is not delivered on time, the nation becomes a breeding ground for law-breakers. With over 30 million pending court cases, judicial reforms are the need of the hour. Similarly, the laws of the land will be respected if police reforms are implemented. This essentially entails an insulation of the police from direct political influence.

**INDIA'S GREATEST UNDOING HAS BEEN HOW IMMUNE ITS CITIZENS HAVE BECOME TO CORRUPTION**

The judicial-police-political nexus has to be broken if businesses are to thrive in a conducive environment.

While much focus will be on the outcome of the general elections, it is important to recognise that many crucial reforms lie within the realm of state governments. These include land reforms, urbanisation policies, clearances for infrastructure projects and improving agricultural and industrial productivity. Earlier, state governments

tended to follow the diktats of the Central government. This may no longer be the case. Unlike the Centre, today, most states have comfortable majorities in their assemblies, which can give them the muscle to effect major policy changes. Political parties in states that have delivered on growth have been voted back, while those that haven't are given the boot. The desires and ambitions

of the electorate are fast changing. They would rather prefer jobs and growth than vote-buying sops. This will also pave the path towards increased business freedom.

Investing in India has always needed patience and optimism. India's fundamentals—the very reasons which attracted investors two decades ago—are still intact. Few countries have the demographic advantage and growth potential at reasonable valuations that India has. A sincere attempt at setting the house in order will go a long way in changing the course for the next generation. **F**

*(The views expressed by the author are personal and do not reflect those of his organisation.)*

Getty Images

# HOW TO MAKE INDIA A WORLD LEADER IN LOW-COST HEALTH CARE

Bad regulations and price control are stifling pharma, but innovation in health care is blossoming with government support



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BY SWATI PIRAMAL

**T**he numbers are startling. The Indian pharmaceutical industry—once the pride of innovation and a leading Indian export to other countries—has slowed from over 17 percent just two years ago to 10 percent this year and trending even lower because the price control regime is due to kick in later this year. On the face of it, this may be seen as being in line with the slowing Indian economy. The truth is not so simple.

The questions are mind-boggling. Why would a government metaphorically handcuff an industry that was once feared to be taking on the power of the world's largest multinationals and was ahead of China in the sheer strength of scientific prowess? What has happened to a leader in generic medicines that could prove, using clinical trials, that our drugs are as good as that of the West?

Clinical trials approved by the health ministry have dropped from 500 two years ago to nearly zero. When activists petition the Supreme Court and advocate the banning of any studies, the knee-jerk response from the health ministry is to make notifications so absurd that global trials in India are halted by no less a global heavyweight in research than the American National Institutes of Health.

While activists who have no stake in the issue can take up airtime on TV, the nation's ability to discover and develop new cures for untamed diseases in India are crippled severely. If India is to depend only on new innovations from the West without regard to the types of mutations in viruses and bacteria increasingly affecting the Indian population, it will be a very high price to pay. Research on tropical illnesses that ravage our citizens and drugs to treat these illnesses

will not come from multinational research labs. An increasing cancer risk and the high prices of drugs imported into India are together making the burden of this disease unaffordable to most patients.

Can new cancer drugs be discovered in our huge biodiverse plants and microbes in India? Can we develop it in India at one-tenth the cost of the West and make it affordable not just for India but for the rest of the world? For many Indian scientists, that remains a dream. Has price control been effective in delivering good health to the consumer? More than 60 years after independence, tuberculosis affects nearly every other Indian, 20 million women have anaemia, 70 percent of children up to age 10 are anaemic, malaria continues to kill and, in a rapidly urbanising India, there's a double whammy: Chronic diseases such as diabetes and heart



Price controls have kept drug prices so low that there is no money to create awareness or make sure the drug reaches rural areas

disease have increased. Drug prices are so low that there is no money left to create awareness or to make sure the drug reaches rural areas. Drug price controls have failed to deliver medicines to those who need them most.

Recently, the head of the Dairy Development Board, Amrita Patel, observed that women employed in the dairy industry have a problem of anaemia. They refuse to take the iron tablets doled out free as they cause gastritis. Innovations in iron delivery are not taking place at all because iron tablets are under severe price control and there is no money that can be invested in research and development for a new iron delivery system with fewer side-effects.

The much-vaunted India advantage of an English-speaking scientific manpower, doctors trained in Western medicine, institutes of higher education, and a large number of chemists has come to naught. The long bureaucratic delays of more than a year for almost any permission, the plethora of expert committees, and aggressive pursuit of leadership in science by China, Singapore and South Korea have nullified any 'India advantage'.

So where is the good news? A few years ago, the Reserve Bank of India made a small but critical change. Hospitals, which were previously classified as a real estate industry to which banks could not lend, were reclassified as infrastructure. The growth in small hospitals in second and third-tier towns as well as the rapid expansion of hospital

chains such as Apollo and Fortis is creating new hospital beds and new competition, which is pushing up health care standards. India is a laboratory for low-cost innovation in health care delivery. Affordable cardiac care is being pioneered by brilliant doctors such as Devi Shetty and in eyecare at Aravind Eye Hospitals. New methods of mobile delivery are being pioneered in many states.

Digital health services take more than a million calls a month to answer basic questions on health. Cloud computing and RFID (radio frequency ID) technology is being used by clean drinking water provider Sarvajal in rural India (which recently won them a Frost and Sullivan technology award). The Mid-Day Meal schemes provided by large NGOs have

totally automated plants that bring costs down and maintain high standards of nutrition and hygiene. To scale up these models and success stories we need support from the government. Technologies must be accepted and diffused quickly so that the common man may benefit.

On the pharmaceutical side, too, there is a silver lining. Although Indian trials have halted, Indian companies are sending their dossiers to Western regulators. The high quality of science is being accepted and the number of new chemical entities discovered in India and developed globally is going up. If India is to take her rightful place at the head table of nations to make the lowest health care solutions in the world, she must quickly put in place a regulatory system that is fast and efficient. **D**

## WHY HAS THE GOVERNMENT HANDCUFFED AN INDUSTRY THAT WAS ONCE A WORLD-BEATER?

# FIXING GOVERNANCE WITH REFORMS AND ECONOMIC FREEDOM

Comprehensive legal and police reforms and a financially empowered local government have to be part of the solution



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BY JAYAPRAKASH NARAYAN

**D**isenchanting as we are with our politics and governance, it is hard for us to realise that we succeeded remarkably well in building a nation and democratic institutions. We did not always fail. We gave ourselves a liberal, democratic and inclusive constitution; over 550 princely states were integrated into India with great ease and no bloodshed; our unmatched linguistic diversity has been accommodated with great sensitivity and wisdom by the linguistic re-organisation of states and a three-language formula; even in recent decades, our federalism matured significantly with states coming into their own; and we achieved moderate economic growth while preserving liberty.

Then why have we failed in many other respects? We need to focus on our initial conditions to understand our governance crisis. Abject poverty, illiteracy, social divisions and universal franchise are an explosive cocktail. Right from the beginning there has been an inherent asymmetry of power between the poor, helpless citizen, and the public servant with a safe job, secure income and awesome power. This is complicated by poor service delivery. Bribes, red tape, harassment and delays are endemic even for simple services.

In this climate, there has been an over-dependence on politicians who seek the vote, because they alone have to go back to the people for a renewal of their mandate. Politicians should have ideally built a framework for easy, painless delivery of services with

sensible incentives and accountability. Instead, they responded by creating a vast party machinery to somehow address public needs in the face of a dysfunctional, unaccountable bureaucracy. Delivery did not improve; but perverse incentives distorted the picture further. Over-centralisation added to our woes. Both the state legislator and bureaucrat thrived in a centralised, opaque system.

Three post-independence failures compounded our governance failures. First, the licence-permit-quota raj was given free rein for over three decades. In our misplaced zeal for 'socialism', individual initiative and economic freedom were suppressed, leading to low motivation, rise of the free-loader mentality, monumental corruption, and a stagnant economy. The issue is not capitalism vs socialism; it simply is the failure to define the state's primary role. The

basic functions of state—public order, justice and rule of law, infrastructure and natural resources development, education and health care—were all neglected, as the state sought to take on business functions, and predictably failed in both areas.

Second, halting, half-hearted efforts to decentralise power failed; we are now saddled with the unwieldy 73rd and 74th amendments, which created over-structured, underpowered, and largely ineffective local governments. Third, there was the failure to modernise crime investigation and insulate it from political vagaries.

The vote is increasingly delinked from public good, and has become a purchasable commodity, as the voter seeks to maximise short-term gains. The vast political machine initially erected to address public grievances in the face of poor service delivery has acquired a life of its own. The machine needs to be sustained by corruption and abuse of power.

Vote buying alone is not enough to acquire or retain power, as all traditional parties resort to the same tricks. In an era of competitive populism, any party which focuses on infrastructure, economic growth, education and health care, and refuses to offer short-term freebies is at a great disadvantage. As all parties offer freebies, new forms of vote-gathering are needed to gain advantage. In a diverse, tribalised society, traditional social divisions of caste, region, religion or language have become playthings of partisan politics. Divisive politics and provoking primordial loyalties pay handsome electoral dividends. The politics of unity, common good and individuation took a back seat.

Once we accept this analysis, the correctives are self-evident. We need to relentlessly pursue economic freedom and competition. Local governments and communities should be effectively empowered, and a share of tax revenues should be transferred to them. Once people are in control of their own destiny, and local independent ombudsmen are institutionalised to enforce accountability, things will change significantly. Service guarantees with citizen's charters and penalties for non-delivery will end extortionate corruption and harassment for simple services, and create space for more rational, ethical politics. Naxals and home-grown secessionists



UP CM Akhilesh Yadav distributes laptops. Freebies to buy votes are not enough anymore to gain or retain power

will disappear as people get busy improving their own lives. Comprehensive judicial and police reforms will minimise the law's delays and ensure fair treatment of all citizens.

But these are not sufficient. If politics continues to be murky, other reforms will happen at a glacial pace. Blaming politicians and parties is fashionable in today's India, but it does not help. Parties have not taken a vow to destroy India; they are only determined to win elections and stay in power. Given our current level of democratic maturity and a flawed electoral system, parties will have to pay a heavy price to uphold values in public life. Witness Andhra, where Congress is in doldrums as it refused to surrender to Jaganmohan Reddy, or Karnataka, where BJP lost power as it refused to compromise with BS Yeddyurappa. If what is good for the country is bad for parties, we only perpetuate the *status quo*. We need to create the right kind of incentives for parties. Our electoral system rewards vote buying, freebies and divisions; promotes those with ill-gotten money, criminal links, and caste or sectarian base; and discourages and punishes honest, competent, public-spirited politicians.

We need to switch over to a proportional system of representation, where parties get seats in proportion to votes with certain safeguards to prevent political fragmentation. Then honesty and political survival will be compatible; real governance reform will be feasible and effective; what is good for the country will be good for politicians; the best and brightest can once again play a vital role in public life; vocal, marginalised sections will find voice; and national parties will have a national foot-print.

# INDIA HAS ITS OWN SILVER LININGS PLAYBOOK

But the last two years have made it clear that we cannot go to sleep and still expect high growth



**Profile:** Wilfried Aulbur is managing partner, Roland Berger Strategy Consultants, a firm with expertise in diverse sectors, especially automobiles, power and energy. Previously, he was the CEO of Mercedes Benz India.

BY WILFRIED AULBUR

**I** have had the pleasure of being closely associated with India for the last 20 years. During this period, the country has undergone dramatic change, and largely for the better. In 1994, at the time of my first visit, the Indian middle class was focussed on saving enough so that their children could go to school in the US and establish themselves overseas. A few years later, around 2000, India had re-invented itself and started to offer many bright engineers an opportunity to have a rewarding career without having to leave their homes and families behind. By 2005, the overall conviction was that India was bound to grow at least at 6 percent, even if it did not put any effort into managing the economy and driving growth.

This assessment seemed to be strengthened by the quick rebound of its economy after the ‘Great Financial Crisis’. Many of us thought that India’s inherent strength, solid banking system and internal consumption effectively allowed it to decouple from the travails of the West. Globally relevant launches such as the Nano suddenly drove engineering departments across the globe to look at ‘frugal Indian engineering’ and convinced the world that India could not only do software but also engineer and produce world-class products.

The progress that India has made as a country over the last two decades is indeed breathtaking. So why is this issue of *Forbes India* talking about the need for a third freedom struggle to complement the ones in 1947 and 1991?

The answer is simple. The last two years have made

it clear that we cannot go to sleep and still expect the country to grow at 6 percent. We have seen quarterly GDP data decrease linearly and reach values around 5 percent, close to the infamous ‘Hindu rate of growth’. To ensure employment for the roughly 12 million young people joining the workforce every year, we need to grow at around 8 percent. Anything less is a recipe for trouble as events in Brazil, North Africa, and even here at home in India clearly demonstrate. Sustainable inclusive growth can only be built on a strong economy. We need to get the basics right not just once in a while, but consistently.

Areas of concern are many.

Government over-spending has increased from 2.8 percent to more than 5 percent of the GDP over the last four years. A growing current account deficit and



GE Healthcare's R&D centre in Bangalore. Experience shows the location of HQ and ownership matters when it comes to job creation and R&D

a spending focus on entitlements and subsidies rather than capital outlays has fundamentally weakened the country and the currency. The volatility of the rupee that we have experienced over the last few months as a reaction to remarks by Ben Bernanke, chairman of the US Federal Reserve, on Quantitative Easing is a case in point.

The weakness of the rupee not only leads to imported inflation and correspondingly high interest rates, it also destroys the profits of companies which depend at least partially on imports and creates a volatile business environment.

Retrospective changes in legislation have highlighted the challenges of doing business in India and created concerns in the minds of international investors who have alternative investment options in other emerging markets. While foreign direct investment will bring in money and skills, and may force local players to up their game to benefit the Indian consumer,

**WE NEED TO GET THE BASICS RIGHT NOT JUST ONCE IN A WHILE, BUT CONSISTENTLY**

it is not the only answer to India's challenges. Companies must be enabled consistently to compete on equal footing with global majors.

It is vital, for example, to have Indian-owned global automotive or aerospace and defence companies. Worldwide experience shows that the location of headquarters and ownership matters when it comes to job creation and research and development, both vital for India's future.

Further, unresolved issues such as land acquisition and project approval delays forced some investors to cancel significant investment proposals in the country. For example, the typical time taken from tendering to the start of production of a coal mine in India is about six years versus about two in Canada and less than even that in Australia.

This is despite the fact that the production of Coal India Limited, the largest domestic coal producer, does not keep up with demand growth. As a consequence, India's coal import will double from 100 million tonnes

Danish Siddiqui / Reuters



Steel makers depend on reliable coal supplies. Delays in land acquisition and project approval mean that coal production cannot keep up with demand

per annum at present to about 200 million tonnes in 2020, impacting energy costs and India's trade balance. Coal and iron ore are key feeder industries for steel which is at the heart of the automotive, white goods and infrastructure sectors and therefore vital for the industrial heart of the country. Unreliable energy supplies are also a major impediment for the build-up of a viable Indian electronics industry. This is again an area of great concern as, according to some reports, the negative trade balance due to electronics will, in eight to 10 years, be as big as the oil trade imbalance.

Corruption scandals and the subsequent paralysis of the administration have also created significant challenges in key industries. Graft impacts not only dealings with government but seeps into the private sector and increases the cost of doing business. Crony capitalism is not the answer to building a viable Indian industry. What is necessary is creating an equal playing field for entrepreneurs to meet their global competition head on. Today, leading Indian global players and exporters are successful despite insufficient infrastructure, unreliable and expensive energy options, inflexible labour laws, complicated bureaucracy, etc. With a government that consistently and reliably works towards elimination of these deficits, the sky is the limit for high-performing Indian companies.

The uncertain and sombre global economic environment has most likely reduced the Indian GDP by 0.5-1 percent. The sentiment of Indian consumers and entrepreneurs alike is depressed; job security is a concern. The coming elections may not bring to power the strong leadership necessary to steer the country through this challenging environment. Labour cost escalation is not compensated by productivity gains which, over time, erode India's low-cost, high-skill advantage. It seems, at times, that

## INDIAN PLAYERS ARE SUCCESSFUL DESPITE POOR INFRASTRUCTURE AND UNRELIABLE ENERGY OPTIONS

the only light on the horizon is created by the dark rain clouds of the monsoon that promise not to disappoint this time around.

Yet, all is not lost. Like many of my clients, I strongly believe in the mid- and long-term promise of the Indian market. The momentum

that was built over the last two decades, the exposure that India's middle class and *aam aadmi* have got is too significant, too strong to be derailed by a couple of years of bad policies. Public opinion and the realities of the market will drive politicians to either be voted out of office or to do the right thing for the economy and, ultimately, the voters. State election results that either confirmed efficient governments (as we see in Gujarat) or drove inefficient ones out (as in Karnataka) are living proof of an informed and determined electorate. Recent decisions regarding FDI and clearance of large projects point in the same direction.

While it is easy to be cynical about the likelihood and speed of change, there are numerous examples where informed citizens, an independent press and agencies have forced change.

Take the United States as an example. One of the notorious political bosses of the late 19th century was William 'Boss' Tweed of New York's Tammany Hall. He ruled New York for 12 years by giving generously to

the poor, co-opting big businesses by rewarding them with lucrative contracts and so on. In the process, he and his associates fleeced the city of millions of dollars. His graft was exposed by political cartoonist Thomas Nast who ensured that New York's illiterate and semi-literate citizens understood the magnitude of the problem. Samuel Tilden, a zealous attorney, convicted Tweed who finally died in a New York prison.

Over the last few years, we have seen our versions of Nast and Tilden making their voices heard. Movements such as the ones by Anna Hazare or Arvind Kejriwal have shown that India's masses want more than just energy, roads, water and education. They realise that clean government is a must to enable efficient and fair capital allocation. Institutions such as the judiciary, the office of the Comptroller and Auditor General and the Reserve Bank of India are asserting their independence from the political apparatus.

So, does India really need a third revolution? With a little bit of luck, it is already under way. **■**

# WHEN BUSINESS BATS AGAINST ITSELF

Indian capitalism is the single biggest obstacle to further economic reform. It still inhabits a world of deals rather than rules



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BY PRATAP BHANU MEHTA

**T**here is widespread consensus that India does not have a political culture propitious for business freedom. It fares poorly across all global indicators that measure ease of doing business. The daily uncertainty, arbitrariness, obstruction and degrading humiliation that anyone trying to honestly do business in India faces is living proof of an institutionalised hostility to business. But contrary to widespread perception, the main source of this hostility is not just the state. The evolution of Indian capitalism itself is in large measure responsible for it. The bourgeoisie of this country has not come of age; when it complains it squeals more like a sulking child than a confident class. Instead, it needs to ask hard questions about why India is less pro-business.

When the history of India's reforms is written, scholars will blame their slow pace on many factors: The vested interests of the state, the inability of politics to take economic arguments seriously, the anxieties of the middle classes that continue to depend on the state, the complexities of policy in an agrarian society, the wages of populism and the inherited baggage of socialist illusions. But one influence that will stand out is that of India's capitalist classes. For it is now palpably clear that Indian capitalism, despite the developments of the 1990s, is the biggest obstacle to further economic reform. Individual capitalists are undermining the long-term prospects of a free economy for their own immediate short-term gain.

One of the principle objectives of reform is to reduce the discretionary power of the state so that the ground rules regulating economic transactions are open, clear, predictable, competitive and fair. Licences and production controls were only one aspect of this discretionary power; tax exemptions and a plethora of other regulations are its other facets. But apart from production, the government has to regulate industry on labour issues, environmental concerns, land permission and so forth. It is wishful thinking to suppose that you can have capitalism that is not thus controlled. The question is whether the regulation is sensible and predictable. The government often has its own interests in an absurdly regulated or an



over-regulated but under-governed system. But Indian capital, rather than collectively fighting for rational regulation, spends its energies extracting its own form of rent from this misregulation. Industry uses inordinate resources in keeping its exemptions intact or manipulating rules to its advantage. While rational from the point of view of particular entrepreneurs, cumulatively, the politics of exemption-seeking impedes reforms. It reinforces the view that the function of the state is not to set fair rules, but to dole out selective benefits. Indian industry still inhabits a world of deals rather than rules.

There are too many examples of this. Rather than lobbying for sensible environmental regulation, industry dissimulates by attacking the idea of environment itself or by quietly seeking exemptions. India's infrastructure is at a standstill not just because the government is paralysed. It is also because many of the infrastructure players were more comfortable with a deal-based world: Their business model

Indian capital spends its energies in extracting its rent from governmental misregulations

was premised on the expectation of inordinate returns, ability to renegotiate contracts and so on. Big business saw its interests as separate from business in general. They were allowed options to exit and hedge against all risks; they were given captive power, easy credit, cover against the exchange rate, etc. SEZs were an exceptional land grab raj in disguise. They could fight the state on everything. But it is really the small entrepreneur who suffered the brunt of the state's anti-business bias. What we call reform has largely been pro-big business as opposed to business.

That the politics of exemption-seeking is widespread is not a big surprise. What is less remarked upon is the deleterious effect this has on the legitimacy of capital.

Many have long argued that Indian capital's idea of entrepreneurship consists not of making innovative products, but fleecing the state. This perception continues to be valid even after a decade of liberalisation. The net result is that the wider population does not see an attack on market forces as an attack on freedom,

**WHAT WE CALL REFORM HAS LARGELY BEEN PRO-BIG BUSINESS AS OPPOSED TO BUSINESS**





The Rockefeller College at Princeton University is named after JD Rockefeller. In the US, capitalist money was invested for public goods

entrepreneurship and innovation. Rather, it sees it as an attack on graft. It looks at Indian capitalism as the creation of a corrupt system rather than, as industry would like to present it, the victim. The conduct of Indian capital is the biggest obstacle to the legitimacy of capitalism.

