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Pricing spectrum

The arguments put forward by Tata Teleservices for charging future allocations of 2G spectrum have some flaws—the suggestion that the price charged for entry should be half of that for 3G spectrum is in fact quite arbitrary. On the whole, however, there is surely considerable merit in what the Tatas have recommended.

For, as this newspaper has argued on previous occasions, spectrum is a scarce resource and the current system of allocating it on the basis of subscriber numbers has various flaws. One, it encourages firms to overstate subscriber numbers and even offer completely uneconomic tariff packages just to drive up the user base—the exceptionally large "churn" shown by some operators is perhaps a recognition of this. Second, it limits the market to only the current players since if spectrum is not bid for, no newcomer can ever hope to get into this rapidly growing market—except perhaps by paying a huge price to buy into existing telecom firms who—almost by divine right—will keep getting additional spectrum. Third, past experience—like the time when the fourth cellular licence was bid out—shows that a bidding process does not necessarily lead to higher consumer prices, which is the usual argument made by those opposed to bidding. Indeed, after the fourth cellular licence was bid for, tariffs only fell.

It must be pointed out there is nothing in the existing licence agreements that indicates that the government has made any commitment to provide users an unlimited amount of spectrum, or that this cannot be auctioned. If anything, the licence agreement talks of granting operators spectrum up to 6.2 MHz (in the case of cellular licences) and even this is subject to review from time to time. While it is obvious that it would be unfair to deprive operators of spectrum beyond this, it is equally true the guarantee of spectrum cannot be unlimited.

What makes the review of the current 2G spectrum model even more important is that it is creating distortions even in the way 3G spectrum is being dealt with. Under the proposed 3G policy of the telecom regulator, existing CDMA players such as Reliance or the Tatas can provide 3G services in the existing 800MHz band by getting one extra "carrier" (that is 1.25 MHz of spectrum). They can do this by either buying this extra "carrier" or by just releasing one of their existing carriers to do this. But, since 3G spectrum is to be auctioned while the 2G one is not, the Reliances and the Tatas of the world just have to buy this additional "carrier"—the argument being that if cellular players have to pay for their 3G spectrum, there is no reason why the CDMA lot should be allowed to get it for free. This is clearly a sub-optimal solution. There is another stipulation that once the CDMA lot buys this "carrier", it can't bid for 3G spectrum in the 2,100 MHz band, which is reserved for cellular players. In other words, no firm will be allowed to offer 3G services in both the cellular and CDMA space. Both the restrictions are illogical in this day and age. If, however, the auction of 2G spectrum follows the 3G route, such restrictions will no longer need to be there.

Web valuations again

Reader's Digest, more than 80 years old, was sold last week for $1.6 billion. In contrast, the one-and-a-half year-old YouTube was recently acquired by Google for the same amount ($1.6 billion). You could argue that the *Reader's Digest* enterprise value (including the debt taken on board by the buyer) comes to $2.4 billion. Still, the contrast should set investors and media entrepreneurs thinking. For there is also Myspace, a social networking site that was recently acquired by Rupert Murdoch for $580 million. If Mr Murdoch's reported presentation to investors in Australia is anything to go by, it could now fetch a staggering $6 billion. These figures highlight how new economy valuations are being turned on their head in cyberspace, and hark back to the mood at the start of the decade when a relatively young company like AOL could buy up the venerable Time-Warner.

Reader's Digest is a family magazine with a global following over several decades. It has over 80 million "die-hard" users who are not going to desert it in a hurry. YouTube, on the other hand, has over 70 million videos (now estimated to be 100 million) *daily*. Do the maths and you get to a figure of 2.1 billion videos being watched monthly, which is many times the size of the *Reader's Digest* franchise. Even if you assume multiple readers per copy of *Reader's Digest*, the total is almost certain to be smaller than the YouTube franchise. Will these comparisons hold over time? *Reader's Digest* readers are "die-hard" and "active", not "fickle" like users of YouTube. However, even if you discount for 25 per cent users being "fickle", the franchise is still substantial.

What is the market telling the media business about the future? While many have termed the valuations as "bizarre", the fact is that just as in the dotcom era, these social networking, interactive or community sites (also classified as Web 2.0 companies) are gathering steam.

One may argue, though, there is a problem with copyrights of the uploaded material on these sites. In fact, Universal Musical Group has sued MySpace, alleging the site infringes on the copyrights of thousands of songs and videos. YouTube, on the other hand, has struck deals with the Universal and Warner music groups. Besides, these sites are experimenting with technologies (as in the case of MySpace) to eliminate unauthorised music and clippings from being uploaded. Sooner or later, they are bound to find an answer just as Napster did.

