Extend fixed tenure for secretaries

The idea is even more relevant for departments within central ministries, as frequent changes of heads have caused great harm to their functioning

RAISINA HILL

A K BHATTACHARYA

Of the 16 secretaries appointed by the Union government last week to head different central ministries, about a dozen of them will have more than two years of service left before they superannuate in the normal course. This is a welcome sign. Secretaries should have at least a minimum of two years at the helm of a central ministry to provide continuity and stability in decision making, which should hopefully result in improved efficiency and performance.

While the government should be complimented for this, a few caveats need to be entered to facilitate a more reasoned assessment of the situation. The objective of providing continuity and stability at the top is desirable to help bring about an improvement in governance. But there are at least three reasons why last week's decision may fail to yield the desired outcomes.

One, it would be erroneous to conclude that there will be continuity in leadership in these dozen ministries. There is no guarantee that some of these secretaries would not be moved out of their current secretarial assignments and sent to some other ministry before their superannuation. Such transfers have taken place in the past and cannot be ruled out in the coming 24 months.

Thus, merely the fact of these secretaries having more than two years of service before they turn 60 years of age does not necessarily mean that they will have a two-year uninterrupted stay at the head of the same ministry. For that to happen, it would be necessary to have fixed tenure for appointments to secretary-level jobs in all key central ministries.

At present, only four secretary-level jobs have been given fixed tenure of two years — Cabinet Secretary, Defence Secretary, Foreign Secretary and Home Secretary. It is now time to consider extending the same principle to other key central ministries. There is no reason why the same principle should not be followed for the Finance Secretary, the Revenue Secretary, the Commerce Secretary, the Agriculture Secretary, the Telecom Secretary or the Environment Secretary.

Two, the idea of fixed tenure is even more relevant for departments or divisions within the central ministries. These departments have direct operational responsibilities and frequent changes of their heads have caused immense harm to their functioning. The average tenure of a chairperson of the Railway Board has always been less than two years. The average tenure is even less for chairpersons of the Central Board of Excise and Customs or the Central Board of Direct Taxes.

The government must take the tough call of creating a system of providing minimum three-year tenure for heads of such departments, even though this might pose a personnel challenge of growth and career aspirations of junior officials. These challenges must be tackled and the government must explore alternative career paths for those who cannot make it to the top by offering them options such as voluntary separation or secondment to private sector jobs without any impairment to their superannuation benefits. But allowing these departments to be headed by a succession of chairpersons for just a few months is a serious weakness that must be addressed.

Three, offering fixed tenure for secretaries or department heads will not be enough. A simultaneous screening exercise must be undertaken at various stages of the officials' career so that they could be suitably groomed for different kinds of jobs. At present, most Indian Administrative Service (IAS) officers follow the same path that takes them eventually to the rank of a secretary before they reach their retirement age. Not much effort is made to help officials gain expertise in a specific area or a ministry in the early stages of their career and allow them to pursue that path.

It is time this practice was reviewed. As at the start of 2017, almost 29 per cent of the total strength of IAS officers belonged to the age group of 56 to 60 years. Officials in the 51 to 55 years age group accounted for another 18 per cent. If the idea of fixed tenure is enforced, some of these officials will gain in terms of a longer service and others may lose out. But the real challenge will be to manage the 20 per cent officials, who are in the age group of 41 to 50 years and some of whose growth path would be blocked in view of the longer tenure of their seniors.

The government, therefore, needs to evaluate the performance of these 985 officers and groom them to take up newer responsibilities in areas where they have earned experience and developed specific skills. Since secretary-level openings would be fewer, the government could offer some of them private sector options without undermining their superannuation benefits.

CHINESE WHISPERS

A new playing field

On Friday, the India International Centre (IIC) in New Delhi held the annual general meeting of its members. It replaced IIC President Soli Sorabjee, senior advocate, with current Jammu and Kashmir Governor N N Vohra (*pictured*). At the meeting, some members complained how Sorabjee's tenure saw the character of the club changing with more lawyers and "shopkeepers and traders" being given membership. One member got up to ask what was wrong with traders being given membership. A committee was referred to look into the credentials of some of the new members. The meeting also generated buzz in New Delhi's power corridors that there might soon be a successor to Vohra in J&K since the president of the IIC was a full-time job. Vohra has been the Governor of the state for almost a decade.