Capitalism survived in most places, in part, by socially legitimising itself. It was able to, for all its vicious faults, present itself as a perpetual innovation machine introducing new products and efficiencies, a source of expanding revenues that the state could then use for other social purposes, a mine of new knowledge that expanded the frontiers of technology. In India, for a variety of historical reasons, capital started with low social legitimacy. But in the half-century since independence, it has not done much to enhance its credibility. At one level, it can be quite efficient. But at another, it has not excited romance in any sense. It is, some exceptions apart, not known for great innovation in manufacturing. It has not expanded the technology frontiers of production. It is not at the vanguard of design. You could argue that this is because its hands were tied by the hostility to business. But the fact is it has done nothing to get people excited.

Indian capital has been narrowly short-sighted. It never understood that good capitalism needs a good state. Instead, it tried to hitch its wagon to an ill-thought sensibility—"public bad, private good". It was so simple-minded and general in its critique of the state that it threw the baby out with the bath water. By delegitimising a proper idea of the public, it denuded the very foundation needed to sustain it. Someone once remarked that the trick in capitalism is to make one generation's bad money

serve another generation's good. It has to take off the rough edges. In the United States, this took on the form of a massive investment in creating 'public' goods—universities, patronage of arts and so forth. It was capital acknowledging, perhaps hypocritically, that it needed to transcend a narrow and pinched-up instrumentalism.

Indian capital's face, with a few exceptions, is narrowly instrumentalist. You cannot have liberal economics without creating a massive infrastructure of liberal culture, in the true meaning of the term. The economist Adam Smith also surmised that capital's power is, in part, aesthetic. It is its ability to create a veneer of order and aestheticism that helps it capture the imagination. If

the public sense of space and architecture has been a monstrosity, there has been nothing in private capital to inspire confidence. It too has bound the imagination by its penny pinching.

Much is made of the fact that Indian capital is increasingly delivering many services. But this is a double-edged sword. While these might

be a palliative to failing public institutions, they are not sources of great support for private business. If anything, the experience of private institutions, while acknowledged as a necessity by many, is also a source of resentment.

As if this was not enough, capitalism has come to be associated with the most sordid kind of politics. Older capitalists had the good sense to manipulate politics but not become politicians. Now the lines are blurred. Indian capital has a sense that it has too many skeletons in its closet and operates with that sense of vulnerability. This has made it intellectually servile—a cowering bourgeoisie tailing politicians rather than an independent class articulating powerful ideas.

As economic reform slows down, as the rate of growth decelerates and inflation creeps up, don't be surprised if the very class that made the country rich in the '90s becomes the target of a backlash. After all, if most people are convinced that capital's success in India is not due to its virtues but is a result of its vices, few will come to its defence. If the politics of capital contributes to fiscal and market distortions, rather than correcting them, the economy will have little future.

Capitalism has this in common with democracy: Under both systems, you can fool some people all the time, all the people for some of the time but not all the people for all of the time. As Smith put it, capitalists are the biggest obstacle to capitalism. **13**

## IN INDIA, CAPITAL STARTED WITH LOW SOCIAL LEGITIMACY... IT HASN'T DONE MUCH TO ENHANCE IT

# INDIA IS A STATE-NATION, NOT A NATION-STATE

India has created a new model to democratically deal with deep diversities. It accepts that political boundaries do not and need not coincide with cultural boundaries



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BY YOGENDRA YADAV

**T**he arrival of Narendra Modi at the centrestage of national politics has renewed an old debate about the idea of India. Underlying the various issues and controversies associated with Modi is a fundamental question: What kind of a nation are we? What does the Indianness of India consist of? How do we sustain a national political community across deep social and cultural diversities? Whose country is it anyway? This debate takes us back to the ghost of John Strachey, a British colonial administrator who wrote a primer in 1888 called *India*. The “first and the most essential thing to learn about India”, he advised his colonial masters, is that “there is not, and never was an India, or even any country of India, possessing, according to European ideas, any sort of unity, physical, political, social or religious.... That men of the Punjab, Bengal, the North Western Provinces, and Madras, should ever feel they belong to one great nation is impossible.”

This bald characterisation has continued to haunt Indians. It does so because Strachey was right in one sense. If nationhood requires people living within a given political boundary to have one language, one faith, one culture and one race, then claiming nationhood for India required stretching credulity. This is how the early nationalists responded to the colonial insinuation: They invoked the essential unity of the people of India, but struggled to explain how that essence fitted all the areas that fell within the boundaries of colonial India. The one thing they found hardest to wish away was religious diversity and divisions. The dilemma has persisted in post-colonial India.

It was natural for some Indian nationalists to try the other option. Instead of stretching the interpretation, they wanted to bend the reality itself by trying to forge a unity that would conform to received standards. This is how the politics of Hindi-Hindu-Hindustan was born. Guru Golwalkar, the iconic ideologue of the RSS, saw the challenge of nation building as requiring five unities: Geographical, racial, religious, cultural and linguistic. This project involved creating a uniform national community in the light of the cultural self-image of the dominant community. Thus their politics focussed on Hindi as the national language, Hindutva as the national way of life and



Tableaux representing different states at the Republic Day parade. India's cultural policy recognises and supports more than one cultural identity

the north Indian Hindi-speaking region as the heartland.

This vision of nationhood is more European than Indian. It draws upon a model of the nation-state that emerged in Europe. Europe's civilisational unease with diversities has had a long history. Nineteenth century nation-states were an attempt to settle this unease by matching the cultural boundaries of a nation with the political boundaries of a state. If there was a mismatch, the nation-state model tried either to shift the political boundaries—by creating new countries or merging existing states—or to alter the cultural boundaries by means of cultural integration, assimilation, coercion and even ethnic cleansing.

This was, of course, not the vision shared by the mainstream of India's national movement. If there was one thing Tagore, Gandhi and Nehru shared, it was their rejection of the idea that India's unity requires uniformity. Although they continued to use the dominant expression 'nation-state' for their vision of India, they laid the foundation for a different approach that saw 'unity in diversity'. The Indian Constitution and the post-independence politics has built an institutional edifice for recognition of diversity.

India's 'asymmetrical' federalism recognises the unique situation of various states. The cultural policy of the state recognises and supports more than one cultural identity. The co-existence of Indian

identity with other regional and religious identities is taken for granted. Political parties that raise regional and ethnic issues are not thrown out; they are brought within the pale of legitimate democratic negotiation of power. Quietly, but surely, India has created a new model of how to deal democratically with deep diversities. This model is best described as that of a 'state-nation'. State-nation accepts that political boundaries do not and need not coincide with cultural boundaries and that a political community can be imagined across deep diversities.

India's experience with diversities is not without its problems. The continuing alienation in Kashmir, and the ongoing slow-burning insurgencies in Nagaland and Manipur serve as a reminder of the failures of this experiment. But these are best seen as failures to implement the model of state-nation in its true spirit rather than the failures of this model itself. In any case, the disintegration of the former USSR and Yugoslavia

serves to remind us that we cannot take our continued existence as a political unit for granted. The civil war in Sri Lanka and the slow disintegration of Pakistan serve as a reminder of what India could have faced if it followed the European-style nation-state.

It is time we turned to Narendra Modi and spoke through him to the spirit of John Strachey: Thank God, India is not Europe and we don't live in the 19th century! **19**

**“THE INDIAN CONSTITUTION HAS BUILT AN INSTITUTIONAL EDIFICE FOR RECOGNITION OF DIVERSITY”**

# WE HAVE TO FREE OUR CITIES FROM THE STATES' CLUTCHES

The country's creaking infrastructure has been unable to support its cities' rapid growth. Local governments should be granted autonomy to increase productivity



**Profile:**  
Bimal Patel is Director, HCP Design and Project Management. Patel designed the Sabarmati Riverfront Development project in Ahmedabad.

BY BIMAL PATEL

India is witnessing an epochal transformation. From a country that lived in villages, it is becoming a nation of towns and cities. The last time the country witnessed such a transformation was during the period of the Mahabharata: Agricultural technology spread and village settlements transformed the subcontinent's ecology, geography and economy. Today, scientific, technological and industrial improvements are propelling change. These changes are simultaneously making many rural livelihoods redundant, and turning cities into more productive and attractive places to work in. On account of this, a vast number of people are migrating from villages to cities.

Today, as a consequence of rapid growth, Indian cities are in a mess. They are overcrowded and their meagre infrastructure is highly stressed. They are polluted, unhygienic and often filthy. Roads are congested and traffic seems unmanageable. Social services and amenities are non-existent in most towns and local governments seem unable to cope. We seem to be descending into a downward spiral of urban ills, stagnating urban productivity and underdevelopment. Will we ever be able to make our cities efficient, livable and sustainable? Will we ever be able to make them abodes of happy and flourishing lives?

When asking such despondent questions, it serves well to remember that when the West first urbanised, its cities also fell apart. Nineteenth century London and Paris were also unmanageable messes—overcrowded,

polluted, unhygienic, filthy, congested and hopeless. Engels's and Dickens's writings bring the miserable conditions of European slums and cities vividly to life.

Slowly, over a century, Western nations were able to transform this situation. Starting from small beginnings, they were able to provide more and more people in cities with better infrastructure, transport, housing, schooling, health facilities and recreation. By doing this they were able to pull off the trick of simultaneously making city lives more comfortable, healthier and happier. This also made cities more productive. Basically, they were able to channel increased wealth, resulting from the increased productivity of cities, into urban infrastructure investment that improved the well being and productivity of more and more citizens. Successfully



intertwining urbanisation and economic growth set off a virtuous upward spiral of human, social and economic development.

Why were Western nations able to transform their cities from the mess that they were in in the nineteenth century? Who provided the entrepreneurial leadership for this transformation? Why did this leadership respond to the plight of poor and deprived people in their cities? Why was the wealth generated by initial urbanisation not siphoned away by the elite or poorly invested—resulting in the falling productivity and worsening of living conditions in cities? Why did Western cities not get mired in a vicious downward spiral of unsustainable urbanisation and economic stagnation? These are difficult questions to answer unequivocally.

When one reads histories of urban development in the West it is clear that their cities were self-governing

The task of developing our cities is primarily seen as the burden of state-level politicians

and autonomous. They were unfettered by higher levels of government. Local elites participated in governance and led the development of their cities. Local governments were expected to raise their own resources and had the powers to do so. They also had the powers to spend their resources in the

manner that they saw fit. They had comprehensive control over their jurisdictions, including police powers. Local governments were responsible for all aspects of city life. Their staff was accountable to local government leaders. Moreover, local governments were effectively democratic. Local leaders were accountable to local populations. If they

wanted to be re-elected, local politicians had to yield to the demands of their electorates and to seek their well-being.

Are Indian cities similarly autonomous? Are local governments effectively democratic?

We have all the trappings of autonomous and democratic local

**WE HAVE ALL THE TRAPPINGS OF AN AUTONOMOUS LOCAL GOVERNMENT. YET, OUR CITIES LACK AUTONOMY**



A residential estate under construction in Kolkata. Today we have a once-in-a-lifetime opportunity to use urbanisation to set off a virtuous spiral of social and economic development

government—municipal corporations, municipalities, elected councilors, wards and so on. This creates a powerful illusion of self-governance at the local level. However, anyone who has interacted with local governments knows that our cities lack autonomy. They are creatures of state governments—created by state-level legislations and subservient to state-level politicians and administrators. In most places, mayors walk up to administrators' offices and not the other way around. Councillors are not in charge of the machinery of local government and executives are not required to answer to them. Local politicians are not expected to forge a vision for their city, raise resources for development or decide where to spend money. On the contrary, all important plans and budgets have to be sanctioned at the state level. Of late, even the Central government has got into the act. Believing that it knows best what cities ought to be doing, it has set up various standard schemes for directly funding urban development. In our country, the task of developing our cities is primarily seen as the burden of state-level politicians and administrators. It is, therefore, no wonder that politicians worth their salt do not want to get involved in local government.

We also elect councillors to our local governments. This also creates a powerful illusion that we have democratic local self-governance. Our councillors represent the people only in the sense that they are mediators, 'liaison agents' if you will, for the population to deal with the machinery of local government. If one observes them at work, it is clear that their primary task is to help their constituents,

rich and poor alike, to negotiate the Kafkaesque maze of local government. They help in accessing local government officials, making sense of complicated and often contradictory regulations, obtaining dispensations and resolving problems that people have got themselves into, most often, unwittingly and inadvertently.

Local politicians in India help to solve the problems of individual petitioners. They do not represent those who elect them as a class. As a consequence of this, for most civic politicians, a stint in local government is not more than a short opportunity to indulge in petty corruption. If this is not true, there is no way of explaining why despite the fact that the poor are in a majority and we have elected representatives, the problems of poor people are simply not addressed.

A nation urbanises only once. Today we have a once-in-a-lifetime opportunity to use urbanisation to set off a virtuous spiral of social and economic development in India. To do this we have to make sure that our cities rapidly become more and comfortable, healthier and happier places for all the people who live in them. Only then will we be able to continually increase their productivity and reap the benefits of economic growth. The most effective way of ensuring that the wealth generated by cities is used to meaningfully transform our cities is to make local governments more autonomous and responsible for themselves, and to ensure that they are made more accountable to the people whom they govern. **D**

# BETWEEN THE 'ILLFARE' STATE AND THE DEEP SEA

Great damage was done by changing the Preamble in our Constitution to make India 'socialist'. What we have as a result is not a welfare state, but an 'illfare' one



**Profile:** Bibek Debroy is Professor at the Centre for Policy Research, Delhi. He is an economist and has worked in universities, institutes, industry bodies and for the government. He has authored several books and articles, with an interest in trade, education, health, law and governance.

BY **BIBEK DEBROY**

**W**elfare state' is an abused expression. Specifics differ across countries and Sweden can't be placed in the same bucket as the USA. If equity is defined as every citizen obtaining access to basic needs, no one disputes that goal. Problems arise when one fails to target the poor and assumes the state has the capacity to deliver. Sure, the UNDP ranks countries by a human development index (HDI) based on purchasing power parity (PPP), per capita income, education and health. Sure, 'developed' countries perform well on HDI and at a rank of 136 (out of 186), India is way down the pecking order. There is a correlation between HDI and per capita income.

India's per capita income is \$1,492. Even if one does PPP conversions, India's per capita income is \$3,830. But governance is more difficult to quantify and pin down. There are some cross-country governance rankings, the World Bank's governance indicators being one. There is a correlation between governance levels and per capita income too. This is correlation, not causation. While improved governance may lead to higher levels of per capita income, higher levels of per capita income may also lead to improved governance. Therefore, one cannot assume that governance levels in developed countries can be imported and applied in India.

Lant Pritchett (Harvard) coined an expression for India—flailing state. The problem hasn't been one of enunciating policies driven by equity but administrative incapacity to

deliver. John Kenneth Galbraith was anything but a die-hard market fundamentalist and even he castigated India's 'post-office socialism'. Those goals of equity concern social sectors. Had we been serious, we would have recognised this and pushed the decentralisation/devolution agenda since, logically and constitutionally, social sectors are state government subjects and should become local body subjects. Improved governance is also correlated with decentralisation/devolution. Instead, there have been a plethora of social sector schemes devised in Delhi.

While all subsidies aren't Central, 14 percent of GDP is spent on them. Had subsidies led to equity and opened up market opportunities, as they have in other countries, we wouldn't have debated whether India's poverty head-count ratio is 22 percent or more. It would have



The right debate about MGNREGS is why this scheme was necessary more than six decades after Independence

been down to about 5 percent. It shouldn't be surprising that improvements in India's HDI score from 1991 have resulted from improvements in per capita income, not that much from health and/or education indicators.

The mammaries of the Indian welfare state haven't yielded much milk. If 15 percent of expenditure reaches target beneficiaries, that's not because of leakage alone. It is also because of the high administrative costs of delivery. There is a predatory political and bureaucratic class that thrives on social sector schemes and subsidies. There is another predatory non-BPL class, typically the urban middle class, that thrives on subsidies meant for BPL (below poverty line). There are several reasons why this leads to distortions.

First, there are fiscal costs to such public expenditure. More importantly, there are forgone opportunity costs of resources. To use the cliché, while one may use a 'Right to Fish' statute to give a person a fish a day to eat, lack of expenditure on physical and social infrastructure means the person doesn't learn how to catch fish. The right debate about MGNREGS is about what these resources might otherwise have been used for and why MGNREGS was necessary more than six decades after Independence.

Second, state intervention messes up price signals and distorts resource allocation. Third, since BPL cases aren't identified and targeted, it is by no means obvious that a rich to poor redistributive transfer takes place. In all probability,

many of the poor continue to be bypassed. Fourth, even if the poor have to be subsidised fiscally, it doesn't follow that the state has to deliver those goods and services. Choice, competition and efficiency are possible with state financing of alternative channels of delivery. Fifth, in the name of equity, an inefficient public sector has been erected.

India's tax-GDP ratio, at 18 percent, isn't that high. It wouldn't be that high, even if tax exemptions, 5.5 percent of GDP, are completely eliminated. The problem with the 'illfare state' isn't just fiscal and monetary. It imposes inefficiencies and prevents private sector growth. It creates a dole mindset and kills private entrepreneurship. For the corporate sector, it encourages capital flight, where possible. It imposes a debt burden on future generations.

## THE 'ILLFARE' STATE IMPOSES INEFFICIENCIES, CREATES A DOLE MINDSET AND KILLS PRIVATE ENTREPRENEURSHIP

Sweden's welfare state emerged in the 1950s and 1960s, when tax rates there were low. Today, finding the system unsustainable, Sweden is trying to reduce both public expenditure and taxes. There are two new Gresham's Laws in policy-making: (1) Good policies drive bad policies out of circulation; (2) For every silly policy one can think of, there will be some precedence in some country in the world.

Great damage was done to India by changing the Preamble to the Constitution to make India 'socialist'. In our fear that unbridled capitalism would make social mistakes, our 'illfare state' has incessantly made capital mistakes. The tragedy is that we haven't learnt and continue to muddle along. We have neither the capital, nor the social. We only have the 'ism'. **1**

# WHY ENDING DOLES WILL HELP THE POOR

The government's fixation on bad subsidies is supporting corruption, not the poor



**Profile:** Surjit Bhalla is the chairman and MD of Oxus Investments, a New Delhi-based economic research, asset management and emerging-markets advisory firm. He's worked at the research and treasury departments of the World Bank, and also had stints with Goldman Sachs and Deutsche Bank.

BY SURJIT S BHALLA

**I**ndia turns 66 this month. That it has transformed during this time is believed by most of its citizens. Consider that a majority of us were born after 1990, when India's per capita GDP was \$400 a year. Today, the figure is more than four times higher at over \$1,600. Yet, most Indian policymakers behave as if, on an average, we are a very poor country and that nearly two-thirds of the total population needs attention in the form of transfers (doles) from the government. Most people, and almost all taxpayers, in India and across the world do not object to money spent in the uplift of the poor and in providing them with basic infrastructure and services. I have yet to meet anyone who protests the provision of roads, water, sanitation, education and health care to the poor.

Leaky, corrupt, 'in the name of the poor' subsidies are the problem and considered objectionable. They provide little income support to the poor and subtract from the subsidies that are desperately needed. This is particularly relevant in the sterile 'growth versus redistribution' debate that is currently raging in India. Prime Minister Manmohan Singh and Congress President Sonia Gandhi (the duo is hereafter referred to as Manmonia) along with their advisor, Nobel laureate Professor Amartya Sen, portray that India spends precious little on redistributing income. But the facts indicate otherwise.

There are at least two obvious reasons why India, like other countries, spends its fair share on redistribution. First, it has a very small income tax base,

with the lowest taxpayer in the top 20 percent of the population. Thus the poor, the emerging middle class and half of the middle class do not pay any income taxes. Second, corporate taxes are paid by the wealthy. Therefore, a substantial proportion of money spent on redistribution is financed by the "rich" taxpayer.

Now, the poor and the taxpayer alike are concerned with the form taken by the subsidy or redistribution. Bad subsidies do not enhance productivity, good subsidies do. And the Congress-led UPA, both shades I and II, has been consistent in its advocacy of dole for the bottom half to two-thirds of the population.

Never in the history of India was two-thirds of the country considered poor—not even by the '*garibi hatao*'

queen Indira Gandhi. Indeed, there is no country in the world that sets its own poverty line to contain two-thirds of its population. The question, therefore, is: What prompts Manmohan to continue and substantially increase its dole expenditure over what had already prevailed before they arrived on the scene in 2004-05?

Their policies have made India a welfare dole state before its time. The table notes the magnitude of Central government spending over the last decade and the nature of “redistributive” subsidies, both good and bad: That is, subsidies that enhance individual productivity (through roads, education, health) and dole that merely transfers income and reduces poverty (in the unlikely event that it reaches the poor on a consistent, targeted basis) only on a “maintenance” basis. In 2004-05, good subsidies constituted 0.9 percent of GDP, and bad subsidies 1.6 percent. In 2011-12, bad subsidies touched nearly 3 percent.

The dole comprises four broad categories of expenditure—fuel, fertiliser, food and employment. Even the Congress does not argue that the first two do much to help the poor. Less than 15 percent of dole regarding food and employment actually reaches the targeted poor. And the remaining 85 percent does not even accrue to the *aam*, but not poor, *aadmi*. A large fraction (about a quarter) of it is mostly unaccounted for.