Their business models (where they exist), though, may not make sense to many. Even Microsoft CEO Steve Ballmer recently told *BusinessWeek*, "[You've got to ask] could Google do whatever it is they're hoping to buy without paying $1.6 billion?" But did Microsoft itself miss the bus when it reportedly lost the $30 million Flickr deal to Yahoo, and can it create or buy another YouTube? Remember, YouTube was set up with just $11 million of venture capital money.

As for valuation models, some of them certainly remind people of the methods and numbers used, and the assumptions made, at the height of the dotcom madness—combined with very high price-earning multiples. If that invites scepticism, there is the question of first mover's advantage and barriers to the entry of potential competitors. Duplicating the YouTube technology is easy. Replicating the brand and community will be much more difficult, because in some senses the space is already taken. That brings up another point—have Indian dotcoms too missed the bus? India's Web 2.0 sites will have to do more than merely ape a YouTube, MySpace or Facebook to get these valuations. Finally, here's some more food for thought: in September, RBC Capital analyst Jordan Rohan predicted that MySpace would be valued at $15 billion over the next three years.

Illustration: ANIRBAN BORA

Indian travails

The state's abysmal failure to provide the merit goods of education and health has increasingly led even the poorest to rely on private provision, says DEEPAK LAL

Having discussed some of the problems facing China in its economic rise in my last column, I examine India's current travails in this one.

First, one common problem faced is growing urbanisation, pitting urban against rural interests. In China as all land is still owned by the state, the demand for land for urban and industrial development has been met by apparatchiks dispossessing farmers of land, which is sold (with kickbacks) to developers. This has led to widespread rural discontent and thousands of riots, which have apparently been brutally suppressed.

In India the development of the SEZs has also led to the government acquiring rural land for their development with similar discontent, which in Eastern India could fuel the Naxalite insurgency. But in India as agricultural land is privately owned, there is a simple way to stem rural discontent. Instead of the government acquiring land and handing it to developers (with all its attendant corruption), the government merely needs to reclassify the uses of agricultural land in the SEZ areas, to permit industrial and urban development. The developers will then have to obtain this land themselves from the rural owners. This could be on a whole variant of leases—including retention of an interest with annual royalties or rents in perpetuity—or outright sales of freehold. The NGOs currently denouncing SEZs could be usefully employed in forming co-operatives of small rural landowners to negotiate with the developers on the terms of these leases. This would diffuse the discontent, which could sabotage the SEZs.

Second, both countries face political problems, which could derail their ongoing economic miracles. For China, as discussed in my last column, the problem is ending China's continuing financial repression, without loosening the Communist party's political control of the economy. For India the political problem lies in finding new avenues for "rent-seeking" for the political classes without too much damage to the economy, as liberalisation has closed many old ones. The development of PPPs for infrastructure and the SEZs provide some. But a fresh avenue is proposed with the UPA's desire to extend caste-based reservations to the OBCs in education and public employment and even to the private sector. If all these proposals of basing economic outcomes on birth, not merit, are enacted, we can say goodbye to the knowledge-based "Incredible India".

China during the Cultural Revolution implemented class-based reservations for employment and education and in the process lost a whole generation of well-educated youth. This was reversed by Deng Tsiao Ping, who oversaw the creation of a highly educated, technocratic class of meritocratic mandarins and increasingly a meritocratic society. Thus in the elite Peking University, where I periodically lecture, the annual intake consists of the top 10,000 students who sit the nationwide entrance exam taken by many millions. No question of any reservations or affirmative action in either education or employment in China.

India's past policy of reservations has already seriously affected governance, by damaging the functioning of the public sector, as Arun Shourie has copiously documented in his latest book *Falling Over Forwards*. But this is not all. As the eminent Indian sociologist, the late M N Srinivas, noted in one of his last essays (in *Village, Caste, Gender and Method*, OUP, 1996), existing reservations led the forward castes to evolve a strategy for survival. "Emigration from India is a major strategy, and the emigrants enjoying the admired status of NRI's". One of the baleful effects of the Nehruvian settlement was that, the economic policies supported by the English-speaking castes damaged the prospects of their progeny—except for those agile enough to become "rent-seekers". They, as well as others in the political classes, then sought and succeeded in placing their progeny abroad—thereby demonstrating by their private actions the bankruptcy of the public policies they supported. From international experience, I have come to see the ability of a country to retain its "best and brightest" as an important sign it is on the road to economic prosperity. With economic liberalisation the perceptions of the young about the possibilities of a fruitful life in India have changed. This is the greatest prize that liberalisation has offered, and it would be retrograde if the rush to reservations were to lead them once again to look abroad for their future.