Look before you tweet

The Economist's latest cover story on Prime Minister Narendra Modi (*pictured*) is a harsh reality check of the state of affairs in the country. While many readers disagreed with the brickbats in the piece, some took it to be a bouquet on Modi's achievements and took to social media even without reading the story. One such fund manager praised the cover story and tweeted how it chronicled the country's transformation under the Prime Minister only to delete the tweet later after realising it wasn't just praise, after all.

Stressed employees

Not just promoters of high-debt companies, even employees seem to be going through sleepless nights. Some of these companies have started cutting costs by stopping the air conditioning in their offices. The free food/tea is gone and so are travel and other allowances. There is panic among employees who are hoping their companies do not go the Kingfisher Airlines way. The now-defunct airline did not pay employees their salaries for a considerable period of time and defaulted on even provident fund payments.

GST and macroeconomic question marks

GST is a major change in the tax system and nobody really knows what it will do to corporate balance sheets or, for that matter, to government finances since it will require an overhaul of all assumptions pertaining to revenue collections

FRONT RUNNING

DEVANGSHU DATTA

Many years ago, Satish Gujral painted a famous portrait of Jawaharlal Nehru with his hands enmeshed in red tape. As the goods and services tax (GST) rolls out next week, some contemporary artist might want to update that, replacing Nehru with an image of the politician who currently occupies the same position.

India Inc is only just beginning to realise the full dimensions of the red tape the GST will entail. It is epic. Corporates operating across India will need to file literally hundreds of tax returns every year across multiple registration points. The volume of paperwork may drive small businesses into penury.

In addition to painful filing processes, the GST tax code is itself complex enough to puzzle an army of accountants. There are multiple rates, and cesses levied upon those rates, and the usual plethora of sub-clauses and sub-sub-clauses which should keep courts and accountants occupied for years. And don't forget the infamous anti-profiteering provisions.

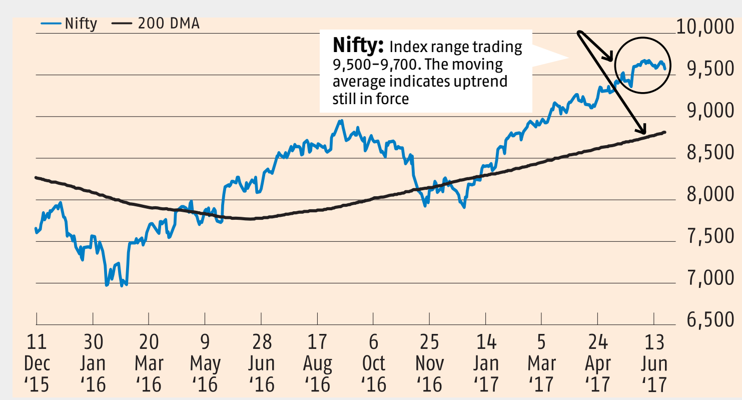
However, India's current tax codes are so convoluted that even this labyrinth may be easier to negotiate. The bulls continue to invest in that hope. The GST will take many months, if not years, to settle down, however.

It is a major change in the tax system of course and nobody really knows what it will do to corporate balance sheets. For that matter, nobody knows what it will do to government finances since it will require a complete overhaul of all assumptions pertaining to revenue collections. Analysts who are attempting to make projections of FY 2017-18 earnings, and economists who are examining public finances will have to live with huge error margins and adjustments.

As of now, optimism is driving those guesstimates and many investment houses are projecting earnings per share gains of between 14 and 18 per cent across the market. Most analysts estimate that the current valuations — averaging at above PE 24 for the Nifty — can be sustained if institutional equity buying brings in $5 billion in the current fiscal. The last fiscal year (2016-17) saw over $13 billion — equivalent coming in with domestic institutions contributing around $4.6 billion. So this assumption is not unreasonable.

Apart from GST, the macroeconomic situation has a few other question marks. Inflation has dropped to new lows and is near the southern limit of the RBI's stated band of tolerance. This is at least partly due to demonetisation having driven food prices into negative territory. Is the inflation transient? The RBI's Monetary Policy Committee evidently thought so in the last review when it held rates. However, the latest inflation data shows even weaker inflation and the Index of Industrial Production for April is also quite weak.