A majority of the countries that undertake transfers (dole) endeavour to ensure that the deserving are properly targeted. The world has had considerable experience with various forms of transfers— cash, conditional cash, food stamps, etc—and the record appears to be broadly

India persists with dole policies like the PDS despite huge evidence of corruption in it



## GOOD AND BAD GOVERNMENT SUBSIDIES IN INDIA, 1999/2000-2011/2012

	1999-00	2004-05	2009-10	2011-12
*GDP	1,952	3,242	6,550	8,354
*Central government expenditure	15.6	15.6	15.6	15.8
<b>*Good Subsidies</b>	<b>0.81</b>	<b>0.86</b>	<b>1.19</b>	<b>1.52</b>
*Infrastructure	0.27	0.21	0.32	0.42
*Education & health	0.54	0.65	0.87	1.10
<b>*Bad Subsidies - Dole</b>	<b>1.11</b>	<b>1.58</b>	<b>2.72</b>	<b>2.88</b>
*Food & employment	0.66	0.99	1.40	1.25
*Fuel & fertiliser	0.45	0.59	1.33	1.63

Source: GOI, Budget data

\*In Rs '000 crore \*As % of GDP

favourable for the cash kind. But not in a country like India: We are still debating the merits of such schemes of redistribution. Why? Because of opposition from powerful interest groups as cash transfers substantially decrease (but do not eliminate) the opportunities for big-time corruption. We continue to persist with inefficient and corrupt dole policies for food (PDS) and employment (NREGA). In fact, we want to expand such leaky schemes. This is despite the huge evidence of corruption. The reason: My best guess is an outdated ideology heavily related to old age, that of our policymakers in the Congress and the BJP. Many of them were born in pre-independence dirty, poor India, and their ideology has been shaped by that experience. India has changed, much like the world, but that does not seem to influence

their view of the country. Their motto is ‘the government is the saviour’. What confirms this hypothesis is that there was only one 40-plus ‘youngster’ who dared to challenge the public distribution system, and that too when it was a decade old. That ‘youngster’ was Rajiv Gandhi who as PM famously stated that less than 15 percent of the dole meant for the poor actually reached them. To my knowledge, no other leader has dared to question the PDS again. Sonia Gandhi has gone out of her way to reject the wisdom and courage of her late husband. Her view, and the Congress’s, seems to be that the system has failed, and the best way to improve it is by expanding it. **IF**

# WHY THE GOD OF JOBS DOESN'T SMILE ON INDIA

There is a dire need for policy and politics to combine to build a serious narrative around non-farm formal job creation



**Profile:** Manish Sabharwal is co-founder and chairman of Team-Lease Services. He has a management degree from Wharton and sees himself as a crusader for labour reforms in India. Since its inception in 2002, Team-Lease has placed more than half a million people in temporary and permanent jobs.

BY MANISH SABHARWAL

**T**here is a curious acceptance of a hung parliament from the 2014 polls. Even more painful is the omission of a narrative around jobs in the various election narratives being polished and readied: Secularism, socialism, corruption, national security, food and so on. Could these two tragedies be related? Indian policy and politics desperately, urgently and forcefully need to pray to one god—jobs. India's labour markets have been stuck for the last 20 years with 12 percent manufacturing employment, 50 percent self-employment, 90 percent informal employment and 50 percent agricultural employment. India has not had jobless growth but 100 percent of the net job creation since 1991 has taken place in the informal sector. Why are we creating so many low-quality jobs? I believe India's job emergency has five causes.

**Regulatory Cholesterol:** Philosopher Balzac once said that behind every great fortune lies a great crime. This distrust of the private sector is pervasive in India and manifests itself in thousands of vague, contradictory and unnecessary regulations that smother enterprise. Most toxic is our labour law regime that makes employment contracts like marriage without divorce, ie biased against employers. Without a radical overhaul of our labour law regime—by recognising fixed term contracts, making labour a state subject, reversing over-regulation and under-supervision—we will not reverse the 90 percent informality. And informal employment is the slavery of the 21st century.

**Employee Benefits Regime:** In a cost-to-company

world, benefits are not over and above salary but come out of it. Today the law requires employers to deduct 48 percent of salary towards mandatory benefits for wage levels up to Rs 6,500 per month. Since most employees at low wages cannot live on half their salary, they prefer informal employment. This demand for informality is amplified further by the perception of poor value for two of the biggest benefits: Provident Fund (it is the world's most expensive government securities mutual fund and its pension scheme has an unfunded hole of Rs 50,000 crore) and ESIC (it is the world's only health insurance plan with a claim ratio of less than 50 percent).

**Sins of Omission:** Economic reforms since 1991 have



Hopefuls line up in UP for application forms for police jobs. The geography of work greatly affects job creation

fixed the sins of commission but not the sins of omission. Entrepreneurs have to substitute for the Indian state by generating their own power, providing their own transport, digging for their own water, arranging their own security and manufacturing their own employees. This not only raises the difficulty level for young people becoming entrepreneurs but ensures that most Indian companies end up being dwarfs rather than babies. The average size of an Indian company is three employees and the policy focus for the Ministry of Micro, Small and Medium Enterprises, unfortunately, continues to be small companies rather than new ones.

**Urbanisation:** The geography of work greatly influences job creation. India has six lakh villages but two lakh of these have less than 200 people. We only have 50 cities with more than a million people—China has 300. Job creation tends to cluster and the perennial policy dream of taking jobs to people must give way to the urgent reality of taking people to jobs. Consider that unlike the Chinese New Year when 300 million people get on a train to go home, India does not have mass migration at Diwali, Chhath, Christmas or Eid. Urbanisation is a policy orphan in India even though we need 100 new clusters like Gachibowli, Gurgaon, Mohali, Magarpatta and Bangalore that intermingle low rent but high quality residential and commercial spaces.

**Foreign Investment Regime:** More

than 50 percent of China's exports and 90 percent of its high technology exports come from multinational factories. The biggest value these multinationals have brought to China is not capital but market connectivity, technology and management. Of course, Indian companies should be world beaters but removing all restrictions on foreign investments will greatly accelerate formal sector job creation. Not to mention the huge demonstration and alumni effect of multinationals that will ignite more domestic entrepreneurship of the baby rather than dwarf kind.

Politicians are confused because the traditional narratives of religion, caste and poverty do not inspire the same level of indignation, outrage or action as before. They are looking for a new narrative. When Gandhiji launched the non-cooperation movement, Jinnah told him it would only appeal to the young, ignorant and the illiterate. Jinnah was right: Satyagraha massified the freedom movement because it was a compelling and simple narrative. Gandhiji's genius was recognising that politics is a battle for hearts and minds. Many current politicians

say they believe in economic reform but don't know how to get re-elected once they implement it. This implies that good economics is almost always bad politics. But a narrative around non-farm formal job creation is a compelling political narrative at the intersection of good economics and good politics. **1**

**THE POLICY DREAM OF TAKING JOBS TO PEOPLE MUST GIVE WAY TO THE REALITY OF TAKING PEOPLE TO JOBS**



# THE STATE SHOULD ENTER THE PICTURE ONLY WHEN MARKETS FAIL

A key pillar of a sound state is accountability. Alongside precise objectives and precise powers, we need layer upon layer of accountability mechanisms

BY AJAY SHAH



**Profile:** Ajay Shah co-leads the Macro/Finance Group at the National Institute of Public Finance and Policy in New Delhi. Before this, he was a consultant in the Ministry of Finance's Department of Economics. He has engaged in academic and policy-oriented research in economics and finance.

**T**he corruption scandals of recent years have thrown a spanner in traditional ways of doing business in India. That murky ways of doing business are much less feasible is something to rejoice over. But equally important is the challenge of constructing new structures that are impartial, efficient and supportive of growth. The way forward lies in clarity of objectives, focusing the government on market failures and refraining from arbitrary meddling, and ensuring accountability.

In the bad old days, India had a mix of badly structured government rules and procedures, coupled with large scale corruption. In areas which required a strong interface with the government, many success stories in the world of business had murky ways of getting things done. When foreign investment and private equity surged into the country 2002 onwards, this capital was often quite amoral. They cared about getting returns and not about the means through which returns were obtained.

With this wind in their sails the strongmen of Indian business thundered ahead. Their ranks were augmented by many wannabes who saw the opportunities available by flouting rules, getting things done, crushing rivals through illegal methods, and getting to the prize of billion-dollar valuations offered by private equity or FIIs.

From 2002 to 2008, we got the greatest macroeconomic boom in India's history, but alongside it, we also got some

of the most dangerous behaviour by strongmen and their counterparts in the government. By 2007, many people started getting concerned about whether India would fall into the 'middle income trap', which has been observed in many other developing countries where government and business cosy up in corrupt arrangements, kill off honest businesses, and settle into cosy stagnation.

This picture has changed quite a bit in recent years. While enforcement mechanisms in India are not perfect, it is also the case that not all enforcement can be bought off. One by one, we are seeing a procession of companies crashing and burning as skeletons come out of the closet.

Of great importance is stock market performance. The companies that have got into trouble in this fashion have produced phenomenal underperformance of the broad market. Sometimes, we see 50-70 percent fall in returns in a short time after an enforcement action. At other times,

we see sustained long-term failure to deliver returns.

These messages have got to Wall Street. The same private equity and FIIs who blindly supported strongmen are now very concerned about ethical standards. A new line of business has opened up, in serving these investors, of doing ethics checks in India. But what about the apparatus of government?

The strongmen in business were exploiting opportunities that were present in a malfunctioning government. On one hand, this is about messy processes with a lack of clarity, a lack of rule of law and arbitrary decision-making. In addition, even when these processes are operated by a clean organisation, there are serious concerns about the inadequacies of our state apparatus.

As an example, consider the Reserve Bank, arguably a singular success story in India on the question of corruption. Every other government agency envies the RBI when it comes to cleanliness all the way down to the rank and file.

This cleanliness has not led to success on core functions. For most of the last 40 years, RBI has failed in achieving price stability, which is the *dharma* of a central bank. In the financial regulatory aspects that RBI engages in, there is a long history of failure: RBI has failed to create a banking system, a payments system and a bond-currency-derivatives nexus of the sort that is required for India's growth. RBI is complicit with bad policies emanating from the Ministry of Finance when it comes to nurturing public sector banks, and when it enables reckless fiscal policy in its

function of being investment banker to the government.

Even in the hands of good men, why did RBI fail?

The first issue concerns unrestricted meddling by the state. The present laws and agencies were constructed in the age of socialism, when it was thought appropriate to give draconian powers to government agencies.

This strategy is a recipe for trouble, for public bodies will almost surely misuse these powers. It makes much more sense to focus the government upon the narrow task of addressing market failures. Market failures come in three kinds: Those associated with market power (such as abuse of monopoly), asymmetric information (eg when you eat at a restaurant, you don't know whether the kitchen is clean) and externalities (eg, a factory emits pollutants that harm you). These three groups of market failures justify government intervention—there is no case for any other government intervention.

We must reconstruct public bodies around clarity of objectives (to address market failures) and equip them with the minimal set of powers required to pursue market failures. This requires great care in writing laws that clarify objectives in detail, in avoiding vague phrases such as "shall pursue the public interest" and in writing down precise and limited powers to pursue these objectives.

The third pillar of a sound state is accountability. The first and foremost accountability mechanism, of course, is clarity of objective. An agency can be held accountable when everyone knows what it is supposed to do. We know what the Election

Commission is supposed to do. We do not know what the RBI is supposed to do. The contrast in outcomes is striking: By and large, the Election Commission has delivered on holding free and fair elections.

These ideas were employed by the Financial Sector Legislative Reforms Commission, chaired by Justice BN Srikrishna, in drafting the Indian Financial Code that aspires to replace all existing financial law. When enacted by Parliament, this will give a quantum leap in governance in the field of finance. This strategy of public administration reform would be valuable in India in fields far beyond finance. **1**

The RBI, despite being a 'clean' organisation, has failed to deliver



# OUR BIGGEST CHALLENGE IS TO IMPROVE TEACHING COMPETENCE

While we have taken the school to children in over 99 percent of our villages, the quality and equity of education has remained elusive



**Profile:** Dileep Ranjekar (Co-CEO) has been an integral part of the Azim Premji Foundation, right from its inception in 2001. Ranjekar joined Wipro from campus in 1976 and played an important role in its transformation from a vegetable oil maker to a global IT company.

BY DILEEP RANJEKAR

**I**n 1950, we as a nation made a constitutional commitment to build a socialistic, secular and democratic society to secure justice, liberty and equality on several attributes. We committed to be a nation where the poorest feel ownership towards the country, all communities live in perfect harmony, there is no untouchability and women enjoy the same rights as men. After 66 years of independence, we have hardly progressed on our constitutional promise. Our performance across various economic, developmental and social indicators is abysmal. More importantly, there are serious challenges on equity, justice and care for human beings.

It is well accepted that education is probably the most non-violent medium for bringing about social change. In our country, the state has a constitutional responsibility to ensure quality education for all. While we have made significant progress in the last 20 years to take the school to children in over 99 percent of our villages, quality and equity of education has remained elusive.

In 1986, through an act of Parliament, the state brought out the National Policy for Education, defining goals that were consistent with our constitutional promise. The policy has been supported by the National Curricular Framework, revised from time to time, elaborating the purpose, process and assessment of education. Unfortunately, neither the policy nor the curricular framework has reached the seven million people deployed by the government in 1.4 million schools across the country.

There are several issues involved in the non-delivery

of quality education for all, such as the lack of political will, absence of accountability in the delivery system, poor-quality teacher education and inadequate budgets. However, among the most critical actions required is enhancing the competence of people engaged in education.

## PRE-SERVICE TEACHER EDUCATION

Given our diverse complexities and the socio-economic matrix, it is absurd to expect that we can prepare a high-quality teacher through a 10-month Bachelor's in Education (B.Ed) programme after a poor-quality graduation process. What is worse, even the given framework is not delivered with integrity by over 70 percent of the private teacher education institutions. The fact that less than 10 percent of the teachers cleared the national teacher eligibility tests is evidence of that.

We have to strengthen the B.Ed degree, making it at

least a two-year programme and simultaneously design a five-year programme to be entered after Standard XII. This would help improve aspects such as subject matter knowledge, education perspective, reflective teaching and learning practices, and meaningful student assessment.

## PREPARE SCHOOL PRINCIPALS

World over, research has established that a 'school leader' has the highest influence on the quality and culture of the school. However, we do not have a formal process of developing school leaders. It seems absurd that while teachers cannot be appointed without a B.Ed degree, there is no such separate certification required for principals. We need to launch a programme for the preparation and development of school leaders to deal with academic, administrative, cultural and community issues with far greater effectiveness.

The National Centre for School Leadership Development, recently launched under the auspices of the National University of Educational Planning and Administration, needs to make this happen in collaboration with several governmental and non-governmental bodies that have the capacity to contribute to such a process.

## ENHANCE COMPETENCE OF EDUCATION FUNCTIONARIES

We also have about one million education functionaries across the country. Their responsibilities include ensuring appropriate teacher-pupil ratio, incentives for children, infrastructure, mid-day meal programmes, consistent supply of text books, conducting examinations and providing academic support to schools. Practically no formal training or development is designed for them.

## STRENGTHEN INSTITUTIONS

The government has created institutions at the state, district, block and cluster level to ensure administrative and academic support to schools. They need to have a synergistic vision and a shared strategy to realise their vision. Elaborate criteria must be evolved for selecting personnel for these institutions along with a continuous process of their development. There has to be a periodic review of performance and effectiveness of such institutions.

## INDIAN EDUCATION SERVICES

Among the various challenges that we face at the leadership level is the absence of a consistent vision and continuity in the service of bureaucrats in charge of the education department. The

National Policy for Education elaborated several points on how to make quality education possible for all children. One of the critical recommendations is the creation of the Indian Education Service to ensure that the education system is managed by professionals who have an in-depth understanding of the subject. We are dealing with the learning and development of 250 million children, the future of our nation, and we need a highly competent cadre of people who are specially trained to manage the same.

## TAIL-PIECE

India, the largest democratic system in the world, can achieve its constitutional and societal goals only if our educational system is dramatically reformed to meet the mammoth task before us. And for this, we need committed and highly competent people and institutions. Developing such competence is our number one priority. **1**

We are dealing with the development of 250 mln children, the future of our nation, and we need a highly competent cadre of people to manage the same



# LET THE SUN FREE INDIA FROM A CAD CRISIS

Investment in solar power can lead to a significant improvement in the balance of payments by reducing energy imports as well as, eventually, driving down power tariffs for end-users



**Profile:** Akhil Gupta is Senior Managing Director at The Blackstone Group and Chairman of Blackstone India. He previously served as CEO-Corporate Development for Reliance Industries (RIL), focusing on developing RIL's oil & gas, refining, and telecom businesses. He began his career at Hindustan Lever.

BY AKHIL GUPTA

**T**he biggest freedom a country can wish for is freedom from external overdependence. With our humongous current account deficit (CAD), which forces us to depend on volatile capital flows to finance our import bills, the rupee has taken a beating, falling 14 percent in a matter of weeks. But a bad CAD affects more than just the value of the rupee; it imports inflation, weakens government finances by raising subsidies, deters foreign investment and prevents the Reserve Bank from lowering interest rates. Basically, a high CAD sucks the economy into a vicious cycle of high inflation and low growth.

The biggest culprit here is energy imports. Consequently, a solution that kills many birds with one stone is for the government to go big on solar power in partnership with the private sector. The government's role should be to:

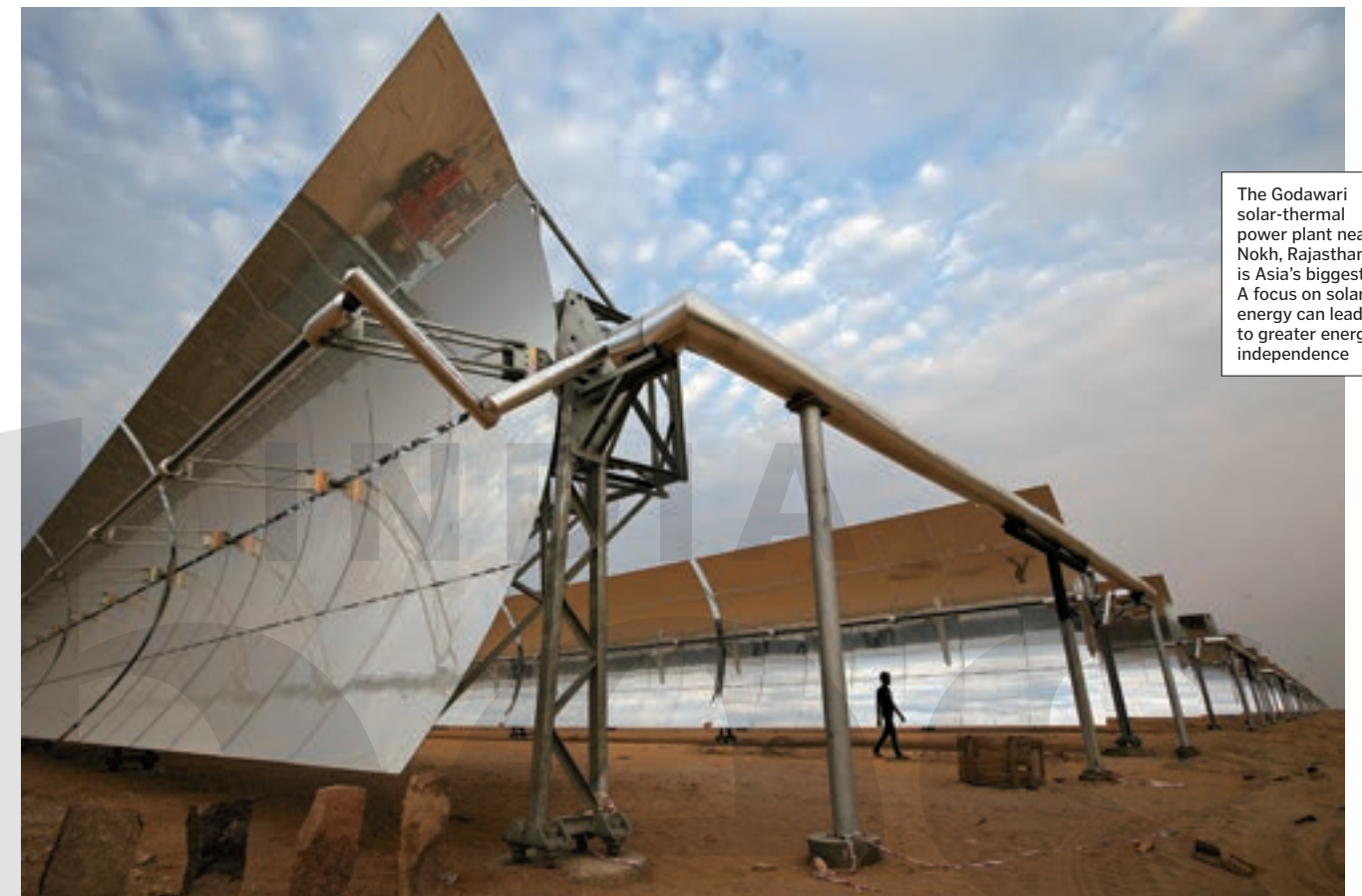
- (a) Act as credit enhancer to tie up facilities from multilateral agencies, the US, Japan and China for the import of solar panels worth, say, \$50 billion over the next five years. This will enable the creation of 50 GW of solar power capacity.
- (b) Assure solar developers that anyone who signs a valid power purchase agreement (PPA) with any state electricity board (SEB) will quickly receive a low-interest rupee loan for 70 percent of the total project cost at the same rate in rupee as the dollar interest rate at which government has borrowed.
- (c) Guarantee SEB payments on the solar PPAs

against any state defaults and adjust such amounts against disbursements to states. The Central government's risk will be diversified against 25 states.

(d) Encourage insurers like LIC to provide takeout financing for fully commissioned projects—this enables recycling of equity to be deployed for the next project, and a steady yield stream for insurers.

(e) Offer a Re 1/KWH subsidy to SEBs if they pay the solar generators on time. This can be funded by a renewable energy fund already built through a cess on coal production. This subsidy can also eventually be recouped from carbon credits.

