Free Markets and the dangers they pose

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- There are concerns raised about **capital dumping by large foreign companies to the detriment of Indian startups.** It had set off intense debate in the Indian startup ecosystem.
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- Some arguing that companies such as Amazon and Uber had unfair advantage over their Indian competitors such as Snapdeal, Flipkart and Ola.
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- Others argue that this is the way free markets work — and any intervention by the government would only make things worse for the consumer at large.
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Can markets solve all the problems?

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- In What Money Can't Buy, Harvard philosopher Michael Sandel has made a strong case why we shouldn't think markets can solve all problems.
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- We need to be wary of market fundamentalism, and our blind trust in the idea that only good will emerge when different entities fight it out in the market. **Market fundamentalism can be dangerous especially if some players come with an unfair advantage.**
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- We can look at our own economic history. Indian textiles industry, for example. It has a long history stretching back to centuries and over years it had developed a rich variety — not to mention a thriving economy around it.
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- Yet, during the British era the entire sector was pushed to the brinks of extinction by the machine made clothes imported from England.
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Is breaking up monopoly is necessary?

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- In the US, Ma Bell virtually controlled the entire communication system of the country — AT&T provided the telecom service across the country, and all of the equipment. Its motto was “One Policy, One System, Universal Service”.
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- A forceful argument was made, single company providing nationwide service was a vital part of national security. Today about 20 years later, this argument seems ridiculous.
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- **Without the breakup of Ma Bell, Internet as we know would not exist;** Breaking up the monopoly resulted in increased competition, and therefore better customer service.
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What are the ill-effects of an unregulated market?

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- What we see today is an example of how unregulated market can take away some of the benefits that free markets provide to the society.
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- Unregulated markets can be **anti-competitive,** because it gives some players undue advantage. Take the case of Amazon, Uber and OLX. They have access to unlimited finance and can use that to stifle competition by providing products and services that are economically unviable even to them in the long term (but a loss that they can take on).
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- While it might seem to be a good deal for the customers, **it can be a bad deal for the country as a whole.** These companies are operating on negative gross margin sales in India funded by positive gross margins abroad.
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- Today every country needs to nurture and protect its knowledge economy and think about capital as commodity. Hence thought is required around how **capital might also be used in a way conceptually similar to dumping**.
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What will be the consequences of not providing a policy response?

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- Modi’s Startup India Standup India initiative is unlikely to succeed and **India’s startup ecosystem won’t take off,** if a dumping-like strategy can be used against Indian startups.
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- *There is precedence in Europe:* the market value of internet in the US is $2 trillion and China is $1 trillion (larger than auto, pharma, telecom), while in Europe it is only $50 billion (1/40th of US, 1/20th of China). This alarming disparity is because China supported its firms (Google Twitter and Facebook were effectively banned), whereas Europe did not. I am not an advocate for bans, but it is a important point to ponder.
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- If India’s largest internet firms fail, as a result **millions of jobs won’t be created.** Point to note, Chinese internet firms have created over 2 million jobs. In India OLX has 300 employees to Quikr’s 2,700; Uber has 1,500 employees to Ola’s 7,000.
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- Allowing a dumping-like strategy **could cause foreign investment in India tech to collapse;** In China after the government banned certain MNCs, foreign investment in internet boomed (2004–2014: roughly $200 billion) via investment into Chinese firms.
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- **The government will lose $400 million in annual taxes.** This estimate takes as inputs China taxation of internet firms of $5 billion and Europe taxation of internet firms of $1 billion.
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What is the way ahead?

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- Is there a way to get the benefits of free markets and healthy competition while sidestepping some of the dangers they pose? **This is possible by designing better policies.**
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- First, these firms should be required to sell at positive gross margins and net take rates in India. Second, after a period of operating in India a firm cannot fund burn in India from operations abroad: like Indian firms, they would have to raise capital for the Indian entity from third parties.

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- This ensures that at least some wealth creation in internet accrues locally, critical to the birth of a tech ecosystem.

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Conclusion:

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- It's often easy to take an ideological position, and argue that absolute free market is the best solution to any economic issue.

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- But, **politically correct stand need not always be the correct for the long run.** And in this case, we need to draw lessons from nature, history and economics to arrive at the right solution. India has its local tech innovation future at stake.

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- It's said, "don't fix it, if it ain't broke". But, if we see signs of breaking, we better fix it. Indian innovation economy needs to be nurtured and not nipped in the bud.

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