INCHING UP



	Value		Equations
	May 31	Current (Jun 22)	Change %
Nifty value	9,621.25	9,574.95	**-0.48**
Index PE	24.37	24.35	-0.08
Index dividend yield	1.11	1.19	7.21
Index book value	3.54	3.62	2.26
USD INR (RBI ref rate)	64.5365	64.5459	-0.01
FII net equity buys/ sales (Jun 1-22) (₹ cr)	*7,711	**3,282**	
DII net equity buys/ sales (Jun 1-22) (₹ cr)	*4,277.06	**4,711.20**	

* = May 01-31 net equity buys/sales
NB FIIs bought net debt of ₹19,155 cr (May 1-31) and ₹20,364 cr (Apr 1-30)

Will the RBI cut policy rates soon? Consensus opinion says, yes it will, and at least one member of the MPC wants a deep cut of 50 basis points. Arguably, even if the RBI does cut, banks may not have the wherewithal to pass on the rate cuts and push out cheap credit.

That leads to another question: Can the NPA crisis be resolved quickly and with effective damage limitation? Given that close to 10 per cent of the GDP is stuck in stressed loans, the banking system is on the edge of collapse. Initiation of bankruptcy proceeding against three steel firms is a good signal. But the massive waiver of farm loans is a bad one.

Given political compulsions, with a sequence of Assembly elections coming up in 2018 and the general elections in 2019, more waivers and other populist measures are likely. The trouble is, a waiver can be made instantly with a stroke of the pen whereas bankruptcy cases will proceed at much slower pace, even if laudable attempts are being made to speed things up and give creditors more powers.

A third question, of course, is the willingness to borrow, even if the RBI does cut rates. Credit demand has dipped to historic lows and corporates are wary of investing since they don't perceive strong demand. Investment dipped into negative territory (2.1 per cent YOY) in Jan-Mar 2017.

Household consumption could be the major driver. The good news here is the monsoon, which appears to be behaving, and there is a historic correlation between a good monsoon and strong household consumption.

None of the data matters if investors and traders are prepared to ignore the medium term and look forward to a better future and continue investing upon that assumption. That might well depend on global growth trends and geopolitics.

The Eurozone is seeing its fastest growth in a decade. China is doing well with rising GDP forecasts. US growth trends look reasonable though the Fed is determined to tighten monetary policy. Brexit and its fallout are being negotiated as you read this, and the UK may be headed soon into yet another election. Continuing investigations of possible collusion between Donald Trump and Russian hackers during the presidential campaign of 2016 could derail the US administration.

In the short term, any concessions Modi wins from Trump in their weekend meeting could energise the market, especially the IT and pharma sectors. There's been some selling in the recent past and technicians will be hoping that support at current levels holds.

BUSINESS LIFE

The easiest path to riches on the web

Initial coin offerings have made it easier than ever to raise large sums

NATHANIEL POPPER

A new crop of technology entrepreneurs is forgoing the usual routes to raising money. The entrepreneurs are not pitching venture capitalists, selling stock in an initial public offering or using crowdfunding sites like Kickstarter.

Instead, before they even have a working product, they are creating their own digital currencies and selling so-called coins on the web, sometimes raising tens of millions of dollars in a matter of minutes.

The pitch is that once the products are up and running, the currencies — with names like BAT, Mysterium and Siacoin — will be redeemable for services like data storage or anonymous internet access, and could appreciate in value in the meantime.

Known as initial coin offerings, this latest twist in online fund-raising has made it easier than ever for entrepreneurs to raise large sums of money without dealing with the hassles of regulators, investor protections or accountants.

Since the beginning of the year, 65 projects have raised $522 million in these offerings, according to Smith & Crown, a research firm focused on the new industry.

It is a frothy, sprawling and completely unregulated way of funding start-ups, leaving even veteran technology watchers scratching their heads.

"It's kind of like when you are a little kid and you know you are getting away with something," said Chris Burniske, an industry analyst at ARK Invest. "It's not going to last forever, but it's fun in the interim. The space is giddy right now."

Proponents of initial coin offerings hail them as an innovation that empowers developers and gives early investors a chance to share in the profits of a successful new enterprise PHOTO: ISTOCK

Last month, a small team of computer engineers in Lithuania raised $14 million in 45 minutes by selling a coin, known as Mysterium, that is intended to give access to an encrypted online data service that is still being built. The next day, a group of coders in the Bay Area pulled in $35 million in under 30 seconds of online fund-raising. The coders were offering Basic Attention Tokens, which will one day work on a new kind of ad-free web browser.