All the actions suggested will enable developers to offer solar power to SEBs at a net rate of Rs 5/KWH. This reduction in tariff will ensure faster adoption by states as this form of power becomes immediately competitive



The Godawari solar-thermal power plant near Nokh, Rajasthan, is Asia's biggest. A focus on solar energy can lead to greater energy independence

with thermal power. In fact, solar, at Rs 8/KWH, is competitive even now as it displaces peak power, with diesel power costing Rs 14/KWH on the margin. The latest long-term PPA bids from thermal power plants were north of Rs 5/KWH. Solar power costs will continue to decrease as panels become cheaper and their conversion efficiency increases; thermal power costs, meanwhile, will continue to rise with inflation. The economics, therefore, are heavily in favour of solar power.

The private sector's role here will be to: Develop solar projects more expeditiously and cost-effectively, using the latest technology and construction practices; enter into long-term PPAs with SEBs; invest equity (around \$20 billion), acquire land and undertake execution risks once they are sure of getting debt financing of 70 percent.

The benefits of this solar initiative will be enormous. It will mitigate India's CAD issue, resulting in net savings of \$500 billion or more in foreign exchange over 25 years. It will help India manage the power crisis sure to loom large in three to four years given that the development of thermal power has slowed down enormously. A solar plant can be built in six to nine months against four

## THE BENEFITS OF A SOLAR INITIATIVE

	% substitution of diesel for power generation by solar			
	50%	60%	70%	100%
Annual Savings for End Consumer (Rs '000 Cr)	7.8	9.3	10.9	15.5
Reduction in Petroleum Imports (Rs '000 Cr)	17.3	20.7	24.2	34.6
As % of Current Account Deficit	4.6%	5.5%	6.4%	9.2%
Reduction in Under Recovery (Rs '000 Cr)	2.8	3.3	3.9	5.5
Implied Solar Capacity in India (MW)	6,792	8,151	9,509	13,584

to five years for thermal. It will lead to greater energy independence and reduce our carbon footprint.

At the conceptual level, this solution works because the government borrows at 4 percent dollar cost to facilitate solar power development, while the returns in dollar terms are 17-18 percent per year. The government will shoulder the risk but it won't cost anything in real terms.

Consider the central issue now. To continue growing at 7 percent, India needs a 60 percent jump in power capacity by 2018 from the present 1,78,000 MW. Any deficit needs to be met with diesel gensets, where the marginal cost of power is Rs 14/KWH, without taking into account subsidies and the cost of importing fuel.

The time is ripe for solar power since the prices of equipment (solar panels) have reduced by over 50 percent in the last three years, driving down the cost of solar generation to as low as Rs 8/KWH. India is in a unique position to capitalise on these falling costs. First, most parts of India have very high solar irradiance, with the majority of cities receiving insolation of 2,000–2,500 KWH/sqm/year compared to 1,000–1,500 KWH/sqm/year in European cities. Thus, a 1 MW solar plant generates 72 percent higher energy—1.75 million KWH/

from the country's perspective. Even at Rs 8/unit, the cost of generation from solar PV plants is more than 40 percent lower than diesel gensets and is already at retail parity for industrial/commercial customers in some states. Plus, if solar power were to displace only 50 percent of diesel used for power generation, it would assist in the reduction of oil imports by \$3 billion annually. As the grid connectivity improves, the displacement of diesel by solar generation will reach up to 70 percent. Over the life of a plant, assuming flat diesel prices for the next 25 years, an investment of \$1 billion in solar power reduces the import bill by \$9 billion.

Despite all these obvious benefits, the development of such solar power capacity is far below potential. Reason: The unavailability of financing, with banks reluctant to lend to solar plants, being unwilling to underwrite the credit risk of the SEBs. This is why, to give a boost to the sector, the government should develop the public-private participation (PPP) model described earlier.

It can also enhance its creditworthiness by making it a priority sector for lending by banks. Given these loans will be backed by hard assets and fixed PPA tariffs for the next 25 years, the only key risk is the SEB's credit risk. If the government can eliminate that, the creditworthiness of the sector will improve and should increase the availability of loans and reduce the cost of borrowing for developers.

Now consider the impact of solar power on the country's CAD. Cumulatively, over the life of the plant, a \$10 billion debt investment results in a net improvement of the balance of payments to the tune of \$110 billion, with the import cost of panels and debt service being offset by huge savings in oil imports. Not a bad return on the government's investment.

If the government follows the PPP mode, it will attract FDI in the sector. If it passes on the benefit of low interest rates to developers, the solar tariff can fall further (a reduction of debt rates from 12 percent to 4 percent should drive the tariff down from Rs 8 to Rs 6).

The solar solution allows the government to reduce energy imports and improve CAD, mitigate endemic power shortages and boost GDP growth while taking advantage of globally depressed equipment prices and low interest rates. All this, in turn, will drive power tariffs down further, a win-win-win for the government-developer-consumer. The only question left to ask is whether India will grab its moment in the sun. **1**

## THE MATH: HOW IT WORKS

Impact of solar power on India's CAD *	2014	2015	2016	2017	Cumulative (25 years)
One-time debt investment	10				10
Reduction in cost of importing panels	-7.1				-7
Savings on oil imports	4.8	4.8	4.8	4.8	121
Total debt service	-0.7	-1.6	-1.6	-1.5	-14
<b>Net impact on BoP</b>	<b>7</b>	<b>3.2</b>	<b>3.2</b>	<b>3.3</b>	<b>110</b>

\* Figures in \$ billion

Implied power generation in MW (Cumulative)	10,476	10,476	10,476	10,476
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year in India versus 1.02 million KWH/year in Germany.

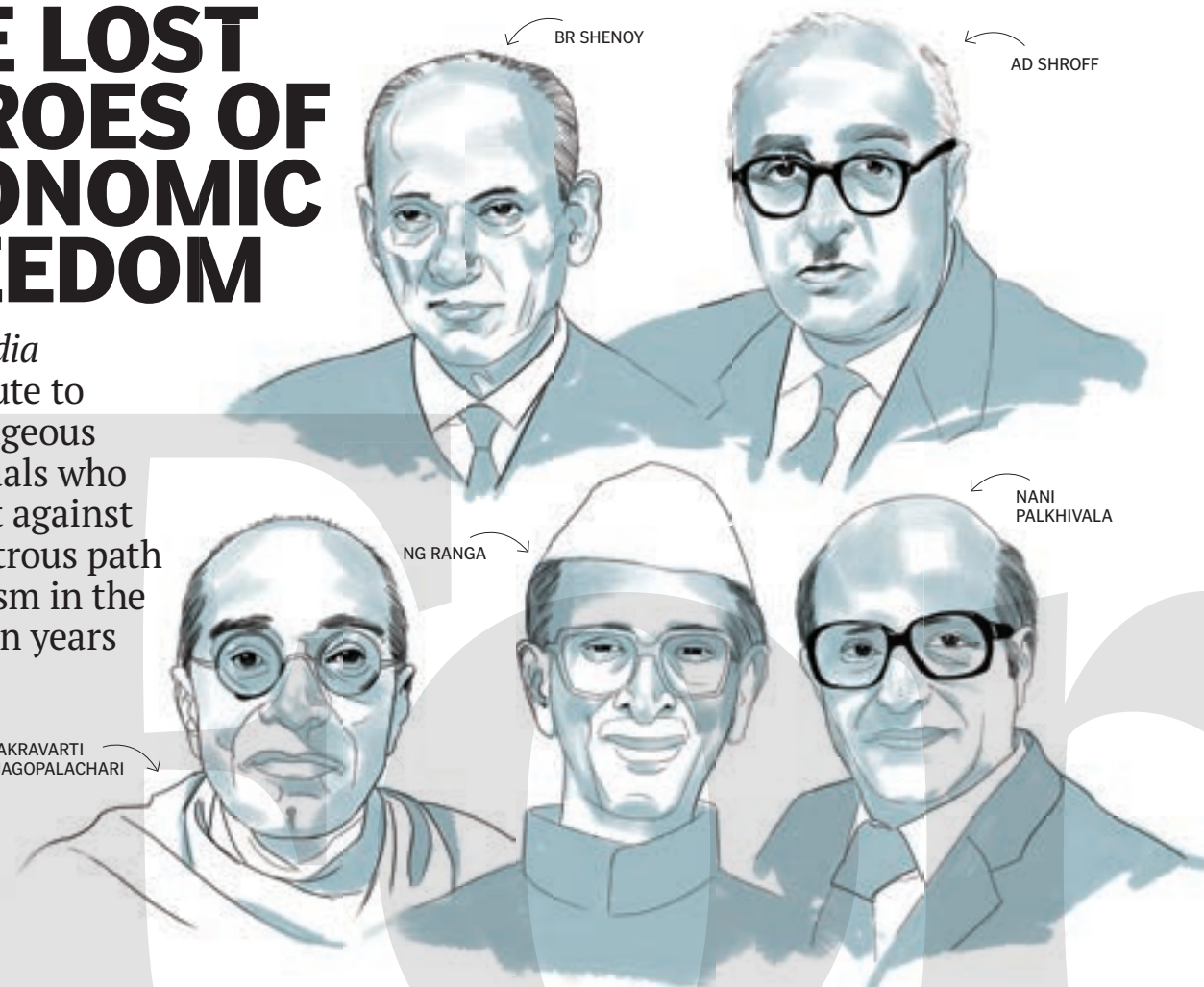
Second, the profile of generation also matches peak demand for electricity—that is, during daytime hours and in summer (as our power requirement is for cooling). Last, setting up solar plants near areas of demand can also help balance the grid, since there are no constraints on the source of fuel. To illustrate, if solar photovoltaic (PV) plants were set up on only 2 percent of the landmass of Rajasthan and Gujarat, they would generate enough power to meet the current energy needs of the entire country!

Going solar is also one of the few plausible ways to bridge a power deficit in a quick way given the shorter gestation periods for solar plants. Further, they can use small/irregular-sized land plots. In fact, various countries have experimented with concepts such as greenhouse-cum-solar plants, which may help produce power as well as boost agricultural productivity.

Finally, let's look at the economics of solar power

# THE LOST HEROES OF ECONOMIC FREEDOM

*Forbes India* pays tribute to the courageous intellectuals who spoke out against the disastrous path of socialism in the Nehruvian years



BY SEETHA

**“W**hen the history of India is written, no future historian should pity us that in a country where great saints have lived, there was not a single Indian to point out the absurdity of the ‘permit-licence-quota raj.’” So said C Rajagopalachari (Rajaji) when asked why he persisted in criticising Nehru’s economic policies when no one heeded him. G Narayanaswamy, a close associate, recounts this anecdote while penning a piece on him in *Profiles in Courage: Dissent on Indian Socialism*.

As the debate over two economic models—a welfarist-socialist one and a market-oriented one—gets increasingly cacophonous, it is worthwhile to remember a time when such energetic pow-wows were near-absent. When the predominantly left-of-centre intellectual climate—which dominated every field from academia to films—obscured any contrarian view.

## A FEW VOICES REFUSED TO BE STIFLED, ARGUING FOR A LIBERAL ECONOMIC ORDER

And yet a few voices in that wilderness refused to be stifled, forcefully and cogently arguing for a liberal economic order and warning of the dangers that the Nehruvian model posed not just to the economy but to the polity as well (a prediction that came true in 1975). Today, as the economic punditry space bursts with numerous illustrious advocates for an open economy,

there is danger of those older voices being forgotten.

Perhaps the least well known of these (outside the rarefied world of economists, that is) is that of BR Sheno. Sheno’s many treatises provided the intellectual underpinning to the battle against development economics and centralised planning.

His solitary dissent note to the memorandum of the panel of economists on the Second Five-Year Plan (of which he was a member) is a must-read critique of deficit financing and the dangers of over-ambitious plans. “Controls and physical allocations are not a necessary adjunct to planning... There are great advantages in allowing freedom to the economy, and to the price system in the use and distribution of the needs of production,” he wrote.

Sheno stands out because he was from the academic world, which did not put up a strong enough opposition to the Nehruvian socialist world-view. There were right-of-centre economists but few who consistently attacked the economic path that India was taking the way Sheno did. A later generation of economists—Jagdish Bhagwati and Meghnad Desai, among them—was vocal in its criticism but they were largely based abroad and their influence increased only after India liberalised its economy in 1991.

In the overwhelmingly socialist-inclined political space, it was the founding triumvirate of the Swatantra Party—Rajaji, Minoo Masani and NG Ranga—who ceaselessly championed an alternative economic model. Rajaji, the legend goes, was the one who said the ‘licence-permit-quota raj’ had replaced the British raj. The Jana Sangh (the predecessor of the Bharatiya Janata Party) was also in favour of an open economy but its economic ideology was overshadowed by its cultural conservatism and jingoistic nationalism.

It was Nehru’s increasingly statist policies that brought the three Congressmen together, with the Nagpur session of the Congress in 1959 (advocating joint co-operative farming, considered a euphemism for collectivisation of agriculture) triggering the final break with the party and the launch of the Swatantra Party. For 15 years, it presented a trenchant and principled opposition to government micro-management of the economy, deficit financing and high levels of taxation. An impressive showing in the 1967 elections was followed by crushing defeat in 1971. The party disbanded in 1974, by which time Rajaji had died and Ranga inexplicably rejoined the Congress. It was left to Masani to keep the Swatantra ideology alive till his death in 1998.

And then there was the Forum of Free Enterprise (FFE), set up in 1956, which single-mindedly debunked myths about socialism in the popular mind and countered the anti-private sector calumny of the socialists. The Forum was the brainchild of AD Shroff—one of the authors of the Bombay Plan of 1944 and a non-official delegate to the Bretton Woods conference—who had been opposing Nehru’s socialist views since the mid-1930s. With consumer activist MR Pai heading the secretariat for 20 years, the Forum provided a platform to an array of voices through writings, lectures and essay competitions.

Though better known for his annual analysis of the Union budget, eminent lawyer Nani Palkhivala (who was FFE president for 32 years) needs also to be remembered for his 1965 book, *The Highest Taxed Nation*, which made the very points that tax reformers of the early 1990s did. In the courts, he not only defended personal

freedoms but also economic freedom, challenging bank nationalisation and a newsprint control order in the 1970s.

All these people were reviled by the establishment and subject to slander campaigns, the most common being that they were American agents. The Swatantra Party was labelled a businessman’s party (though the majority of industrialists did not fund it). A central minister

told Shroff that Nehru wanted him to disband the FFE. But these voices refused to pipe down.

Were these the only dissenters? Certainly not. There were people like Freddie Mehta, Hannan Ezekiel, DR Pendse and Jay Dubashi (who later became an ideologue for the BJP), to name just a few. But it was natural for them to speak out against socialism since they were associated with private industry. The first three worked for the Tata group and Dubashi was director of the Economic and Scientific Research Foundation under the Federation of Indian Chambers of Commerce and Industry.

Eyebrows will be raised that IG Patel, Manu Shroff and several illustrious economists from the Bombay school do not find a mention here. But not all of them were vociferous or outspoken in the way the others were. Patel and Shroff worked for the government and though they may have slipped in some liberal ideas into economic policy, they were not open dissenters or radical reformers.

That’s why it is necessary to doff our hats to these brave voices which ensured that India will not be pitied in the way Rajaji had worried about. **■**

*Seetha is a senior journalist and author*

## BR SHENOY WAS AN EARLY CRITIC OF DEFICITS AND CENTRAL PLANNING



David Maxwell, president of Drake: Sound management versus self-inflicted horror

BY MATT SCHIFRIN

# COLLEGES AT RISK

Parents and students spend vast amounts of time and money trying to find a school that is the right fit academically and socially. They'd be wise to pay more attention to colleges' financial health

## THE TOP 300

RANK	COLLEGE	FINANCIAL GRADE
1	STANFORD UNIVERSITY Stanford, CA	A+
2	POMONA COLLEGE Claremont, CA	A+
3	PRINCETON UNIVERSITY Princeton, NJ	A+
4	YALE UNIVERSITY New Haven, CT	A+
5	COLUMBIA UNIVERSITY New York, NY	A+
6	SWARTHMORE COLLEGE Swarthmore, PA	A+
7	UNITED STATES MILITARY ACADEMY West Point, NY	NA
8	HARVARD UNIVERSITY Cambridge, MA	A+
9	WILLIAMS COLLEGE Williamstown, MA	A+
10	MASSACHUSETTS INSTITUTE OF TECHNOLOGY Cambridge, MA	A+
11	UNIVERSITY OF PENNSYLVANIA Philadelphia, PA	A+
12	BROWN UNIVERSITY Providence, RI	A+
13	AMHERST COLLEGE Amherst, MA	A+
14	UNIVERSITY OF CHICAGO Chicago, IL	A+
15	DUKE UNIVERSITY Durham, NC	A+
16	DARTMOUTH COLLEGE Hanover, NH	A+
17	NORTHWESTERN UNIVERSITY Evanston, IL	A+
18	CALIFORNIA INSTITUTE OF TECHNOLOGY Pasadena, CA	A
19	CORNELL UNIVERSITY Ithaca, NY	A+
20	BOWDOIN COLLEGE Brunswick, ME	A+
21	WASHINGTON AND LEE UNIVERSITY Lexington, VA	A+
22	UNIVERSITY OF CALIFORNIA Berkeley, CA	NA
23	WELLESLEY COLLEGE Wellesley, MA	A+
24	UNIVERSITY OF NOTRE DAME Notre Dame, IN	A+
25	TUFTS UNIVERSITY Medford, MA	A+
26	GEORGETOWN UNIVERSITY Washington, DC	B
27	VASSAR COLLEGE Poughkeepsie, NY	A+
28	UNITED STATES NAVAL ACADEMY Annapolis, MD	NA
29	UNIVERSITY OF VIRGINIA Charlottesville, VA	NA
30	UNIVERSITY OF MICHIGAN, ANN ARBOR Ann Arbor, MI	NA
31	UNITED STATES AIR FORCE ACADEMY Colorado Springs, CO	NA
32	DAVIDSON COLLEGE Davidson, NC	A+
33	RICE UNIVERSITY Houston, TX	A+
34	UNIVERSITY OF CALIFORNIA, LOS ANGELES Los Angeles, CA	NA
35	BOSTON COLLEGE Chestnut Hill, MA	A
36	COLGATE UNIVERSITY Hamilton, NY	A+
37	VANDERBILT UNIVERSITY Nashville, TN	A
38	UNIVERSITY OF NORTH CAROLINA, CHAPEL HILL Chapel Hill, NC	NA
39	WESLEYAN UNIVERSITY Middletown, CT	A+
40	BRYN MAWR COLLEGE Bryn Mawr, PA	A+
41	MIDDLEBURY COLLEGE Middlebury, VT	A+
42	CARNEGIE MELLON UNIVERSITY Pittsburgh, PA	A

In late June, nearly two months after most incoming freshmen had sent in their deposit cheques securing places at hundreds of colleges across America, Long Island University's Post campus, nestled in the wealthy New York City suburb of Brookville, New York, was testing a new approach in its efforts to fill up the 250 or so empty seats it had in its class of 2017.

The week of June 24 was 'Express Decision Week' at LIU. High school seniors were invited to walk into Post's Mullarkey Hall any time from 9 am to 7 pm, transcript, SAT scores and personal statement in hand, and LIU's admissions officers promised to make an acceptance decision on the spot. All application fees would be waived, and registration for fall classes would be immediate. An identical event was being held simultaneously at LIU's Brooklyn campus.

Post's aggressive marketing ploy is eerily reminiscent of the on-the-spot low-doc-mortgage approvals that occurred during the heady days leading up to the housing crisis. But the product here is a bit less tangible than a loan that secures a house. These admissions officers are selling the promise of a better life through post-secondary-school learning.

LIU isn't alone. Mount Saint Mary College in Newburgh, New York and Centenary College in Hackettstown, New Jersey offer similar same-day, on-the-spot admissions events. According to

Jackie Nealon, Long Island University's vice president of enrolment, LIU takes it a step further in the spring and sends admissions officers into Long Island high schools to admit students on location—the academic version of a house call.

If LIU sounds a bit desperate, it is. From a financial standpoint LIU is suffering from a host of ills common to hundreds of colleges today. According to the most recent financial data, LIU has supplied to the Department of Education, its Post



**\$1.5 billion endowment:**

**Warren Buffett** served as trustee from 1968 to 2011  
**93%** freshman-to-sophomore retention rate  
**2013:** Voted to retain need-blind admissions

**GRINNELL COLLEGE**  
**UNDERGRADS 1,693**  
**TUITION \$41,000**

**Famous Alumni**

**Christine Thorburn**, '92, Olympic cyclist  
**Ian Roberts** '87, founder, Upright Citizens Brigade  
**Robert Noyce** '49, co-founder, Intel

campus has been running at an operating deficit for three years. Its core expenses, or those essential for education activities, have been greater than its core revenues. Like many other schools, Post is a tuition junkie, with nearly 90 percent of its core annual revenues derived from tuition and fees.

This year Post raised its tuition and fees by 3.5 percent to \$34,005, yet it offers steep tuition discounts to nearly every incoming freshman. In fact, a quick click over to its website shows the deals available. If your kid is an A student with an SAT score of about 1300 out of 1600, expect at least a \$20,000 rebate per year.