As many Indian observers have noted, the way to deal with the problems faced by the economically and socially disadvantaged is not through reservations in higher education and employment, but to provide them the means to compete in a meritocratic society. This above all means access to primary and secondary schools. The Indian state's abysmal failure to provide the merit goods of education and health to its populace has increasingly led even the poorest to rely on private provision. Ideally what India needs are state-funded vouchers for the disadvantaged to finance their use of the private sector. Whether the dysfunctional Indian state can implement this remains doubtful. But, perhaps NGOs could be usefully used to distribute the vouchers to their intended beneficiaries.

For those who claim that a society based on merit will not eliminate the social stigma associated with caste, there are two responses. The first is that, a set of Hindu "cosmological beliefs" based on the doctrine of *karma*, which continue to have resonance, cannot be eliminated by state action to determine economic outcomes based on birth. Second, many material aspects underpinning caste have disappeared. As with the population explosion, the need to tie scarce labour to abundant land (which I argue in *The Hindu Equilibrium* was the economic rationale of the system) has ceased. But, as Srinivas noted, the core of the "cosmological beliefs" underlying the caste system—hierarchy and endogamy—though modified, still remain. There is little that can be done about hierarchy. But, the political class clamouring for caste-based reservations can do something about endogamy. They should all arrange marriages for their progeny with the children of the "non-creamy layer" of scheduled castes and tribes!

The Rs 100,000 crore Rubicon

BROADSWORD

AJAI SHUKLA

Foreign Secretary-level talks with Pakistan; the US-India nuclear legislation passed by the US Senate; Chinese President Hu Jintao visiting India. This fortnight makes a useful diplomatic freeze frame, illustrating India's growing stability in the neighbourhood, region and global environment.

Now contrast this reality with New Delhi's threat perception. It is difficult to measure a country's apprehensions accurately, but one fairly good indicator is the trend in its defence spending. As President Hu lands in Delhi, South Block is finalising estimates of the Rs 89,000 crore defence budget for 2006-07. Then they will finalise next year's budget demand, likely to be just shy of Rs 100,000 crore. With the military, like all militaries, asking for more, and the strategic community clamouring to spend 3 per cent of GDP on defence (which would be Rs 120,000 crore) the Rs 100,000 crore Rubicon no longer looks uncrossable.

In itself, that would merely be a statistical landmark. When a country's security is under threat, it spends whatever it takes to restore well-being. And since there is no way to accurately measure either security or well-being, a comparison is useful to assess whether India's current threats justify its spiralling defence spending.

In 1999, India paid Rs 48,500 crore for defence, including the cost of the Kargil conflict; today we are looking at twice that amount. That's a sizeable jump, considering that inflation is high mainly for foreign weaponry, and no Pay Commission has raised salaries since then. This rise in defence spending raises two key questions. One, have India's levels of external threat or insurgency climbed proportionately in the seven years since 1999? Two, is our spending directed towards our greatest concerns, or are low-threat spending areas eating up most of the budget?

A series of recent events and statements answer the first question. Three years into a peace process with Pakistan, the PM has declared it irreversible. While the Parliament attack in 2001 and the Kaluchak attack in 2002 brought India to the brink of war, the Mumbai bomb attacks this year evoked no more than a two-month sulk. Terrorists, we are told, can no longer hold the peace process hostage. A ceasefire holds on the Line of Control. And with nuclear deterrents in place all around, structure underpins the statements.

In step with growing trade relations with China, the Sino-Indian border is entirely peaceful. Both countries have not just scaled down their soldiers, but also their interaction, replacing patrol clashes with volleyball matches and friendship toasts. Wen Jiabao and Manmohan Singh's agreement last year on political principles for a solution to the border issue is a great leap towards a final solution; the outcry against China's recent reiteration of its claim on Arunachal comes from those unfamiliar with Beijing's negotiating history. Chinese maps now paint Sikkim in the same colours as India. Compared to 1999, war on any front—Pakistan or China—is a remote possibility.

What about insurgency? The Nagaland ceasefire has stabilised and peace emissaries are talking to ULFA. In J&K, a halting dialogue with separatists has moved forward since 1999. Despite two failed ceasefires with the Hizb-ul-Mujahideen, ongoing back-channel negotiations could soon result in a successful one. A border fence is checking militant infiltration. J&K and Manipur remain crippled by militancy but their situation is considerably better than in 1999.

In mature democracies with vibrant civil societies, a transition from hostile confrontation to dialogue and stability provokes a demand for defence cuts. In India, a "guns versus butter" debate is controversial ground that few want to tread. But with war increasingly unlikely, and militancy not quite dead but in retreat, can a doubling of real defence expenditure pass unquestioned? When will it be time for a peace dividend? Even more worrisome than growing defence spending is India's pattern of spending. The most cursory analysis of ongoing programmes shows a marked trend towards "warfighting" equipment like tanks, submarines and fighter aircraft, which have no utility in the counter-insurgency operations that appear to be our primary defence requirement. This bias also exists in indigenous R&D, where big-ticket programmes like missiles, anti-aircraft guns and tanks mop up a mind-boggling Rs 5,000 crore. But then, big-ticket items mean bigger research budgets!