Then this week, a team in Switzerland raised around $100 million for a coin that will be used on an online chat programme that has not yet been released, known as Status.

Proponents of initial coin offerings hail them as a financial innovation that empowers developers and gives early investors a chance to share in the profits of a successful new enterprise. But where some see a new method of crowdfunding online projects, critics say the phenomenon is ripe for abuse and, in many cases, a violation of American securities law.

"It's exploitative and abusive of the investing public," Preston Byrne, a technology lawyer specialising in virtual currencies, said about the offerings.

Last year, the first blockbuster coin offering, the Decentralized Autonomous Organization, quickly raised more than $150 million. But the project blew up after a hacker manipulated the code and stole more than $50 million worth of digital currency. A number of other projects since then have been labelled scams.

Even among supporters, many say there has been too much money pouring into unproven projects in recent months.

Fred Wilson, a founder of the venture capital firm Union Square Ventures, said he was "long term very bullish" on these new digital currencies. But he said, "We see many reasons to be cautious right now."

LETTERS

Reviving a legacy brand

With reference to "Giving Air India another shot at survival" (June 24), only days earlier it was reported the national air carrier has a heavy debt of ₹46,570 crore (June 21). We are observing various approaches that are being discussed for the revival or closure of Air India (AI). But the moot question is why the revival issue is being discussed across the board. Ideally, administering the closure of AI should not have raised eyebrows given its heavy liability.

But the reason lies in the emotional connect with the Air India brand and its popular logo of the Maharajah who welcomes us to the skies. Air India is after all a legacy brand. As a pioneer airline, it is associated with an equally majestic brand in Tata. No less a person than the legendary JRD Tata started Air India as Tata Airlines before Independence. Nevertheless, all-out efforts should be made to revive Air India and restore its finances. The revival package can be a mix of bonds and some amount of privatisation.

Sunil S Chiplunkar Bengaluru

No quick fix to NPAs

The recently passed bankruptcy code has given the Reserve Bank of India (RBI) and banks enormous power to resolve bad loans (non-performing assets). However, it would be naïve to expect solutions to these grave problems overnight. The procedure devised in the system entails a long period of initially 180 days, with further extension of 90 days, if a reasonable solution is not arrived at. The better alternative for banks could have been to sell their bad loans (approximately ₹7 lakh crore) to asset reconstruction companies (ARCs) which will then undertake the tedious task of resolving bad loans.

This would mean banks would have to take a haircut and sell their bad assets to ARCs at a discount. But that would have enabled the banks to resume their core business of lending to prospective borrowers. However, this would also mean the government will have to sufficiently capitalise these banks for the loss incurred in disposing of bad assets. Maybe, the RBI in consultation with the finance ministry will have to ponder over the matter for finding a lasting solution to the huge amounts of NPAs in the banking industry.

Satish Murdeshwar Pune

Blessing in disguise

With reference to "Forced marriage" (June 21), in my opinion the views presented in the editorial are lopsided. A merger will be beneficial to the officers of small public sector banks (PSBs), especially the younger cadre. The officers in the small PSBs are getting the lowest perks but the amount of stress and work pressure is the same. Rather, small PSBs adapt to changes at a very slow pace leading to huge levels of frustration in the workplace. At least merging into a big bank will ensure systems and process flows get upgraded and are at par. For instance, a small PSB officer in scale II gets a lease rental allowance of just ₹11,000 for a city like Delhi as compared to ₹25,000 that a State Bank of India or Punjab National Bank officer gets at the same scale. We expect a merger to at least end such disparities. The spineless bank unions have utterly failed on this front.

As far as the NPAs are concerned, a majority are under consortium or multiple banking arrangements where one borrower has taken the loan in chunks from various lenders. Hence, on an aggregate level consolidation won't affect the present scenario. In fact, borrowers with a poor credit record often choose small PSBs in the consortium leader as the top management is more accessible for manipulations.

The aspect of cultural compatibility is irrelevant in this context. Mindless growth targets and blatant comparison with the private peers has led to a culture of sycophancy and presenteeism where employees are only expected to sit late daily beyond office hours, work on holidays and never take any leave, if they wish to grow in the organisation. Basically, a PSB banker is expected to do away with the concept of a work-life balance. Hence, I feel a merger will be a blessing in disguise to the PSBs.