This seeming paradox of raising prices while simultaneously offering deep

*Best Colleges: Edited by Caroline Howard. Rankings Calculated Exclusively for Forbes by The Center for College Affordability & Productivity*

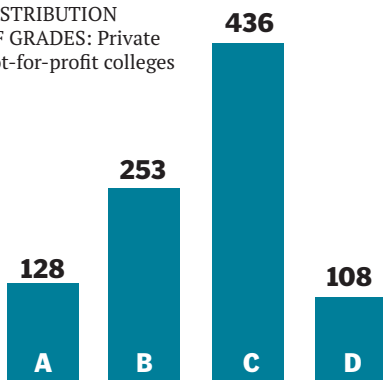
**THE TOP 300**

RANK	COLLEGE	FINANCIAL GRADE
43	HAVERFORD COLLEGE Haverford, PA	A+
44	COLLEGE OF WILLIAM AND MARY Williamsburg, VA	NA
45	CARLETON COLLEGE Northfield, MN	A+
46	JOHNS HOPKINS UNIVERSITY Baltimore, MD	A
47	HAMILTON COLLEGE Clinton, NY	A+
48	LAFAYETTE COLLEGE Easton, PA	A+
49	COLBY COLLEGE Waterville, ME	A+
50	OBERLIN COLLEGE Oberlin, OH	A+
51	BRANDEIS UNIVERSITY Waltham, MA	A-
52	HARVEY MUDD COLLEGE Claremont, CA	A+
53	UNIVERSITY OF ILLINOIS, URBANA-CHAMPAIGN Urbana, IL	NA
54	BERNARD COLLEGE New York, NY	A
55	UNIVERSITY OF WASHINGTON Seattle, WA	NA
56	NEW YORK UNIVERSITY New York, NY	B
57	WASHINGTON UNIVERSITY IN ST LOUIS St Louis, MO	A+
58	UNION COLLEGE Schenectady, NY	A
59	SMITH COLLEGE Northampton, MA	A+
60	WAKE FOREST UNIVERSITY Winston-Salem, NC	A+
61	UNIVERSITY OF ROCHESTER Rochester, NY	A
62	WHITMAN COLLEGE Walla Walla, WA	A+
63	UNIVERSITY OF SOUTHERN CALIFORNIA Los Angeles, CA	A
64	GRINNELL COLLEGE Grinnell, IA	A+
65	REED COLLEGE Portland, OR	A+
66	UNIVERSITY OF TEXAS, AUSTIN Austin, TX	NA
67	COOPER UNION New York, NY	A
68	UNIVERSITY OF WISCONSIN, MADISON Madison, WI	NA
69	KENYON COLLEGE Gambier, OH	A
70	LEHIGH UNIVERSITY Bethlehem, PA	A+
71	COLLEGE OF THE HOLY CROSS Worcester, MA	A
72	SANTA CLARA UNIVERSITY Santa Clara, CA	B+
73	UNIVERSITY OF MARYLAND, COLLEGE PARK College Park, MD	NA
74	UNIVERSITY OF FLORIDA Gainesville, FL	NA
75	BRIGHAM YOUNG UNIVERSITY Provo, UT	A
76	COLORADO COLLEGE Colorado Springs, CO	A+
77	GEORGE WASHINGTON UNIVERSITY Washington, DC	B+
78	TRINITY COLLEGE Hartford, CT	A
79	VILLANOVA UNIVERSITY Villanova, PA	B
80	CENTRE COLLEGE Danville, KY	A-
81	SOUTHERN METHODIST UNIVERSITY Dallas, TX	B+
82	MACALISTER COLLEGE St Paul, MN	A+
83	GEORGIA INSTITUTE OF TECHNOLOGY Atlanta, GA	NA
84	MOUNT HOLYOKE COLLEGE South Hadley, MA	A+
85	BOSTON UNIVERSITY Boston, MA	B

**Dollar Dunces Dominate**

DISTRIBUTION OF GRADES: Private not-for-profit colleges

Lane Hickenbottom / Reuters



discounts is a way of life among middling and lower quality colleges in the market for higher education. It's a symptom of a deeply troubled system where the cachet of elite institutions like Harvard and Yale has led thousands of non-elite schools to employ a strategy where higher prices and deeper discounts are more effective than cutting prices and tightening discounts. According to the National Association of College & University Business Officers, the

## BEHIND THE GRADES

If colleges and universities were traded like stocks based on their listed tuition prices, higher education would be a short-seller's paradise. College pricing is perversely inefficient—blue chips and penny stocks tend to be priced in the same narrow range. Except for a small number of elite institutions that don't need to engage in discounting, listed tuition rates rarely represent actual fair values or real transaction prices. And they almost never reflect the underlying financial well-being of a college. To do that we created the Forbes College Financial Grades, which measure the fiscal soundness of more than 900 four-year, private, not-for-profit schools with more than 500 students (public schools are excluded). For the purposes of our analysis we used the two most recent fiscal years available from the Department of Education—2011 and 2010. The grades measure financial fitness as determined by nine components broken into three categories.

● **Balance Sheet Health (40%):** As determined by looking at endowment assets per full-time equivalent (15%), expendable assets (assets that can be sold in a pinch) to debt, otherwise known as a college's viability ratio (10%) and a similar measure known as the primary reserve ratio (15%). Primary reserve measures how long a college could survive if it had to sell assets to cover its expenses. Schools like Pomona and Swarthmore are so asset-rich, for example, that they could cover expenses for 10 years without collecting a penny in tuition. Other well-known schools like Carnegie Mellon and Syracuse have primary ratios of about 1.0, meaning they could last about a year.

● **Operational Soundness (35%):** A blend of return on assets (10%), core operating margins (10%) and perhaps most important, tuition and fees as a percentage of core revenues (15%). Tuition dependency is the most serious risk facing middling colleges today.

● **Admissions Yield (10%):** The percentage of accepted students who choose to enroll tells not only how much demand there is from a specific school's target customers but also gives an indication of the effectiveness of its admissions staff.

● **Freshmen Receiving Institutional Grants (7.5%):** The most desperate schools use 'merit aid' as a tool to lure more than 90% of incoming freshmen.

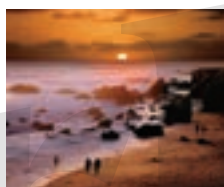
● **Instructional Expenses per Full-Time Student (7.5%):** Struggling schools tend to skimp in this area.

—MS

so-called tuition discount rate has risen for the sixth straight year and is now averaging 45 percent. In some ways colleges operate like prestige-seeking liquor brands. In other ways they are more like Macy's offering regular sales days, only quietly.

LIU's Post campus has a puny endowment of \$43 million, or about \$6,000 per each of its 7,000 enrolled students. (That compares to \$2 million per student at Princeton.) Its admissions yield was last reported to be 17 percent—meaning fewer than two out of every 10 high school seniors it accepts choose to attend.

Of course, LIU's precarious financial position says little about the quality of the education it offers—LIU doesn't



### Closest Beaches:

Malibu Lagoon State Beach, Dan Blocker Beach, Topanga State Beach, Zuma Beach

### Bans:

Alcohol, visiting opposite sex's dorm room after 1 am

### PEPPERIDGE UNIVERSITY

#### UNDERGRADS

3,474

#### TUITION

\$42,770

### Famous Alumni

Neil Clark Warren '56, co-founder, eHarmony  
Rod Blagojevich '83  
JD, former governor, Illinois

rank among Forbes Top Colleges but tends to fare well in rankings of regional schools. However, judged as an ongoing business, Long Island University would appear to be severely troubled, struggling year to year to pay its bills. Indeed, LIU recently hired a new president who is restructuring its operations.

According to *Forbes's* new Financial Grades, which analyses the balance sheets and operational strength of private not-for-profit colleges, Long Island University's Post campus gets a grade of D. 107 other schools earn a D—including well-regarded institutions like Ohio's

LIU is by no means alone. Some 107 other schools earn a D—including well-regarded institutions like Ohio's

## THE TOP 300

RANK	COLLEGE	FINANCIAL GRADE
86	FRANKLIN AND MARSHALL COLLEGE Lancaster, PA	A
87	VIRGINIA MILITARY INSTITUTE Lexington, VA	NA
88	UNIVERSITY OF RICHMOND Richmond, VA	A+
89	CASE WESTERN RESERVE UNIVERSITY Cleveland, OH	A
90	UNIVERSITY OF GEORGIA Athens, GA	NA
91	SEWANEE—UNIVERSITY OF THE SOUTH Sewanee, TN	A
92	DEPAUW UNIVERSITY Greencastle, IN	A-
93	PENNSYLVANIA STATE UNIVERSITY, UNIVERSITY PARK University Park, PA	NA
94	UNITED STATES COAST GUARD ACADEMY New London, CT	NA
95	SCRIPPS COLLEGE Claremont, CA	A+
96	UNIVERSITY OF CALIFORNIA, SANTA BARBARA Santa Barbara, CA	NA
97	INDIANA UNIVERSITY, BLOOMINGTON Bloomington, IN	NA
98	WHEATON COLLEGE Norton, MA	B+
99	UNIVERSITY OF CALIFORNIA, DAVIS Davis, CA	NA
100	PEPPERIDGE UNIVERSITY Malibu, CA	B+
101	UNIVERSITY OF COLORADO, BOULDER Boulder, CO	NA
102	CONNECTICUT COLLEGE New London, CT	B+
103	UNIVERSITY OF DENVER Denver, CO	B
104	DICKINSON COLLEGE Carlisle, PA	A
105	RENSSELAER POLYTECHNIC INSTITUTE Troy, NY	C
106	PURDUE UNIVERSITY, WEST LAFAYETTE West Lafayette, IN	NA
107	BATES COLLEGE Lewiston, ME	A
108	HOBART AND WILLIAM SMITH COLLEGES Geneva, NY	B
109	UNIVERSITY OF MINNESOTA, TWIN CITIES Minneapolis, MN	NA
110	VIRGINIA TECH Blacksburg, VA	NA
111	COLORADO SCHOOL OF MINES Golden, CO	NA
112	UNIVERSITY OF CALIFORNIA, IRVINE Irvine, CA	NA
113	GETTYSBURG COLLEGE Gettysburg, PA	B+
114	UNIVERSITY OF CALIFORNIA, SAN DIEGO La Jolla, CA	NA
115	SKIDMORE COLLEGE Saratoga Springs, NY	A
116	AMERICAN UNIVERSITY Washington, DC	B
117	OCCIDENTAL COLLEGE Los Angeles, CA	A
118	PITZER COLLEGE Claremont, CA	A
119	WOFFORD COLLEGE Spartanburg, SC	B
120	KALAMAZOO COLLEGE Kalamazoo, MI	A
121	SAINT OLAF COLLEGE Northfield, MN	A
122	TEXAS A&M UNIVERSITY, COLLEGE STATION College Station, TX	NA
123	SYRACUSE UNIVERSITY Syracuse, NY	B
124	UNIVERSITY OF MIAMI Coral Gables, FL	B
125	RUTGERS UNIVERSITY, NEW BRUNSWICK New Brunswick, NJ	NA
126	UNIVERSITY OF DELAWARE Newark, DE	NA
127	LOYOLA UNIVERSITY MARYLAND Baltimore, MD	C

Getty Images





Wittenberg University—according to our analysis, and more than half of the 925 colleges we graded on financial fitness would be considered C students or worse (see 'Behind the Grades', p 85).

The prognosis is ominous in part because institutions of higher education operate in an extremely difficult business environment today. Imagine, if you will, running a company that sells a commodity product, where pricing is opaque and you have hundreds of competitors all clamouring after the same shrinking customer base—which, by the way, happens itself to be in financial distress.

Then consider that one of your other chief revenue drivers, subsidies and grants from federal and state governments, has either been cut back or eliminated. Add to this an evaporating competitive moat being stormed by newly minted for-profit businesses and cheap online alternatives.

"This environment is so competitive. Frankly, it's a horror that we've largely inflicted on ourselves as a community," says David Maxwell, president of Drake University in Des Moines, Iowa, referring to the ongoing behind-the-scenes price/rebate wars. "In many ways it's [a business] that's dependent on the decision-making behaviour of 17-year-olds."

Drake, which has an enrolment of 5,300 and was founded in 1881, faced insolvency a little more than a decade ago after most of its senior management had left. But after taking over in 1999, Maxwell cut expensive underenrolled programmes like graduate level nursing and redirected resources into high-demand offerings like its undergraduate pharmacy major. For the last eight years, Drake has shown small operating profits, and its endowment has grown to \$169 million from \$104 million in 1999. While Drake is still largely tuition-dependent, it earns a C+ for financial health among private colleges.

But managers like Maxwell are the exception. By far the biggest problem at most colleges is that they are governed in a way that flies in the face of sound business practices. The

vast majority of colleges in the US are bloated with personnel and programmes that make little economic sense.

Almost all colleges have noble mission statements, but few have pervasive cultures or are able to focus employees on core competencies the way great companies like Coke, IBM and Wells Fargo do. Most colleges and universities try to be all things to all people.

"When I was CEO of a business, if we had a product that wasn't selling, we took it off the shelf, and there was no question. We focussed on what the market demanded," says Robert Dickeson, the former president of the University of Northern Colorado and author of *Prioritizing Academic Programs and Services* (John Wiley & Sons, 2010). "Higher education operates in a much different culture, and the decisions have usually been about serving more people and adding more programmes. Unfortunately, there hasn't been a corresponding cutting of programmes or majors that no longer work. They operate this way out of a fear of having to cut people or some other dimension that isn't rational."

That way of doing business was tolerable when the market of high school graduates was expanding, as it was from 1990 to 2010. However, a study financed by the College Board and ACT shows that the production of high school graduates



**Billionaire Connection:**  
\$60 million from George Soros in 2011

**BARD COLLEGE**  
UNDERGRADS  
**1,985**  
TUITION  
**\$44,800**  
MALE-TO-FEMALE  
RATIO:  
**42% TO 58%**

**Famous Faculty:**  
John Ashbery, poet  
Bill T Jones, choreographer/dancer  
Mona Simpson, author and younger sister of Steve Jobs

THE TOP 300

RANK	COLLEGE	FINANCIAL GRADE
128	TULANE UNIVERSITY New Orleans, LA	A
129	SAINT LAWRENCE UNIVERSITY Canton, NY	B
130	DENISON UNIVERSITY Granville, OH	A
131	SARAH LAWRENCE COLLEGE Bronxville, NY	B-
132	SOUTHWESTERN UNIVERSITY Georgetown, TX	A
133	WILLAMETTE UNIVERSITY Salem, OR	B
134	CREIGHTON UNIVERSITY Omaha, NE	C+
135	YESHIVA UNIVERSITY New York, NY	A-
136	WORCESTER POLYTECHNIC INSTITUTE Worcester, MA	A-
137	CUNY, CITY COLLEGE New York, NY	NA
138	OHIO STATE UNIVERSITY, COLUMBUS Columbus, OH	NA
139	SUNY, BINGHAMTON (BINGHAMTON UNIVERSITY) Binghamton, NY	NA
140	UNIVERSITY OF CONNECTICUT Storrs Mansfield, CT	NA
141	WABASH COLLEGE Crawfordsville, IN	A
142	TRINITY UNIVERSITY San Antonio, TX	A
143	UNIVERSITY OF UTAH Salt Lake City, UT	NA
144	FURMAN UNIVERSITY Greenville, SC	A
145	BENNINGTON COLLEGE Bennington, VT	B-
146	EARLHAM COLLEGE Richmond, IN	A
147	HAMPSHIRE COLLEGE Amherst, MA	C-
148	RHODES COLLEGE Memphis, TN	A
149	LOYOLA MARYMOUNT UNIVERSITY Los Angeles, CA	B
150	CLARK UNIVERSITY Worcester, MA	A-
151	PROVIDENCE COLLEGE Providence, RI	B
152	UNIVERSITY OF TULSA Tulsa, OK	A
153	CLEMSON UNIVERSITY Clemson, SC	NA
154	MICHIGAN STATE UNIVERSITY East Lansing, MI	NA
155	MIAMI UNIVERSITY, OXFORD Oxford, OH	NA
156	UNIVERSITY OF VERMONT Burlington, VT	NA
157	UNIVERSITY OF NEW HAMPSHIRE Durham, NH	NA
158	HENDRIX COLLEGE Conway, AR	A
159	UNIVERSITY OF CALIFORNIA, SANTA CRUZ Santa Cruz, CA	NA
160	NORTH CAROLINA STATE UNIVERSITY, RALEIGH Raleigh, NC	NA
161	UNIVERSITY OF PUGET SOUND Tacoma, WA	B
162	DRAKE UNIVERSITY Des Moines, IA	C+
163	FORDHAM UNIVERSITY Bronx, NY	C+
164	COLLEGE OF WOOSTER Wooster, OH	A-
165	UNITED STATES MERCHANT MARINE ACADEMY Kings Point, NY	NA
166	BARD COLLEGE Annandale-on-Hudson, NY	A-
167	LAWRENCE UNIVERSITY Appleton, WI	B
168	JAMES MAIDS ON UNIVERSITY Harrisonburg, VA	NA
169	UNIVERSITY OF DALLAS Irving, TX	C
170	CALIFORNIA POLYTECHNIC STATE UNIVERSITY, SAN LUIS OBISPO San Luis Obispo, CA	NA

Luke MacGregor / Reuters



Faculty and students protest against state budget cuts, fee increases and the University of California administration's handling of the California budget crises during a rally at the University of California, Berkeley, in September 2009

has fallen from its 3.4 million peak in 2011 to a current 3.2 million—and is likely to stay there until 2020. This ugly demographic fact, plus the decline in household wealth brought on by the Great Recession, has exacerbated the problem.

Amit Mrig, president of Denver research firm Academic Impressions, blames inept leadership across the board. “There is a denial bubble in higher education,” says Mrig, citing a study showing that 74 percent of college presidents state that their institutions cannot sustain additional budget cuts without negatively impacting quality.

University presidents must placate multiple factions outside of their boards of trustees, including faculty, and too often inaction is the easiest path. “One difference between the for-profit world and higher education is that you find numerous instances where the same people make the same budgeting and planning mistakes repeatedly and are not held accountable in any way,” says financial consultant Larry Goldstein of Campus Strategies in Crimora, Virginia.

When university presidents do step up and act more like corporate managers, they can face the kind of backlash R Owen Williams did at Kentucky’s Transylvania University. Williams cut his teeth on Wall Street over a 24-year career at Salomon Brothers, Goldman Sachs and finally as chairman of Bear Stearns Asia. After deciding on a career switch and earning a master’s degree in law and a PhD in history from Yale, he was hired in the summer of 2010 to run the Lexington, Kentucky liberal arts college. By most accounts Williams was succeeding. Enrolment had risen by 20 percent, and the 233-year-old school had begun construction of a new athletics complex.

However, in May 2013, Williams was socked with a “no confidence” vote from the college’s faculty. Apparently the professors didn’t like his no-nonsense approach to management and in a 35-page document described him as being “dismissive and disrespectful”. What really upset them was that Williams deferred a decision to award tenure to two professors.

Williams’s strategies had unanimous

**THE TOP 300**

RANK	COLLEGE	FINANCIAL GRADE
171	UNIVERSITY OF PORTLAND Portland, OR	C
172	UNIVERSITY OF SAN DIEGO San Diego, CA	B
173	SAINT JOHN'S COLLEGE Santa FE, NM	B
174	COLLEGE OF NEW JERSEY Ewing, NJ	NA
175	MILLS COLLEGE Oakland, CA	B
176	MARQUETTE UNIVERSITY Milwaukee, WI	C+
177	SAINT MARY'S COLLEGE OF MARYLAND St. Mary's City, MD	NA
178	JUNIATA COLLEGE Huntingdon, PA	C
179	LOUISIANA STATE UNIVERSITY Baton Rouge, LA	NA
180	UNIVERSITY OF MASSACHUSETTS, AMHERST Amherst, MA	NA
181	ALLEGHENY COLLEGE Meadville, PA	B
182	UNIVERSITY OF OKLAHOMA, NORMAN Norman, OK	NA
183	UNIVERSITY OF IOWA Iowa City, IA	NA
184	LEWIS & CLARK COLLEGE Portland, OR	B
185	FAIRFIELD UNIVERSITY Fairfield, CT	B
186	MILLSAPS COLLEGE Jackson, MS	B
187	CLARKSON UNIVERSITY Potsdam, NY	C
188	FSK UNIVERSITY Nashville, TN	B
189	HAMPDEN-SYDNEY COLLEGE Hampden-Sydney, VA	B
190	UNIVERSITY OF SOUTH CAROLINA, COLUMBIA Columbia, SC	NA
191	GONZAGA UNIVERSITY Spokane, WA	C
192	GROVE CITY COLLEGE Grove City, PA	NA
193	UNIVERSITY OF PITTSBURGH Pittsburgh, PA	NA
194	UNIVERSITY OF SAN FRANCISCO San Francisco, CA	B-
195	BENTLEY UNIVERSITY Waltham, MA	B-
196	HILLSDALE COLLEGE Hillsdale, MI	NA
197	GEORGE MASON UNIVERSITY Fairfax, VA	NA
198	PACIFIC UNIVERSITY Forest Grove, OR	C
199	UNIVERSITY OF WYOMING Laramie, WY	NA
200	OHIO WESLEYAN UNIVERSITY Delaware, OH	B
201	WHITWORTH UNIVERSITY Spokane, WA	C
202	FLORIDA STATE UNIVERSITY Tallahassee, FL	NA
203	CATHOLIC UNIVERSITY OF AMERICA Washington, DC	B
204	COLLEGE OF THE ATLANTIC Bar Harbor, ME	NA
205	UNIVERSITY OF ALABAMA Tuscaloosa, AL	NA
206	UNIVERSITY OF REDLANDS Redlands, CA	C-
207	SAINT LOUIS UNIVERSITY St. Louis, MO	B
208	UNIVERSITY OF MISSOURI, COLUMBIA Columbia, MO	NA
209	UNIVERSITY OF ARKANSAS Fayetteville, AR	NA
210	KNOX COLLEGE Galesburg, IL	C
211	UNIVERSITY OF ARIZONA Tucson, AZ	NA
212	STEVENS INSTITUTE OF TECHNOLOGY Hoboken, NJ	C
213	WESTMONT COLLEGE Santa Barbara, CA	B
214	CALVIN COLLEGE Grand Rapids, MI	C+

support from Transylvania’s board of trustees, and, according to *Forbes’s* financial health ratings, the small college earns a relatively impressive grade of A-. Nonetheless, Williams felt compelled to announce that he would resign after the 2013–14 academic year.