Serious defence preparedness has become the neglected step-child of a jingoistic and xenophobic polity, whose members find it easier to wave the tricolour and throw big money at defence rather than sit down to a rational assessment of India's defence needs. While strategically sophisticated countries like the US and the UK carefully scrutinise their defence aims and requirements, Washington publishes a comprehensive Quadrennial Defence Review every four years—India's defence needs have never been coherently formulated. A public debate remains a distant dream.

Between the boom and the bust

SPEAKING VOLUMES

Nilanjana S Roy

One of my favourite seminar subjects of all time is the flamboyant "Is Indian Publishing Booming or Busting?" The paper was, sadly, far less bombastic than the title, but the question remains valid.

We usually announce a publishing boom on the back of some author's success—Kiran Desai's Booker win, a new Rushdie novel—but that's short-sighted. If you take a look at old and new entrants in English language publishing, though, the scene does appear to be changing. This week, the column spotlights some of the key players in trade publishing, with an emphasis on fiction; later this month, I'll look at general non-fiction publishing.

Penguin India: Former CEO David Davidar, who now heads Penguin Canada, used to say that Penguin India had published "every Indian author of any importance", and that boast still holds true. Some authors grumble that Penguin has become a factory where the bottom line, rather than literary merit, rules. Others praise Penguin's professionalism and the effort it puts into training its staff. Most debut authors still send their manuscripts to Penguin first. It still finds room for specialist lists, such as the Penguin Classics. And it has built innovative partnerships, such as the one with Zubaan, which had a runaway success this year with domestic worker Baby Haldar's autobiography.

Led by Thomas Abraham, an astute marketing maven who is also a compulsive reader, and the quiet, shrewd Ravi Singh on the editorial side, Penguin hasn't yet been seriously challenged, except by Rupa, but that could change soon.

Roli Books: Often dubbed the "maharaja's press" for its signature coffee table books, many of which feature India's erstwhile princes, Roli Books is branching out. Pramode Kapoor started Roli in a ramshackle warehouse in Daryaganj and soon turned it into India's best-known publisher of coffee-table books. Recently, Roli has moved into fiction, general non-fiction and translations. IndiaInk, the imprint that got off to a fairy-tale start by publishing *The God of Small Things*, is now under its umbrella. But it's the landmark edition of Khushwant Singh's *Train to Pakistan* that indicates Roli's real USP might lie in marrying their flair for working with images—Margaret Bourke-White's searing Partition pictures, in this case—with the right book.

Rupa & Co: Rupa prides itself on knowing what the "real" reader wants—Anurag Mathur, in a previous generation, Chetan Bhagat in our time, for instance. Rupa, one of the largest in the business, has an incredibly efficient network, which makes up for its uneven editing. But publisher R K Mehra and his son Kapish Mehra both know what works in the market. It's been a long way from Rupa's quiet start, with two slender volumes of Bengali verse, to its present status as the publisher that others ignore at their own peril.

HarperCollins India: When HarperCollins first came into India, Penguin and Rupa prepared for a battle that never happened. HarperCollins scored minor successes, but was plagued by unrealistic expectations and trouble on the editorial front. This week, seasoned Penguin executive Karthika Karthikeyan—one of the top three there—took over at the helm. With enough editorial support, she might change HarperCollins peripatetic fortunes in India.

Picador India: Picador India began brilliantly, and still has authors of the calibre of Amit Chaudhuri and I Allan Sealy on its list, but has stayed very small. Where it scores is in the care that goes into design and editing, and its willingness, unusual in this age, to build up a stable of literary authors rather than focus on instant bestsellers.

Tara Press: Tara Press is part of India Research Press, known for working in close conjunction with authors and editors. The emphasis on design, layout and editing shifts wildly; some books are almost-perfect, others riddled with errors. But bookseller Anuj Bahri's expertise shows in the eclectic range of its books—Tara has published books on tigers and Tibet, respected writers like V K Madhavan Kutty and is publishing science fiction by a pair of precocious twins, the Guptara brothers.

Random House India: New entrant Random House has just a scant handful of books to its credit—Manju Kapur's *Home*, Abha Dawesar's *That Summer in Paris*—but it seems to be in India for the long haul. Random is led by the formidably intelligent Chiki Sarkar, who packed in a wealth of experience at Bloomsbury before shifting to India. She is also one of the few top editors in India to have her own Linked-In page, and to have the blessings of the legendary Sonny Mehta himself. Random should be fun to watch in the next few years, if it doesn't trip up over the problems that have plagued so many other foreign publishers.

nilanjanasroy@gmail.com