Apoorva Tiwari New Delhi

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HAMBONE

BY MIKE FLANAGAN

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A nation divided

Govt should address growing polarisation and mob violence

On Thursday evening, an altercation on a train between two sets of passengers turned violent. Several of the passengers in one group, young Muslim men, returning home after Eid shopping in Delhi, were injured and one, a 15-year-old boy named Junaid Khan, bled to death on a railway platform in Faridabad after being repeatedly stabbed. The statement given by the victim's brother, who was also attacked, is disturbing to read: "They flung our skull caps, beard, slapped us, and taunted us about eating cow meat." Naturally, the facts of the case still have to be proven. But there are additional disturbing facets to this investigation. For one, the railway station's CCTV appears to have been tampered with. Second, the man accused of stabbing says he was egged on by fellow passengers. Third, although there were reportedly hundreds of people on the platform, the police have not found a single eyewitness. This could be either because people openly condone such violence and/or because they fear for their own safety.

It is not, of course, the only such incident in India of late. Since the lynching of Mohammed Akhlaq in Dadri in 2015 — where, again, accusations of beef-eating played a role — such incidents have recurred in India's northern states with depressing regularity. And in a sombre mirror image of these incidents, a mob in Srinagar last week lynched a policeman outside Jamia Masjid, reportedly on the mistaken assumption that he was a Kashmiri Pandit. It is clear that communal polarisation has reached dangerous and unsustainable levels — fed by malicious WhatsApp rumours and even by the mainstream media, in Hindi and English, which should know better. Worse, in many cases, the law and order machinery has exacerbated the problem — as appears to have been the case in the arrest of 15 Muslims in Madhya Pradesh for supposedly cheering Pakistan's win in the Champions Trophy. Subsequent reports have suggested the case against them has very little foundation.

It is clear that this threat to public safety and order requires particular action and attention from the government. The national leadership, including Prime Minister Narendra Modi, has not exactly prioritised the response to this growing culture of mob violence. While the arguments that law and order is not the Centre's domain, and that the national leadership cannot respond to every isolated incident, are valid, yet, increasingly, they fail to persuade. Many incidents have taken place in states ruled by the Bharatiya Janata Party, over which Mr Modi has undisputed sway; the law and order machinery will take its cues from the apparent attitude in New Delhi. Moreover, a clear pattern is emerging now and these are no longer just isolated incidents. It would be futile to blame the government for actions that clearly emerge from a citizenry that is more divided among itself, and from citizens who are less willing to live in peace. But it is also true that the government cannot ignore it for much longer because one community is being targeted repeatedly.

Mixed show at Cannes

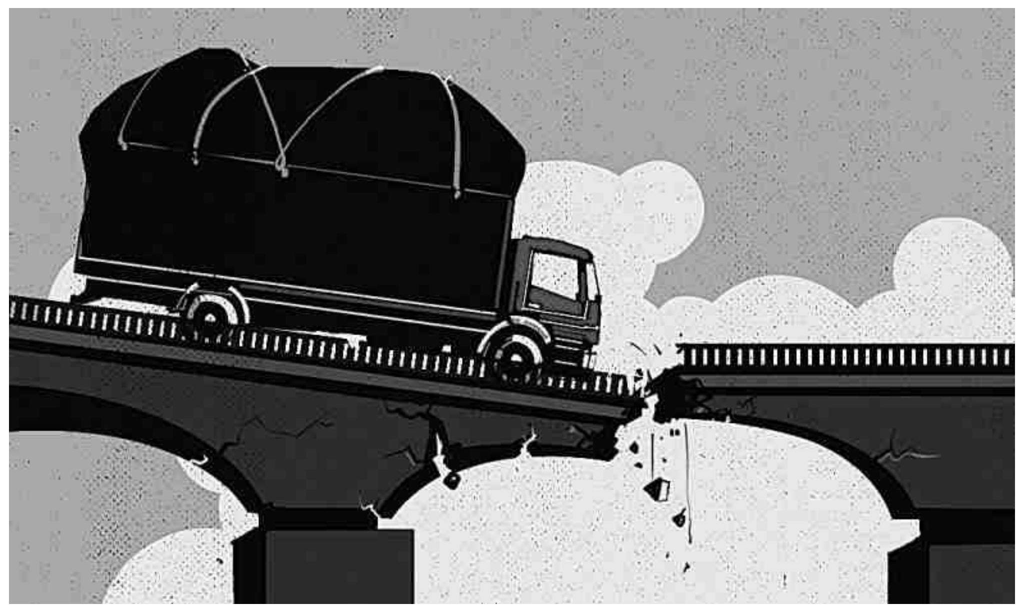
Record score, but quality of digital ads is still the missing link