Some of higher education’s problems go beyond management. Even the metrics of higher education lead to inefficiencies. Today standard academic achievement, for example, is measured by credit hours, or ‘seat time’, which can run \$1,300 per hour at schools like New York University. Undergraduates know that they need 120 credits to get a bachelor’s degree.

However, consultants like Dickeson argue that competency should be measured instead of hours. Online-only Western Governors University has been offering accelerated, self-paced degrees for 14 years. Last month the University of Wisconsin got approval from its regional accreditation organisation to offer similar competency-based degrees to undergraduates.

No one expects change to come rapidly to higher education. “A large number of institutions continue to operate in a triage mode,” says veteran college-bond issuer Fred Prager of investment banking firm Prager & Co. “They will remain reactive, with everything being a crisis. It’s very tough for them to pause and get even to a point of mendability.” That doesn’t mean consumers of higher education need to be in the dark. Combining *Forbes’s* Top College ratings with its new Financial Grades can help you home in on not just the best

schools for the buck but also those that are likely to be around for many years to come.

Lucie Lapovsky, former VP of finance at Baltimore’s Goucher College and a higher-ed financial consultant, cautions against ignoring the financial health of the colleges you choose: “Visible signs of financial stress can include fewer classes offered less frequently, more classes taught by



**ARIZONA STATE UNDERGRADS**  
**58,404**

**TUITION**  
**\$9,700** In-State  
**\$23,000** Out

**Virtual Leader:**  
Largest fully online student population among US research-intensive universities

**Graduation Rates:**  
32% 4-year  
57% 6-year

**Sun Devil Stadium:**  
Seen in *Jerry Maguire* (1996), *U2’s Rattle and Hum* (1988) and *Raising Arizona* (1987)

**Mayo Clinic Collaboration:**  
MD/JD and MD/MBA joint degree programmes

adjunct professors, less money for clubs and cutbacks in the upkeep of campus facilities.”

Financial woes are also the leading cause of accreditation suspensions. Indeed, more than a dozen schools among our C- and D- rated colleges are already facing some kind of accreditation inquiry. The last thing you want is for Junior’s college to lose its accreditation. When that happens the feds pull financial aid, enrolment plummets and the lights get turned out. **D**

# SCHOOLS OF DECEPTION

Some colleges will do anything to improve their ranking

BY ABRAM BROWN

S ometime in 2004, Richard C Vos, the admission dean at Claremont McKenna College, a highly regarded liberal arts school outside Los Angeles, developed a novel way to meet the school president’s demands to improve the quality of incoming classes. He would simply lie.

Over the next seven years, Vos provided falsified data—the numbers

**THE TOP 300**

RANK	COLLEGE	FINANCIAL GRADE
215	TRANSYLVANIA UNIVERSITY Lexington, KY	A-
216	MUHLENBERG COLLEGE Allentown, PA	B
217	UNIVERSITY OF OREGON Eugene, OR	NA
218	UNIVERSITY OF SAINT THOMAS St. Paul, MN	B
219	JOHN CARROLL UNIVERSITY University Heights, OH	B
220	GUSTAVUS ADOLPHUS COLLEGE St. Peter, MN	C+
221	ALBION COLLEGE Albion, MI	B+
222	HOPE COLLEGE Holland, MI	B
223	SUNY, STONY BROOK (STONY BROOK UNIVERSITY) Stony Brook, NY	NA
224	WHEATON COLLEGE Wheaton, IL	A
225	AUBURN UNIVERSITY Auburn, AL	NA
226	ARIZONA STATE UNIVERSITY Phoenix, AZ	NA
227	SAINT JOSEPH'S UNIVERSITY Philadelphia, PA	C+
228	ILLINOIS INSTITUTE OF TECHNOLOGY Chicago, IL	C
229	UNIVERSITY OF MARY WASHINGTON Fredericksburg, VA	NA
230	WITTENBERG UNIVERSITY Springfield, OH	D
231	ILLINOIS WESLEYAN UNIVERSITY Bloomington, IL	B
232	IOWA STATE UNIVERSITY Ames, IA	NA
233	MANHATTAN COLLEGE Riverdale, NY	C
234	ELON UNIVERSITY Elon, NC	B
235	BAYLOR UNIVERSITY Waco, TX	C
236	NORTHEASTERN UNIVERSITY Boston, MA	C+
237	XAVIER UNIVERSITY Cincinnati, OH	C
238	MERRIMACK COLLEGE North Andover, MA	D
239	POLYTECHNIC INSTITUTE OF NYU Brooklyn, NY	D
240	OKLAHOMA STATE UNIVERSITY Stillwater, OK	NA
241	SEATTLE UNIVERSITY Seattle, WA	C
242	AUGUSTAN COLLEGE Sioux Falls, SD	C+
243	OHIO NORTHERN UNIVERSITY Ada, OH	C
244	THE CITADEL Charleston, SC	NA
245	TEXAS CHRISTIAN UNIVERSITY Fort Worth, TX	A
246	UNIVERSITY OF KANSAS Lawrence, KS	NA
247	UNIVERSITY OF NEBRASKA, LINCOLN Lincoln, NE	NA
248	VALPARAISO UNIVERSITY Valparaiso, IN	B-
249	UNIVERSITY OF DAYTON Dayton, OH	B
250	SUNY, GENESEO Geneeseo, NY	NA
251	AUSTIN COLLEGE Sherman, TX	B
252	SWEET BRIAR COLLEGE Sweet Briar, VA	A
253	PRESBYTERIAN COLLEGE Clinton, SC	C
254	SPELMAN COLLEGE Atlanta, GA	A
255	MONTANA STATE UNIVERSITY, BOZEMAN Bozeman, MT	NA
256	PACIFIC LUTHERAN UNIVERSITY Tacoma, WA	C
257	UNIVERSITY OF KENTUCKY Lexington, KY	NA
258	COLLEGE OF THE OZARKS Point Lookout, MO	A+

# The Penalty Box

Within the last four years these schools lied to the federal government about the quality of their student bodies



**BUCKNELL UNIVERSITY**  
**Admitted:** January 2013  
**Actions:** Future data examination will be completed by two separate staffs



**CLAREMONT MCKENNA COLLEGE**  
**Admitted:** January 2012  
**Actions:** Resignation of dean of admission; at least two employees now control data, and VP must sign off



**EMORY UNIVERSITY**  
**Admitted:** August 2012  
**Actions:** Two employees ousted; periodic audits of each department



**IONA COLLEGE**  
**Admitted:** August 2011  
**Actions:** Suspended the provost responsible; committee review for data reporting

behind our ranking of Claremont McKenna in America's Top Colleges—to the Education Department and others, artificially increasing SAT and ACT scores and lowering the admission rate, providing the illusion, if not the reality, that better students were coming to Claremont McKenna.

He got away with it thanks to a disturbing lack of oversight; he was trusted to hand-calculate the data and submit it without review. What had made this long-time employee break bad? "He felt the same pressure to deliver as any executive does," Claremont McKenna spokesman Max Benavidez says. (Vos, who resigned in January 2012, couldn't be reached for comment.)

Just as an analyst's upgrade can spark a rally in a specific stock, a college's move up the rankings usually results in a financial windfall.

"There's institutional pressure at colleges to achieve at all levels, and that includes rankings," says Troy Onink, a college planning expert and *Forbes* contributor, "It's a hypercompetitive world for the best students and for that tuition revenue."

Claremont McKenna isn't the only top college that lied. Bucknell University doctored SAT results from 2006 to 2012; Emory University provided numbers



## MISSISSIPPI STATE UNIVERSITY

**UNDERGRADS**  
**16,312**  
**TUITION**  
**\$6,300** In-State  
**\$16,000** Out

### Graduation Rates:

30% 4-year  
 60% 6-year

### Total Grant Aid to Student Body:

\$17.6 million

### Mascot:

'Bully' the Bulldog, an AKC-registered English Bulldog

### Inside Mitchell Memorial Library:

Ulysses S Grant's Presidential Library (opened 2012), John Grisham ('77) Room (opened 1998)

for admitted students rather than enrolled ones for more than a decade; and Iona College lied about acceptance and graduation rates, SAT scores and alumni giving for nine years starting in 2002.

All have since fessed up and claim to have instituted better practices. As a penalty for their dishonesty—and an acknowledgment of the growing scope of the problem—we are removing the four institutions from our list of the country's best schools for two years.

Are there other cheaters out there? If there are, they also will be taken off the list. Stay tuned. We will be watching. **F**

NA: No grade for public colleges or those with under 500 enrollment. See Methodology, Behind the Grades, page 85.

## THE TOP 300

RANK	COLLEGE	FINANCIAL GRADE
259	UNIVERSITY OF CALIFORNIA, RIVERSIDE Riverside, CA	NA
260	SAINT MICHAEL'S COLLEGE Colchester, VT	C
261	QUINNIPIAC UNIVERSITY Hamden, CT	B-
262	GORDON COLLEGE Wenham, MA	C
263	URSINUS COLLEGE Collegeville, PA	B-
264	SAN DIEGO STATE UNIVERSITY San Diego, CA	NA
265	UTAH STATE UNIVERSITY Logan, UT	NA
266	ROLLINS COLLEGE Winter Park, FL	A-
267	GOUCHER COLLEGE Baltimore, MD	B+
268	STONEHILL COLLEGE Easton, MA	B
269	CARROLL COLLEGE Helena, MT	C-
270	SAINT MARY'S COLLEGE Notre Dame, IN	A
271	SAINT MARY'S COLLEGE OF CALIFORNIA Moraga, CA	C
272	SAN JOSE STATE UNIVERSITY San Jose, CA	NA
273	TAYLOR UNIVERSITY Upland, IN	B
274	MASTER'S COLLEGE & SEMINARY Santa Clarita, CA	C
275	CEDARVILLE UNIVERSITY Cedarville, OH	C
276	HANOVER COLLEGE Hanover, IN	A
277	RANDOLPH-MACON COLLEGE Ashland, VA	B+
278	UNIVERSITY OF MISSISSIPPI University, MS	NA
279	MISSISSIPPI STATE UNIVERSITY Mississippi State, MS	NA
280	CUNY, BARUCH COLLEGE New York, NY	NA
281	NEBRASKA WESLEYAN UNIVERSITY Lincoln, NE	C+
282	UNIVERSITY OF TENNESSEE, KNOXVILLE Knoxville, TN	NA
283	SAINT ANSELM COLLEGE Manchester, NH	B
284	EMERSON COLLEGE Boston, MA	C+
285	MOREHOUSE COLLEGE Atlanta, GA	B
286	SAINT JOHN'S UNIVERSITY Queens, NY	C-
287	COE COLLEGE Cedar Rapids, IA	C
288	CORNELL COLLEGE Mount Vernon, IA	C
289	CALIFORNIA LUTHERAN UNIVERSITY Thousand oaks, CA	C
290	UNIVERSITY OF SCRANTON Scranton, PA	C+
291	COLORADO STATE UNIVERSITY Fort Collins, CO	NA
292	SAINT NORBERT COLLEGE De Pere, WI	B
293	CALIFORNIA MARITIME ACADEMY Vallejo, CA	NA
294	BRYANT UNIVERSITY Smithfield, RI	B
295	LUTHER COLLEGE Decorah, IA	B-
296	BELOIT COLLEGE Beloit, WI	B
297	ST JOSEPH'S COLLEGE Brooklyn, NY	C+
298	LOYOLA UNIVERSITY CHICAGO Chicago, IL	B-
299	WHITTIER COLLEGE Whittier, CA	C-
300	SUNY, BUFFALO (UNIVERSITY AT BUFFALO) Buffalo, NY	NA

Bottom: Getty Images

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# Life

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Thoughts  
P/116



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INDEPENDENCE  
DAY SPECIAL ●●●

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THIS SECTION OF the magazine is, consciously, the dessert that comes after the amuse-bouche of the Upfront section and the solid main course of the Features section. To mark our 67th Independence Day, we thought we'd break the pattern just a little. We look at a number of essential personal freedoms and civil liberties and ask where we stand as a free and democratic country. We go beyond where the laws of our land stand, to also reflect on the way they are implemented, and the way our society treats these important freedoms. We couldn't fit it all into this issue, so please look for more online in the Life section of [forbesindia.com](http://forbesindia.com)

*Peter Griffin*



/ FREEDOM OF EXPRESSION /

# The Intolerant Indian

Instead of nurturing the spirit of debate, we have become aggressive, bigoted and abusive

By SALIL TRIPATHI

In 1999, the BJP-led National Democratic Alliance honoured the scholar, economist, and philosopher Amartya Sen with India's highest honour, the Bharat Ratna, a year after his Nobel Prize. One of Sen's more interesting books is *The Argumentative Indian* (2006), celebrating our propensity to challenge views we disagree with. Indians argue with one another, he says, and from those dynamic encounters new ideas synthesising different viewpoints emerge, making unity in diversity possible in this complicated nation.

In July this year, in response to a question from a journalist, Sen said he would not support Narendra Modi, Gujarat's chief minister, to be India's Prime Minister; he believes Modi fails the secularism test, which he sees as a necessary precondition to govern a country as diverse as India.

Insults came thick and fast from some of Modi's supporters, some saying Sen had no right to express views on Indian politics (he remains an Indian citizen, although he has spent the bulk of his life abroad). Photographs emerged on the internet of a partly-clad young woman, purportedly Sen's daughter Nandana, an actress. Sen was admonished to control his daughter before telling India who should govern the country. The photograph went viral, appearing on websites supporting the BJP. The BJP distanced itself somewhat from the insults, but one of its parliamentarians, Chandan Mitra (who edits the newspaper *The Pioneer*) said on Twitter: "Next NDA Government must strip him of Bharat Ratna." Sen agreed to return the honour if Atal Bihari Vajpayee, under whose tenure Sen was honoured, were to demand its return. A day later,

Mitra, who has a PhD from Oxford, expressed his regrets, particularly after the intellectual class turned against him.

From Mitra's perspective, once you are honoured by the state, you cannot question its politics. The intolerance that lies at the heart of Mitra's intervention is actually as much of a fundamental Indian trait as is our argumentativeness. And it is depressing.

Online anonymity allows many to take potshots at people whose views they disagree with. I happen to agree with Sen on his view regarding Modi, and as a result I've received occasionally creative and amusing, but often annoying, abusive and personal insults on Twitter. I don't block them—that would give them the standing they don't deserve—but I use fresh ones to embellish my Twitter bio (@saliltripathi), because their invective reveals more about their poor upbringing, and the kind of company they keep, than it says anything about me. But other journalists have felt offended: I understand Rajdeep Sardesai withdrew briefly from Twitter, and Sagarika Ghose wrote an op-ed criticising those she felt had insulted her. There is a point to Ghose's complaint: There is definitely some misogyny involved in such insults, but that is a broader problem with the internet, where anonymity emboldens uncivil men to make the kind of remarks they would not make had their identities been known. (But being rude is not the monopoly of men.)

We like an argument, provided we get the last word and we are winning. But those who challenge or question us: Well, they shouldn't be *allowed* to. Not argumentative then, but aggressive, assertive, intolerant, abusive. Instead of *vaad-vivaad* or *tark-vitark*, the spirit of debate based on reason, India has

**Anyone who feels offended can complain to restrict the offender's right to express**



Singh's biography of Jinnah (both bans by the Modi administration).

But let not that lull you into thinking that the Congress champions free speech. That party earned for India the dubious honour of becoming the first country to take action against Salman Rushdie's 1988 novel, *The Satanic Verses*; a Congress government banned its import, and a quarter century later, another pleaded helplessness when Rushdie could not attend the Jaipur Literature Festival after a fictitious death threat surfaced against him.

Congress governments have banned books by Aubrey C Menen and Stanley Wolpert in the past, and the English translation of a Spanish novel about Sonia Gandhi has not been imported into India, because its publishers fear legal trouble. In late July, the Congress's students' wing forced a Mumbai restaurant called Aditi to close, because at the bottom of each bill the restaurant manager printed a message, condemning a new tax. The restaurant reopened after the offending lines were removed from future bills. Kapil Sibal,

become the land of *jiski lathi, uski bhains* (the one who owns the stick, owns the buffalo). We drive the opponent away by shouting louder and vitiating the atmosphere.

This affects every sphere. Take politics: The Hindu nationalist right has many scalps to its credit, such as hounding the painter MF Husain out of India, to die abroad in exile; marching against the publication of the works of BR Ambedkar, who drafted India's constitution; attacking art galleries; and banning books, most recently Joseph Lelyveld's biography of Gandhi, and Jaswant

Minister for Information and Technology, produces laughable lists of websites that he'd like banned, because they blaspheme religions or insult political leaders.

The Left does little better. In 2003, a Communist government in West Bengal banned *Dwikhandito* (Split in Two), Taslima Nasreen's memoir, because of fears that it might stoke religious violence. And it isn't only about Hindus and Muslims: Christian activists destroyed copies of *The Da Vinci Code* in a bookstore in Kolkata, and seven states initially banned the film.

The sad reality is that Indians don't appear to mind such restrictions. The bogey of potential violence is so successful, most people think the government is right in acquiescing with those who claim they are offended instead of protecting those who wish to speak freely.

The law backs them. Even though the Constitution's Article 19(1)(a) grants all citizens the right to "freedom of speech and expression", it also places "reasonable restrictions" on that right, and those restrictions are a grab-bag of concerns, including the interests of the sovereignty and integrity of India, the security of the State, friendly relations with foreign states, public order, decency or morality, or in relation to contempt of court, defamation, or incitement to an offence.

This is an absurdly long list; as Behram Contractor, the gifted columnist who also wrote under the pseudonym Busybee, said about the Emergency of 1975-77, the only safe topics left were cricket and mangoes.

Today, anyone who feels offended can complain to restrict the offender's right to express herself under Section 153(A), saying that the speaker is "promoting enmity between different groups on grounds of religion, race, place of birth, residence, language, etc", and doing acts prejudicial to maintain harmony. And the state has made it a criminal offence to "outrage religious feelings" with malicious intent under Section 295(A).

Some perspective here: That code was drawn up in 1860, soon after the 1857 War of Independence, after which the British Government took over India's governance from the East India Company. Laws meant to control "subjects" are now being used to disempower citizens.

Sections 295(A) and 153(A)—and now Section 66(A) of the Information Technology Act, under which someone giving offence through an email or through any online activity can be jailed for up to three years—have provided busybodies of all hues the chance to claim offence and seek curbs on writers, artistes, actors, film-makers, and others they don't agree with.

Remember the professor who sent cartoons critical of West Bengal Chief Minister Mamata Banerjee? Or the young woman who clicked 'Like' on Facebook when her friend criticised the enforced bandh that followed Bal Thackeray's death? Arrests were prompt. At least in the Maharashtra

case the overzealous police were disciplined. Otherwise, state hypersensitivity remains the norm. *Quis custodiet ipsos custodes?*

The moment someone claims offence, the State forces the one who speaks to swallow her words. Adults are suddenly seen as vulnerable infants and the State becomes the nanny.

And earlier this month in Chennai, a text message purportedly from the city's police to the University of Madras said it should cancel a planned lecture by Amina Wadud, an American scholar of Islam, because of fear of violence. But the police said they weren't aware of such a message. Who sent it?

This is similar to what happened in Kolkata earlier this year, when Rushdie was invited, but the city's police played a dubious role by informing Muslim groups of his likely presence, and then warning the organisers that they should think again about inviting him, shirking their obligation to protect free speech. Note the pattern: The authority engineers a situation where it doesn't have to formally ban anything; expecting the organisers to use their good sense and call off the event.

This creates a culture of fear, not a mind without fear. It forces obedience and compliance; it does not spur imagination, nor nurture a spirit of inquiry. It breeds a culture of conformity, not creativity. And so we learn to argue only within our minds, confide with a few, keeping our head down.

In an Irani restaurant, as Nissim Ezekiel showed us in his poems, and Rushdie in his fiction, the surly owner would place a list of taboo topics his patrons are banned from discussing: No religion, no politics. The owner's father's portrait growls at you as you quietly dunk your bun *maska* in cutting *chai*, uncertain if it is safe to talk.

I had always thought that if you didn't like a film, you told others how bad it was; if you didn't like an artist, you didn't go to his exhibition; if you didn't like a book, you didn't buy it. Better, you wrote your own, arguing with it. Instead, we ban films, exile artists, burn books.

At such times, the heaven of freedom in which Rabindranath Tagore wanted this country to awake, seems very far. **IF**

**And so we learn  
to argue only  
within our minds,  
confide with a  
few, keeping our  
head down**

/FREEDOM TO BE A CHILD/

# All Work and No Play

From park swings to medical seats, the competition to outsmart others and squeeze through the system starts early

By GENESIA ALVES

If child rights and welfare are established barometers of societal evolution and economic progress, India flounders in the doldrums. Sure, we have the Right to Education (RTE), the mid-day meal schemes, the ban on gender-selection, policies to stop child trafficking and child labour. But we also have the largest population of children and the highest child-mortality rates.

Amongst 400 million children, the competition starts early. After having my second baby, I was ousted from my private recovery room for someone with more 'influence'. And it continues. From park swings to medical 'seats', the scrum is daunting.

My (admittedly contemplative) 12-year-old believes her most important right is to 'education'. Her generation, being squeezed through the meat-grinder of the system, realises no childhood can be 'carefree' if you worry about sustaining a productive adulthood.

"India has known for a long, long time that there will be so many children to educate," says writer and education consultant Meeta Sengupta. Even if, as MHRD data suggests, there are enough seats for every child in India, "the fact is India does not have enough good quality schools to meet the legitimate aspirations of children and their parents".

For those on the economic fringes, the struggle usually results in gender-biased choices: Their boys attend better, often English-medium schools; the daughters' aspirations are reduced to what can be achieved in the local vernacular.

Three years in, the RTE initiative struggles with basic infrastructure issues like building classrooms, teacher-student ratios and the recently blighted mid-day meal programmes. Despite increased budgets and a touted boost in enrolment, about 8

million children (mostly girls) still do not go to school, an unspecified number drop out and assessments indicate that learning and literacy are far below par.

