

# Don't protect start-ups



## TICKER

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is perhaps expecting too much. We are, in fact, on the brink of the government probably making two interventions to “protect” India’s much-hyped start-up ecosystem.

The first is the possible outlawing of “zero-rated” web services like Facebook’s Free Basics, in which a package of websites is made available free of charge. This has been the focus of a highly visible and ill-advised campaign by Facebook, as well as of noisy protests by activists organising around “net neutrality” — the principle that no particular part of the internet should be privileged over another in terms of access.

In essence, what is being demanded by the anti-Free Basics campaign is that the government use arbitrary powers reserved by it in the telecom licence agreement to prevent telecom companies from offering users packages of free sites. In other words, consumers are to be prevented by arbitrary government action from being given free stuff. For their own good, of course. It’s always for their own good.

So, on one side, we have some telecom companies and Facebook, who claim they are being altruistic in expanding Indians’ access to online services — but who would very likely benefit in various ways from expanding their reach. On the other side, many are linked in some way — perhaps just by emotional affinity — to the digital start-up world. Consumers are, as always, not a politically relevant interest group; both sides claim loudly to speak for them.

If the regulator comes down against Free Basics, as seems likely, what we will soon have is state-mandated protection for Indian start-ups, at the cost of expanding consumer access. I do not think that such protection is a good idea, for consumers or for business. In a country where so many people are short of access to the outside world, even some free web services are a giant step forward — and will be a catalyst for genuine innovation, as opposed to the hot-house, elite-focused start-up world we so praise today.

It is, of course, unfortunate that so much obfuscation surrounds the central questions: Are we willing to allow the government to prevent consumers from having the option of choosing a small bouquet of free websites? Should the government prevent companies from differentially pricing their products even if there are no apparent impacts on competition? If we want to prevent the internet from being “sliced” up, who will bear the cost of this departure from economic efficiency — the unconnected poor? Facebook’s high-volume media campaign comes across as frankly unbelievable; and the activists have consistently reframed the debate deceptively, away from the central question of government intervention and towards very inchoate notions of “creativity”, and grounding it in tiresome, old-fashioned anti-corporate rhetoric — look, Facebook will run your online life!

The second likely intervention is the government’s new start-up policy, to be released next week. We don’t know for sure what’s in it. We do know what’s been asked for, though.

Certainly, the government must work to make it much, much easier for start-ups to file taxes, reduce their know-your-customer burden, minimise the paperwork, and so on. The compliance burden on small enterprises is too great, and needs to be reduced. A major start has been made on this over the past year, to this government’s great credit; some of the more burdensome provisions of the Companies Act have been modified. But more needs to be done — the infuriating “angel tax” continues to be in existence, for example, which pushes many start-ups into registering offshore. Cleaning up these provisions is important. What should definitely not be done is to introduce low-tax exemptions. Even in dynamic sectors, companies get addicted to tax breaks — as the long and painful process of weaning regular IT off them has shown.

Reportedly, it is also possible that there will be some form of government venture capital fund — something worth ₹10,000 crore has already been promised in the past. What a delightfully amusing notion! A government that can’t run hotels and airlines will judge the quality of start-ups? This is a blatant invitation to cronyism and corruption of the worst kind. I look forward to reading the perplexed CAG report evaluating which investment in which app was a valuable use of taxpayer money.

On some level, this is darkly amusing. Enough people have grouched that the start-up economy is showing signs of being a bubble. I propose a new and useful indicator of when a bubble’s about to pop: the moment that the world’s worst and slowest investor, the Indian government, puts ₹10,000 crore of our money into it.

What unites both the zero-rating question and the start-up incentives is this: the government should avoid going out of its way to please the start-up world that exists now. If a start-up ecosystem is done right, it should need minimal “protection”, and it should be difficult to predict its future. Don’t protect, don’t predict. Just reduce paperwork and let it thrive.