You'd hope it's better in private schools but even here, 'getting in' becomes about 'gaming the system'. "Marks are a proxy for merit, though it is possible to acquire [marks] without real understanding or the tools for analysing anything outside prescribed textbooks," Sengupta says. "The single point focus on exams uses stress as a tool to motivate: 'A goal. OMG, how do I get there—hyperventilate—focus—breathe...' No time to explore, discover, follow interests..."

So far as play is concerned, most of us were lucky enough to grow up in benevolent neglect, left mostly to our own devices within close-knit neighbourhoods. Such unstructured freedom now belongs to nostalgia. There is more traffic, fewer children without 'schedules'. The casual groping or cat-calling that occasionally punctured my childhood idyll seems less noxious against the current stories of faceless, possibly malevolent strangers. I want my daughters to be protected from that sort of distress. So we organise playdates. We escort the children everywhere.

Giving my children the freedom to remain children longer means stunting their independence.

## MONEY CHANGES CHILDHOODS

Unlike their poorer or rural contemporaries, most urban children of a certain socio-economic bracket are growing into a world where families are shrinking, incomes rising and juniors are regarded as very influential consumers. Some of this conspicuous consumption comes packaged as 'educational' accoutrements. Pre-teens with smartTech are ubiquitous. It connects them to the outside world, their parents reason, because the world outside

**Giving my kids the freedom to remain children longer means stunting their independence**

is not good enough for our children.

In that world outside, in India, more than 17 million children work an average of 21 hours a week, according to recent CRY statistics. Despite a complete ban on child labour—including as domestics—extreme poverty edges children into minimum-wage employment. A Delhi Police advertisement (retracted after extreme criticism), featuring a young boy and exhorting the public to 'help him learn to chop an onion, before he learns to chop a head', is only indicative of a general insensitivity towards poor children.

But for a small percentage, within the reach of NGOs, childhood may actually be better than their parents'. The Angel Express Foundation in Mumbai, for instance, connects affluent, educated adults with underprivileged school children; Encouraging, tutoring and bribing them (with treats, toys, food) to stay in school. "The children I work with seem far more happy and carefree [than children of a more privileged background]. The pressure and stresses of performance, of doing too many things, is missing from their lives," says AEF founder Anubha Sharma.

The Foundation for Mother and Child Health (FMCH) runs nutrition and support programmes and a clinic, also in Mumbai. Executive Director Piyasree Mukherjee says there is no room for the kind of clucking and fussing more privileged parents are prone to but "safety, food and education are given high importance". Left to their own devices, the children play outdoors, while "the older ones often play at a local video parlour. The biggest entertainer of course, is TV".

At nonprofit educational media organisation Sesame Workshop India, MD Sashwati Banerjee consciously adheres to self-imposed guidelines: "Sodas, junk foods are not allowed, neither are promotions of violence or discrimination [like fairness creams]. We have succeeded for over 40 years in keeping Sesame Street a safe place for children, and we don't see it changing any time soon."

## THE BAD NEWS, THE GOOD NEWS

With a determined optimism, this may be the beginning of A Good Time To Be A Child In India. In urban areas, for children with learning disabilities and other developmental issues, there are more avenues for diagnosis and support. Every day, the discussion on children's rights, the rights of girls, gains more traction, more facets and more column inches. Banerjee says, "Whether providing access to preschool education where little exists, tackling childhood obesity, fostering respect and understanding



among children in areas of conflict, we are committed to helping all children reach their highest potential."

Sharma sees changing attitudes first hand. "There are families where the kids are treated quite harshly," she says, but also "families that create a safe environment for their children, treat them with love. The children, in turn, reciprocate."

Freedom for a child is best defined as the acknowledgement of his or her potential and the ability to achieve it. The guarantee of security best enables the necessary childhood freedoms: To learn, play and grow gradually to shoulder adult responsibilities. Amongst parents and those dedicated to children, you can see the efforts to provide a dome of security, against daunting odds, where a child can enjoy the freedom of childhood. The odds include a government that is overwhelmed, at best, by the logistics of tackling the basic needs of its most vulnerable population and, at worst, by a lack of political will and funds misappropriation.

It is a cliché, but it *will* take a village—a village the span of this country. **1**

/FREEDOM TO LOVE/

# The Family Way

India might find it easier to tolerate same-sex marriage because at least it's marriage

By SANDIP ROY

**W**hen my friend Aditya Advani came out to his mother in the early '90s, she suggested they run a matrimonial ad in the *Hindustan Times* to find him a good husband. In 1993, when he took his partner Michael Tarr home to New Delhi from California, Aditya resisted going to a family wedding. "No one is ever going to come to my wedding," he complained. His mother thought for a moment and said, "Why not? We could have a ceremony for you and Michael." The family's *swamiji* dedicated it to Ayyappa or Hariharaputra, son of the union between two male gods, Lord Vishnu and Lord Shiva. "I couldn't believe my luck," Aditya remembers. "Openly gay and married in my parents' drawing room at the age of thirty. Right on schedule as a good Indian boy should be."

Recently Aditya and Michael moved to New Delhi to raise their new twins. When friends wonder what that's like, Aditya says it's been great. India is such a child-friendly society. And the woman who comes to clean the house is perfectly happy not to have to deal with a memsahib.

Heterosexuality might be the default normal in India, but marriage (and children) is even more so. When I tried to get a modular kitchen designed for my apartment in Kolkata, the kitchen consultant told me, "Just come back any time with madam to approve the kitchen design."

I explained patiently that there was no madam around and that I would be approving my own modular kitchen, cabinet colours and all. He nodded and said, "But we can wait a few days, if needed, for madam."

When it finally dawned on him that there *really* was no madam at all, he was shocked. I don't know what threw him more—that a man might approve a kitchen design, or that I lived alone or that

a man who lived alone wanted a kitchen.

India might actually find it easier to adjust to being a society that tolerates same-sex marriage because at least it's marriage. We understand marriage because it's in our cultural DNA. It feeds into the Great Indian Preoccupation—seeing the children settled.

In the West, the LGBT rights movement has pretty much morphed into the marriage equality movement. At the Pride Parade in Manhattan this year I watched couple after couple walk past bearing their marital status like a flag of honour. One read "Just Married". Another was the first couple to have been married in New York state. Marriage. Children. Pets. I almost expected the dancing boys on the Wells Fargo Bank float to start handing out mortgage applications for same-sex couples.

In India, the movement has until now focussed on the repeal of Section 377, the anti unnatural sex law, a Victorian hangover. But just because consensual sex between adults is decriminalised it does not mean homosexuality has been legalised. Legalisation comes with actual rights and *that* will be the next real frontier.

The big question hanging over the yet-to-come Supreme Court ruling on Section 377 is not whether it will re-criminalise sodomy as much as whether the court will try and close the door on rights. The right to marriage is not just about organising the Big Fat Indian Gay Wedding. It comes with far more practical and prosaic considerations

such as property, insurance, bank loans, surrogacy—opportunities that are often closed off to two men or women unrelated to each other.

The greatest individual freedom would be a society where these rights and opportunities were not tied to marriage. But that's a pipe dream. So at DesiQ, a recent international conference

**Legalisation of homosexuality comes with actual rights and that will be the next real frontier**



for LGBT South Asians in San Francisco, a representative from the Humsafar Trust in Mumbai suggested the Special Marriage Act in India, meant for marriages across religions, could be amended to include same-sex marriage.

The Special Marriage Act and the Hindu Marriage Act, both framed almost 60 years ago, are fortuitously gender-neutral already. The framers of those acts were probably not thinking about our ancient traditions where, as mythologist Devdutt Pattanaik's work has shown, gender is a spectrum and kings get pregnant and women turn into men and Hariharaputra is the son of Hari (Vishnu) and Hara (Shiva). The fact that our lawmakers left a gender loophole is really an amusing oversight, not foresight.

But let's not look a gift loophole in the mouth. At the Jaipur Literature Festival earlier this year American author Andrew Solomon was asked about his family. He explained that his husband was the father of two children with lesbian friends in Minneapolis, he himself

had a daughter with a close college friend in Texas, and he and his husband also have a son where he is the biological father while the surrogate was the lesbian mother of his husband's two children in Minneapolis.

The audience, mostly Indian, burst out laughing but Solomon was really saying something quite profound. Our families take shapes that we could not have imagined, especially growing up in a society where we had thought it was not possible to be true to one's gay identity and be a parent at the same time. That is not true anymore. And laws are changing all over the world to keep up with the ways we are re-jiggering the notion of what it means to have a family.

That change will come to India too eventually. It's true that just having laws that happen to be same-sex-marriage-ready isn't the same as having a society that's ready for same-sex marriage.

But, as an activist friend says, just put it down to good karma. And don't mess with it. **1**



/ FREEDOM FROM GENDER /

# Imagining Equality

Laws in India straitjacket men and women into strict gender roles

By NILANJANA S ROY

The idea that we are equal stops at the ground beneath our feet. The soil of India, the land of Bharat, is owned chiefly by men. According to the Food and Agricultural Organization of the UN (FAO), women account for only 9.5 percent of land-holders. Their figures drew on the agricultural census of 2000 and 2001, which found just 12 million women owned land, out of 120 million landholders.

Think of this another way: Out of all the factors that dictate whether you will own your own home—caste, class, economic status—the most significant is something you have little control over. If you're born a man in India, you automatically have a chance in the land-owning lottery. If you're born a woman in India, what are the chances that you will own your own home, inherit property, kneel down on a patch of earth and think, as you let a handful of dust slip through your fingers, that this is your land? Brutally low.

Think of the numbers I just cited. Those millions—the lonely, tiny figure of 12 million on one side, the large, dominant group of 120 million on the other—are not abstractions. They represent real people, actual families; those figures contain our histories as Indians, the history of families who were anxious to marry women into landed families, so that they would have something by extension, families who saw women as burdens, because they had nothing by definition. If we're talking equality, and freedoms, this is where we start: With the absence of equality, built into the foundation stones of a society.

The definition of an Indian woman, extrapolating from these figures: An Indian woman does not own her own home, will probably not buy and own land in her lifetime, will almost certainly—except for a very few communities

and regions—not inherit family property.

The definition of an Indian man is simpler: A man is someone who can own and inherit land. Men have property; women, mostly, do not.

In 2003, when Bina Agarwal, the great scholar of land rights and gender, interviewed a group of rural women, she asked them whether they might want the land they farmed or looked after registered in their names. Silence fell, and then one woman explained: “We are taking so long in answering because no one had ever asked us this before! It seems like a dream that we might have land of our own.”

For years, a worn internet meme suggested that women own only 1 percent of the world's land; the FAO figures are more realistic, indicating that women own perhaps one-quarter of the world's land. In Italy, women own 31.9 percent of the land; in Thailand, 33 percent; in the United Kingdom, only an estimated 19 percent. If, as Nick Kristof has written, women hold up half the sky, it is still hard to imagine what the world would be like if women owned half the earth.

Property is important; those who do not own property can become property themselves. In some parts of India, women don't even own their names: Tradition demands that they change not just their surnames after marriage, but their first names as well, as if to underline that their old selves must be packed away and forgotten. And many laws, especially those handed down by the British, hark

back to a time when a women's chastity was her husband's property. The laws on adultery make this explicit: It is a crime committed by one man against a husband, in respect of his wife, and those laws are there solely to punish men who would tamper with another man's property. Most of the laws in India slam men and women back into strict gender roles: To

**It was not that women required protection, they required dignity, respect and equal space**

be a man is to be the head of the family, the keeper of its property; to be a woman is to be, at best, protected, but almost always paternalistically. Few existing laws explicitly protect the rights of, say, the transgendered community or the gay and lesbian community—the laws do not have much room for gender ambiguity.

In the aftermath of the December protests against rape and the everyday violence women face in India, many women demanded that marital rape be made a crime. “The entire family system will be under great stress,” argued legislators, and Parliament refused to make it a crime. In many ways, what they were refusing to uphold was the idea that women’s bodies belong to themselves, an idea that is the subject of major debates in the US (over abortion), in Egypt, as women claim public space, and in India, as women try to move beyond the usual norms that would keep them “safely” at home. The dowry system in India has always set the cost for being a woman: The price your family has to pay before another family will take you in.

Against this, we had the recommendations of the Justice Verma Committee report. Asked to frame laws that would protect women against rape and harassment, they pointed out that it would take much more than laws and bills to bring about equality. It was not that women required protection, the Committee members wrote; they required dignity, and respect, and most of all, equal space in all spheres of Indian life that the Constitution had promised us. Over the months, even as the patriarchy howled back, we saw enough men stand up for women’s rights, men who stood up because they wanted, in essence, a more equal world.

What the Verma Committee suggested women in India needed was not sops or handouts, or the stifling gag of paternalistic protection. Instead, they wrote, women must have the ability “to insist on total equality in relationships, both with society and the state”.

Many missed that part of the report, because as with land rights, we are not conditioned to imagine equality. Growing up in an unequal world, a deeply riven and unequal country, it is sometimes hard to imagine what freedom for women would mean. One way to try to imagine this freedom is to move away from the restricting straitjacket that pits men against women, so that the gain of one’s rights is always weighed against the loss of the other’s powers.

Instead, think of how gender functions in the real world: From gays and lesbians, to transgenders, to masculine



women or feminine men, and all the glorious shades of gender ambiguity in between, gender is not an absolute so much as it is a spectrum, a rainbow coalition. In its poetry, in its most ancient myths, in its oldest stories, Indians have always acknowledged the fluidity of gender; it is only in our laws that we stick with the binaries of men and women.

Some years ago, the feminist Gloria Steinem suggested that the task before us was to imagine equality. That is hard to do, but it is also beguiling: An India where women owned half the land might also be a country where women walked and danced and loitered as freely on its streets as the men now do. An India where we saw gender as any one of several hues in the rainbow, rather than sticking with the rigid divisions of men (the owners) versus women (the owned), would not just be a healthier country. It would also be one that was true to its own roots, its own history, repeated from Kerala to the North-East of having many different ways of imagining how families might live, and of how men and women might be friends—even, finally, equals. **F**

/FREEDOM FROM AGEISM/

# The Silver Ceiling

If the image of youth has changed rapidly in the recent past, then why hasn't the image of our seniors?

By JASODHARA BANERJEE

Some years ago, I found myself scrambling for scholarships to pursue a master's degree. At the age of 26, I realised that I was not eligible for most of them. I was too old. I also learnt that 26 was also too old to take up studying for a bachelor's degree in engineering, law or medicine in our country. But when I did start a master's course in the UK, I found in my class a man in his late 30s. "I am a mature student," he had said. "I was not in a position to study when most youngsters do."

The words 'mature' and 'student' do not go together in India: If you are one, you cannot possibly be the other.

I had not asked my classmate what his circumstances were. But it reminded me of the innumerable people in India who are in similar situations—or perhaps not, but simply want to study at an older age—and have no opportunity to do so. It brought back to mind my search for scholarships, and my growing indignation at being turned away because of my age. Exactly *why* should someone's age have anything to do with the desire to gain knowledge?

If a person, of any age, wants to become, say, a doctor and begin a career much later than most others do, why should anyone thwart that desire? Especially the government?

By most measures, I am part of India's famed 'demographic dividend': I fall between the 18 to 35 (or 20 to 45, or similar variations) age group that is the darling of marketers and advertisers, researchers and economists, employers and recruiters. The government is touting the likes of me as the future of the nation, while the rest of the world is looking on with a mix of growing concern and envy.

But must my life begin and end while I am in that age group?

Speaking to people who are in the business of hiring employees for client companies brings forth some more realities. According to one HR

manager, Indians are not comfortable being served food at restaurants, especially posh ones, by someone who is grey-haired. "It is alright if the chef is grey haired, the customer can't see that," he said. We also find it uncomfortable to have subordinates older than us: "An MD who is 45 would not want a manager who is 50. He feels uncomfortable," the HR manager added.

Those who are older—and have families and responsibilities apart from the job—are reluctant to relocate, travel for '20 days a month', and have 'higher expectations' from the company (read salary, leave). In short, said another HR manager, young employees are better suited for roles that require interaction with clients, and erratic and hectic work schedules, while older employees are better for consulting and training positions.

The manager also insisted that the age of an applicant for any job position is a critical factor: "Even if it is not mentioned in the CV, I will calculate it from the other details. And if not, then I will directly ask the person's age." That asking a job applicant's age is illegal in the US and the UK holds little significance in India.

The average age of employees in a company is also determined, to some extent, by the age of the industry itself. So, IT (Infosys an exception) and telecom have younger people at the helm, while manufacturing, banking and FMCG have older CEOs. But younger industries have younger employees and CEOs largely because

there is no older, more experienced talent available, not necessarily because they *prefer* younger people. This is corroborated by the fact that the average age of people on *Business India's* 2011 survey of India's Highest Paid Executives was 51. The survey (of executives earning more than Rs 50 lakh a year) also found the largest number

**That asking a job applicant's age is illegal in the US and the UK holds little significance in our country**



of people in the 46-55 age group, and with work experience of 26 to 30 years. Definitely no brat pack.

We like to say we are a young country; we like to play the 'demographic dividend' card when everything else fails. Statistics do hold up the claim: 50 percent of our population is less than 25 years old; 65 percent is less than 35; we are younger than China, Brazil, Russia and the US. But we are also a country with severely entrenched notions of what one must do at a certain age. Perhaps the ancient Vedic philosophy of dividing life into four stages—Brahmacharya, Grihastha, Vanaprastha and Sanyas—has something to do with it, or perhaps the more recently entrenched practice of mandatory retirement.

Mandatory retirement is taken to be as much a fact of life as earning a livelihood. But, given the improving health and circumstances of our seniors, must it remain so? Mandatory retirement is unlawful in several countries—the US, the UK, Canada, Australia and Brazil—and employees

are free to work for as long as they wish to. (There are exceptions for industries in which strict physical fitness levels are necessary.)

In India, however, retirement has been a government tool to ensure employment for the young. So, government employees must retire at 60, while private ones largely do so. This also ensures that while judges must retire, lawyers need not, and while bureaucrats retire, lawmakers—unsurprisingly—do not: 40- and 50-year-olds are considered young in politics, and parliamentarians in their 70s and 80s are more the norm than the exception.

In 2011, the department of personnel and training decided to keep the retirement age of government officials to 60, and not increase it to 62. A member of the Central government association had told the media: "The government is justified in not increasing the age as it will affect youngsters."

But what of the fact that retirement from an active working life affects the mental and financial health of seniors? Gallup's annual Economy and Personal Finance Survey of 2013 has found that Americans between 60 and 69 years of age who work have better emotional health than those who do not, and that financial concerns are a prime reason for the rise in the average retirement age. The survey found that the average non-retired American expects to retire at age 66, up from 60 in 1995

(37 percent said they expect to retire after 66; the number was 22 percent a decade ago, and 15 percent in 1995). The percentage of non-retirees who expect to retire before the age of 65 has declined from 49 in 1995 to 26 in 2013. Gallup attributes this to "changing norms about the value of work, the composition of the workforce, the decrease in jobs with mandatory retirement ages and other factors".

Until the early 2000s—around the time the hype around young India's growth began to rise—youth were considered energetic and enthusiastic, but also inexperienced and impulsive, while greying hair was associated with experience and wisdom, and also frailty. Now, older people are associated with redundancy. The image of youth has evolved rapidly in the recent past. But why hasn't the image of seniors evolved as well? (This is at least one sphere in which our politicians are worthy examples.)

Maybe they could start with letting me become a doctor after I retire from being a journalist. **D**

/ FREEDOM FROM RELIGION /

# Imagine There's No Heaven

There's a small but growing community of those who shun religion

By DEVANGSHU DATTA

**R**itesh stands out among the lakh or so students cramming for the Joint Entrance Exam in the coaching mills of Kota, Rajasthan. Unlike most of his comrades, the 18-year-old isn't praying for a high rank. He has been an atheist since he was 11 and struggling to cope with bullying in his school hostel.

As he tells it, "I was physically weak and often got beaten up. I used to cry and ask God, *Why does this happen to me?* After the fiftieth time or so, I wondered who the hell I was talking to. And, on that wonderful night, I became an atheist."

Ritesh is a member of a small community: Those who shun religion in an ostentatiously religious country. Disbelief in God does not necessarily exclude anybody from India's broad religious spectrum. Buddhism and Jainism are agnostic. Hinduism had 'Nastik' philosophers.

Many historical figures were also atheists. Jawaharlal Nehru, Bhagat Singh and Vinayak Damodar Savarkar, for example. Dr Bhimrao Ramji Ambedkar became a Buddhist, rejecting casteist prejudices. The Dravida Kazhagam movement was founded by EV Ramasami "Periyar", who required his followers to renounce God. And of course, communists are atheists, by definition.

Many modern atheists have arrived at unbelief simply because religion didn't make sense to them. Jude, a software engineer, quit on religion while in school, after running a scientific experiment: "I experimented with study a little and pray a lot, then pray a little and study a lot. Then I tried similar experiments with other kids. It was quite clear prayer never helped."

The Census of India doesn't have a separate category for 'No Religion', or 'Atheist', lumping them together with Bahais, animists, etc as 'Others'. In the 2001 Census, the 'Others' added up to 0.6 percent (roughly 4.5 million). This is way less than the global average of 13 percent.

However, 'Others' doubled in 2001 over 1991, and may well have doubled again in 2011. There are also many non-believers,



who find it too much trouble to claim lack of faith. Yash, a software developer from Mumbai, says, "I haven't performed any religious ceremonies for my daughter. But the only options on the Birth Certificate are Hindu, Muslim, Christian and Other. I ticked 'Other' and wrote 'None'. The nurses objected. I had to select Hindu in order to avoid a future legal mess."

Given the multitude of forms Indians have to fill up, not being a recognised official category has costs. It also takes time and trouble in many other ways to be officially non-religious. A religious ceremony can be performed instantly and registered later. But a civil marriage under the Special Marriage Act requires a licence, a wait period, proof of residence, and other formalities. If one wishes to donate organs—or the body to science—after death, legal arrangements must be made in

advance. If one wishes to avoid one's assets being passed on by the default provisions of religious personal laws, it is necessary to make a valid Will and register it. After death, that Will must undergo probate. All this costs time and money.

In addition to bureaucratic tangles, the non-religious often face emotional blackmail, social pressure and even legal threats. India's archaic laws, such as Section 295(A) of the Indian Penal Code, make it a criminal offence to question religious doctrine, let alone mock faith. These laws are often used to harass people in absurd ways. Sanal Edamaruku, a rationalist engineer, faces criminal charges for demonstrating that a cross in a Mumbai church was dripping water due to capillary action from a blocked drain, rather than through some miracle.

Not only can such laws be used to target the non-religious, they have no corresponding shields against mockery or ostracism. Quite a few have suffered estrangement from their families and have been abused by their peers. Asha, a Kashmiri Pandit, says her reluctance to perform *shraddh* ceremonies for her parents led to a breach with her siblings.

Anita, from a Catholic family in Kerala, says it was a "horrible day" when she 'came out' as an atheist. "My mom

## It takes time and trouble in many ways to be officially non-religious

was most intolerant and I faced very harsh reactions from her. My dad was more sad than angry. Strangely, once you come out, people who previously seemed to be liberal now act like fundamentalists. Maybe it's because they're dealing with their own doubts."

Nanda, from Mumbai, had problems at school "because I refused to go to the *ashram* or learn verses from the Gita." She publicly repudiated her religion after the horrors of the 1992-93 riots. Akhtar, a 35-year-old from Moradabad, says he's stopped participating in social and family occasions because of the inevitable heated arguments centred on his non-belief.

Marriage is a major flashpoint. Geetha, from Chennai, was coerced into a temple marriage. Swati, a Banjara woman who runs her own business, says, "I refused to get married to a believer and did not, in fact, ever get married since I couldn't find a suitable atheist."

Sarath, a Telugu Brahmin atheist, says he was "forced to do the *Upanayanam* [thread ceremony] because my parents want an arranged marriage. I have hopes of 'saving' my future spouse and kids if I have an arranged marriage, though I would prefer to marry a Freethinker."

Nishant, a banker from Ambedkar's community, faced peer pressure in his college hostel. "There, I was exposed to fasting, vegetarianism, hate towards other religions, religious fanboys and fangirls. I faced discrimination when I opposed religious practices, and many forceful attempts were made to change my thinking."

Babu Gogineni, director, International Humanist and Ethical Union, remembers the occasion "when I was invited to speak to the Bar Association at Rangareddy District Court on Scientific Temper. The presiding judge learnt I was an atheist and refused to preside even though my subject had nothing to do with religion."

Social media has helped such scattered individuals find each other. There are multiple Facebook and Google groups and local meatspace chapters. Nirmukta, for example, is a rationalist organisation that debunks superstition and hosts debate forums. Indians without Religion is another society that wants to become an NGO fighting for the rights of the non-religious.

As the non-religious band together, they hope to carve out some space and recognition. As Suchi, an engineer from Chennai says, "People need to respect that you have put at least as much thought into your atheist beliefs, as they have into their religion. Only then can there be a true separation of church and state." **F**

## Losing Their Religion

**A**theists have long demanded the inclusion of a 'No Religion' category on official documents. Lawyer Nikhil Mehra explains how an appeal could be filed: A writ petition would have to be filed challenging the absence of a No Religion category. The grounds would be freedom of conscience under Article 25(1) and Article 14. The core is: I have the right to live my life as I wish as long as I am within the ambit of the law and am not trampling on the rights of others. Article 25(1) guarantees the freedom of conscience, and that must inherently encompass the right not to profess any religion. Every citizen has the right to profess and exhibit such religious belief as is approved of by the citizen's judgement or conscience.

If my conscience or judgement doesn't permit the acceptance of existence of God, or any particular religion, I can't be treated differently for it, provided my actions do not impinge on the rights of others. Following from there, I have the right not to engage in certain religious practices and similarly, I have the right not to belong to any religion. In terms of the right to equality (Article 14), a standard government form ought to permit atheists to not be compelled to forcibly ascribe to a particular religion. This amounts to a suppression of their right to freedom of conscience. In that sense, an atheist is being treated unequally since his freedom of conscience is not treated in state action at par with that of a believer.

/FREEDOM TO ADOPT/

# They Fill Our Lives

Adoption is merely normal, ordinary yet special,  
much like birth is ordinary yet special

By DILIP D'SOUZA

**W**hat these nine years have taught my wife Vibha and me is this: Adoption is not some kind of special or unusual thing to do. Before Surabhi came to us, I think I imagined that it would indeed be a special happening, and that excited me. Yet today, in what our two children mean to us, there is no difference between Surabhi, whom we adopted, and Sahir, who was born to us.

Yet, too, the excitement is in how normal this feels.

We see our two kids running around the house, teasing and tripping over each other, quarrelling over the iPad and watching a film together—things all kids must do. Absolutely the last thought that occurs to us is that they took different routes into our home, into our hearts.

As it should be, of course. I know now, if perhaps I didn't fully comprehend in 2004, that I don't and never want to feel differently about my kids because of the mere detail of how they entered our family. To me, that's something of an epiphany, a thoroughly liberating one.

Before we did it, we thought a lot about adoption. I always believed one reason to do it was scenes we're all familiar with in this country we live in. You know: The boy who got turned away from a fun fair, the woman who did it telling me, "We don't want his kind in here". Watching my son watching a little girl his age come to our rickshaw with that sad pecking gesture, helpless in the knowledge that in time, he will learn to live with it as I have learnt to do, as all Indians have learnt to do.

In some ways, I think about such scenes every day, and have done so for years. Saying this, I'm not trying to make some kind of statement. This is just something I know about myself. And it brings the hard question: What can I do about these kids? What can I do about our greatest

national shame, the poverty that blights so many lives?

I really don't know, and that's a dispiritingly limiting thought. That is, except for adopting a child. If there's one abandoned kid whom we can raise as our own, to whom we can offer the arms of a loving family, that's one less child who might end up on our streets. This one thing, then, I can do.

The freedom to adopt, there for the taking.

But we also learnt from other parents. One couple adopted two children but never told them. Came adolescence, already difficult, and the secret blew up in their faces. Several profoundly troubled years followed. No, we didn't want that. Another couple had an adopted son who knew all along, because the family would celebrate two birthdays—the second being the day he came home. In his teens, the boy suddenly pleaded for them to stop this dual observation. He didn't see it as a special day and he couldn't bear them treating it that way. No, we didn't want that either.

What we did want was a possible tightrope.

Adoption is no shame to be shoved under the carpet, yes, but treating it as a triumph is as irrational. We wanted Surabhi to see it as merely normal, ordinary yet special, like birth is ordinary yet special.

All this was on my mind as we began the process, six months before Surabhi came to us. There was a fair amount of paperwork involved, including tax returns and letters of recommendation from friends and relatives.

Also a visit from a social worker who spoke to Vibha and me, but separately. Tedious business, but routine.

There were peculiar obstacles also. In 2004, there were only two Indian laws governing adoption. One was the Hindu Adoption and Maintenance Act (HAMA) of 1956. But HAMA is only available to Hindus (and Sikhs, Buddhists

and Jains, considered Hindu for legal purposes like this one). Since I am not Hindu, that left the Guardians and Wards Act of 1890 (1890!). But under GAWA, we would be Surabhi's guardians, not her parents, until she turned 18. There are implications here for inheritance and so on: Rules for a ward are different from those for a legally-acknowledged child.

Two things about all this. First, Vibha is Hindu, I am agnostic. We asked our social worker, people at the orphanage and our lawyer: Can we therefore adopt under HAMA? Impossible, they said. One Hindu parent cannot qualify a couple as Hindu for HAMA's purposes. I was even willing, for this adoption, to submit a declaration that I was Hindu. Impossible, they said again. No way that 'D'Souza' could pass the HAMA radar. I suspect this was just the interpretation of those we asked; had we pushed we might have proved our point and adopted under HAMA, even without that declaration. Yet that was the point: This law was an obstacle. Instead of giving everybody the freedom to adopt, it excluded whole swathes of Indians.

Second, but we did hear about a couple in Kerala that challenged GAWA's guardianship doctrine and won a court decision in their favour. With that precedent, our lawyer told us, we could move court to have ourselves legally pronounced Surabhi's parents before she turns 18.

As it turns out, neither of those has been a concern in these years. Though we still need to move court, life with the kids is too full to ponder over the implications of being guardians. The only slightly odd memories, in all this time, are the occasional comments.

Now we fully expected that Surabhi would face barbs from kids at school. That's already happened and I'm sure will keep happening. Kids are curious, after all, and untrammelled by adult notions of what is and is not acceptable. What we can do is raise her to be assured and comfortable about her place in our family, trusting that this much will be her safeguard against getting hurt. This meant we had to feel confident and secure about our home before Surabhi arrived. What kind of relationships do we have? Are they strong and nurturing enough that a new child will feel secure? In answering those, adoption taught us something about ourselves too.

So what did we not expect? The friend who saw Surabhi in Vibha's arms as a baby and asked: "Whose baby is that?"



Vibha: "Ours! We just adopted her!"

Friend (brow and nose wrinkled): "Why?"

Still, remarks like that have been occasional. All in all, raising Surabhi and Sahir has been even more wondrous and fulfilling than we imagined it would be. And only because this article asks for it, I'm trying to sift through experiences that we don't much think about anyway. Surabhi is part of our lives, period. Just as Sahir is. Just as their cousins and aunts and grandparents are. And that's just the way I want it. Sure, there are people who will ask why we adopted our daughter, whereas nobody ever asks why we gave birth to our son.

In an ideal world, nobody would ask either question. But it hardly matters, because either way our answer is the same: "Because we wanted our child."

We wanted Sahir. We wanted Surabhi.

They fill our lives. **11**

/ FREEDOM FROM MONITORING /

# The Private Citizen

More surveillance than absolutely necessary actually undermines the security objective

By SUNIL ABRAHAM

I think I understand why the average Indian IT entrepreneur or enterprise does not have a position on blanket surveillance. This is because the average Indian IT enterprise's business model depends on labour arbitrage, not intellectual property. And therefore they have no worries about proprietary code or unfiled patent applications being stolen by competitors via rogue government officials within projects such as NATGRID, UID and, now, the CMS.

A sub-section of industry, especially the technology industry, will always root for blanket surveillance measures. The surveillance industry has many different players, ranging from those selling biometric and CCTV hardware to those providing solutions for big data analytics and legal interception systems. There are also more controversial players who provide spyware, especially those in the market for zero-day exploits. The cheerleaders for the surveillance industry are techno-determinists who believe you can solve any problem by throwing enough of the latest and most expensive technology at it.

What is surprising, though, is that other indigenous or foreign enterprises that depend on secrecy and confidentiality—in sectors such as banking, finance, health, law, e-commerce, media, consulting and communications—also don't seem to have a public position on the growing surveillance ambitions of 'democracies' such as India and the United States of America. (Perhaps the only exceptions are a few multinational internet and software companies that have made some show of resistance and disagreement with the blanket surveillance paradigm.)

Is it because these businesses are patriotic? Do they believe that secrecy, confidentiality and, most importantly, privacy, must be sacrificed for national security? If that were true then it would not be a

particularly wise thing to do, as privacy is the precondition for security. Ann Cavoukian, privacy commissioner of Ontario, calls it a false dichotomy. Bruce Schneier, security technologist and writer, calls it a false zero sum game; he goes on to say, "There is no security without privacy. And liberty requires both security and privacy."

The reason why the secret recipe of Coca Cola is still secret after over 120 years is the same as the reason why a captured soldier cannot spill the beans on the overall war strategy. Corporations, like militaries, have layers and layers of privacy and secrecy. The 'need to know' principle resists all centralising tendencies, such as blanket surveillance. It's important to note that targeted surveillance to identify a traitor or spy within the military, or someone engaged in espionage within a corporation, is pretty much an essential. However, any more surveillance than absolutely necessary actually undermines the security objective. To summarise, privacy is a pre-condition to the security of the individual, the enterprise, the military and the nation state.

Most people complaining online about projects like the Central Monitoring System seem to think that India has no privacy laws. This is completely untrue: We have around 50 different laws, rules and regulations that aim to uphold privacy and confidentiality in various domains. Unfortunately, most of those policies are very dated and do not sufficiently take into account the challenges of contemporary information societies. These policy

**Privacy is a precondition to the security of the individual, the enterprise and the nation state**

documents need to be updated and harmonised through the enactment of a new horizontal privacy law. A small minority will say that Section 43(A) of the Information Technology Act is the India privacy law. That is not completely untrue, but is a gross exaggeration. Section 43(A) is really only a data security provision



and, at that, it does not even comprehensively address data protection, which is only a sub-set of the overall privacy regulation required in a nation.

What would an ideal privacy law for India look like? For one, it would protect the rights of *all* persons, regardless of whether they are citizens or residents. Two, it would define privacy principles. Three, it would establish the office of an independent and autonomous privacy commissioner, who would be sufficiently empowered to investigate and take action against both government and private entities. Four, it would define civil and criminal offences, remedies and penalties. And five, it would have an overriding effect on previous legislation that does not comply with all the privacy principles.

The Justice AP Shah Committee report, released in

October 2012, defined the Indian privacy principles as notice, choice and consent, collection limitation, purpose limitation, access and correction, disclosure of information, security, openness and accountability. The report also lists the exemptions and limitations, so that privacy protections do not have a chilling effect on the freedom of expression and transparency enabled by the Right to Information Act.

The Department of Personnel and Training has been working on a privacy bill for the last three years. Two versions of the bill had leaked before the Justice AP Shah Committee was formed. The next version of the bill, hopefully implementing the recommendations of the Justice AP Shah Committee report, is expected in the near future. In a multi-stakeholder-based parallel process, the Centre for Internet and Society (where I work), along with FICCI and DSCI, is holding seven round tables on a civil society draft of the privacy bill and the industry-led efforts on co-regulation.

The Indian ITES, KPO and BPO sector should be particularly pleased with this development. As should any other Indian enterprise that holds personal information of EU and US nationals. This is because the EU, after the enactment of the law, will consider data protection in India adequate as

per the requirements of its Data Protection Directive. This would mean that these enterprises would not have to spend twice the time and resources ensuring compliance with two different regulatory regimes.

Is the lack of enthusiasm for privacy in the Indian private sector symptomatic of Indian societal values? Can we blame it on cultural relativism, best exemplified by what Simon Davies calls "the Indian Train Syndrome, in which total strangers will disclose their lives on a train to complete strangers"? But surely, when email addresses are exchanged at the end of that conversation, they are not accompanied by passwords. Privacy is perhaps differently configured in Indian societies but it is definitely not dead. Fortunately for us, calls to protect this important human right are growing every day. **1**

/ FREEDOM TO DRINK /

# Democracy on the Rocks

The government's stance on alcohol shows how we are quickly losing our civil liberties

By IMRAN KHAN

In September of 2011, I filed a PIL challenging the Maharashtra government's ruling to raise the legal age limit for consuming alcohol from 21 to 25. It was something that everyone was talking about at the time and for the wrong reasons. It wasn't about alcohol. It was always about civil liberties.

As a person who was not specifically informed, I was just reading the papers at a superficial level. I said, this is part of the Maharashtra government's alcohol de-addiction policy. The intention of alcohol de-addiction is sound—alcohol is dangerous; I've lost friends to drunk driving and had family members struggle with alcohol addiction—but the method that they were choosing was incorrect. What they were doing is taking away people's right to choose.

The parallel that I was drawing, just as an ordinary citizen, was this: If I choose to start protecting women from being raped—which is a huge problem we have—I cannot tell women how to dress in order to protect them. My *intention* may be correct. But we need to make things safer for women, not tell them to cover up. If we have a population problem, we cannot tell our citizens how many children to have or start sterilising people, no matter how good the end result may be.

In a democracy, if you feel that alcohol is bad, in the way that drugs like heroin and cocaine are bad, then ban it. But when you allow alcohol—and tax it heavily—and then say, *You're 18, you can marry, have children, enter a legal contract, go to war to protect your country, be sentenced to death for a crime, but you can't handle a drink*, then it's ludicrous.

In Maharashtra, we are living under the Bombay Prohibition Act of 1949, which was never repealed. The loophole is the alcohol permit (which states that you're an alcoholic and need alcohol to survive). Ten

years ago, nobody cared about alcohol permits, the rule was not enforced. Now in 2005, 2006, the Maharashtra government passed a legislation raising the legal age to 25. But nobody got the memo; bars, restaurants, police, media, citizens, nobody was aware of it. In 2011, the Maharashtra state government proposed to pass a legislation to raise the legal drinking age to 25. They were proposing to pass a legislation that was already passed five years ago!

The police were enforcing a proposal which, as far as they knew, wasn't a law yet. They started raiding restaurants, clubs, bars; and people's homes. There was this really hilarious story. There was a sweet little old lady who used to make chocolates. These guys stormed in, literally kicked the door down like jack-booted warriors, and took her to jail for making chocolates with rum fondants!

Law and order in India is a very loose phrase, a fluid concept. Sure, we must look at it from the other side—our cops are woefully under-equipped, undertrained, underpaid, using bamboo shields and World War II era rifles; what's in it for them?—but this is a police-state acting beyond its authority.

Essentially, they were putting forth legislation to bring back prohibition. Historically, that has never worked. Prohibition leads to an increase in risky alcohol consumption; instead of sitting down casually and having a beer, you sneak into a back alley, buy a quart of rum, knock it back and run home. That is risky drinking behaviour and does not lead to a decrease in alcohol consumption.

Instead you create a new class of criminals, bootleggers, and they—and their customers—will now be tempted to slip the police a bribe if they are caught. What have we achieved? We've lost revenue, increased risky drinking behaviour, increased corruption and increased criminality.

So what led to all these outdated,

illogical rulings, and similar things in places like Bangalore? It appears to be smaller, local political parties drumming up publicity and visibility by targeting an unpopular class of people.

Their contention is that 'young rich people' like to party, drink and they get addicted to alcohol; this is the problem and this is our solution. When they court poorer masses, they demonise these 'rich partygoers', who are 'amoral', women who dress 'provocatively and drink'. I can say that I'm an adult, I can go out and have a drink. Although it's legal, from a moral standpoint it's not a high ground. It's not a position that you can easily defend, saying, 'I have a right to party.' When you try, the way they will counter it is: *The government is trying to stop people from drinking and you are trying to encourage people to drink and obviously you are wrong.*

It's very easy to sell this image of irresponsible rich kids

getting drunk, getting into fancy cars and killing people, but they are isolated incidents. Statistics show it is not a problem of the young rich. Alcoholics tend to be older and from middle- to lower-middle class backgrounds.

We are a hypocritical country in many ways and I fear that a major part of that is because of politicians who speak for the entire nation. The idea that someone else's religious or moral beliefs should dictate behaviour to me is something I am not able to wrap my head around. I have always been extremely alarmed by anyone who claims to speak for a group of people on behalf of India. And it is always one guy who is speaking for the country, saying this goes against Indian culture.

It's not about the alcohol; that is just indicative. It's a slippery slope; you allow this to happen and god knows what else will follow. You'll already have people in power, in office, in politics, standing up in front of the nation they

are representing and openly voicing bigoted views. Next, in a small town somewhere, someone might pop up and say, *Maybe it's not right for women to show anything above the knee, just to be safe.* And, from a moral standpoint, they're trying to protect women. If a woman stands up to protest? *You want to show your skin? You're a slut!*

The point is that the position that you're defending is not sympathetic but it is correct. It is a civil liberty, it is a right in a democracy.

People forget that in a democracy, you have to take the bad with the good and government has to be "of the people, by the people, for the people". All we have is government of the people. It is neither by nor for.

We are looking at gross civil liberties violations in this country, liberties which are being taken away at an alarming rate. Our bureaucracy, politicians and people in power have reached comic-book levels of villainy. They're literally moustache twirling would-be rapists. They are trying to slide in and say, *How much leeway will these people give us? What if I take away their right to this? To that? How villainous can I be before they actually strike back?* It's come to a point where you ask, 'Are you really this evil?' I think we are five to 10 years away from a Turkey-style rebellion with bloodshed on the streets. **1**

As told to Peter Griffin and Shraavan Bhat





# Thoughts On Freedom

Freedom is not worth having if it does not connote freedom to err.

**Mahatma Gandhi**

Responsibility is the price of freedom.

**Elbert Hubbard**

Freedom is nothing but a chance to be better.

**Albert Camus**

May we think of freedom, not as the right to do as we please, but as the opportunity to do what is right.

**Peter Marshall**

We must be free not because we claim freedom, but because we practise it.

**William Faulkner**

The law will never make men free, it is men that have to make the law free.

**Henry David Thoreau**

Freedom is contagious. That's why despots fear it so much.

**Bill Owens**



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“ If you think that you are bound, you remain bound; you make your own bondage. If you know that you are free, you are free this moment. This is knowledge, knowledge of freedom. Freedom is the goal of all nature. ”  
**Swami Vivekananda**

Freedom of speech and freedom of action are meaningless without freedom to think. And there is no freedom of thought without doubt.

**Bergen Evans**

In the truest sense, freedom cannot be bestowed; it must be achieved.

**Franklin D Roosevelt**

I disapprove of what you say, but I will defend to the death your right to say it.

**Voltaire**

For to be free is not merely to cast off one's chains, but to live in a way that respects and enhances the freedom of others.

**Nelson Mandela**

Freedom of opinion can only exist when the government thinks itself secure.

**Bertrand Russell**

Conformity is the jailer of freedom and the enemy of growth.

**John F Kennedy**