The 64th edition of the Cannes Ad Fest, which concluded in the French resort town on Saturday, turned out to be India's best outing at the global advertising festival. At 39 metals and a Grand Prix, it was a sterling performance and exceeded the previous highest tally in 2013 by a large enough margin. Some of the metal-winning works showed how advertising creativity has come of age in India. Take McCann's 'Immunity Charm', Leo Burnett's 'Roads that Honk', Taproot's 'Adidas Odds' and JWT's '#MyDaughterWill'. They showed the sheer quality and strength of the ideas that were at their core. More than craft and execution, these stood out for cause-related advertising and marketing and were worthy winners of Lions, recognised the world over as the ultimate creative accolade and a shining symbol of industry-shaping work.

For example, the Adidas Odds campaign promoted a special product — a pair of shoes for the same foot dedicated to the needs of para-athletes, primarily blade-runners. The film featured a Kargil war veteran who lost his leg, but not his determination to start walking again. It talked about his journey as India's first blade-runner, and one of the first Indians to run a marathon with an artificial limb. Notably, there was no blatant product-selling here. Similarly, 'Roads That Honk' talked about a radar-based collision warning system, designed mainly for hairpin bends, and showcased how brands were becoming a part of people's lives.

But it was certainly not roses all the way for the Indian ad fraternity. Categories that clicked for the Indian contingent included health care, outdoor, glass, public relations, promo and activation, design, innovation, direct marketing, and media. But there were many misses, too, including cyber, mobile, digital craft, and entertainment, where India did not have any shortlists. This is disappointing, specially at a time when the conversation in advertising all over the world has been about the advent of digital, which has thrown up a huge opportunity to communicate not just through words and pictures, as advertising has always done, but through the use of technology and data. Indian agencies' inability to make a mark in digital on the global stage is in sharp contrast with the ground reality visible everywhere at Cannes. Every single tech firm is trying to make consumers spend more time on smart devices and wearable gadgets. But digital ad spending in India still stands at just 15 per cent of the advertising pie, unlike the over 40 per cent seen in evolved markets. It's time media agencies as well as advertisers took definitive steps to make such a potent medium effective. The point is that no amount of artificial intelligence, augmented reality, or virtual reality would work if there is no great story to engage endusers. After all, if people are spending most of their time on digital, it is strange why for Indian creative teams, it still is print first, then outdoor, and mobile is often just added in the last. Indian ad agencies can't quite ignore what Facebook's Chief Operating Officer Sheryl Sandberg famously called 'thumb-stopping creativity', which communicates the brand very quickly and you measure results, not seconds.

ILLUSTRATION BY AJAY MOHANTY



Beware of premature load bearing

Our fledgling systems face a new level of stress both from big cases of insolvency and the GST. We run the risk of an organisational rout

SNAKES & LADDERS

AJAY SHAH

When a bridge is weak, and a heavy truck tries to ride on it, the bridge collapses. We must be mindful of load-bearing capacity in public administration. We should cautiously introduce small loads, and increase the load only after we are confident that the systems are capable. The design of the GST that's being attempted, with high rates and complex rules, is a big load that's being sent into a weak system. The 12 big companies that are being sent into the new bankruptcy process are a big load that's being sent on to a fledgling system. We risk organisational rout.

We should learn to walk before we can run. This simple idea has far-reaching consequences for public administration. Every government system has a certain capability. If we ask a weak system to handle a big challenge, this tends to collapse with pervasive corruption and lack of enforcement *(see https://goo.gl/FXYNFW)*.

Consider a government office that manages land titles. Suppose it is able to handle a load of 50 transactions a day. Suppose 500 transactions happen each day. This is going to generate an 'organisational rout' with an ever-extending backlog, chaos, and corruption. The load in this case is measured by transactions per day.

There are two other dimensions of load in public administration: How much discretion do officials have, and what is at stake? The hardest systems in public administration are those that involve high stakes, where officials have the discretion, and the number of transactions is large. A school teacher who does not show up at work only steals ₹10,000 a month: The stakes are low. A corrupt judge or policeman or tax officer, in contrast, makes crores of rupees as the stakes are high.

Load bearing in the bankruptcy reform

What is load in the bankruptcy process? In a defaulting firm, a loss has taken place in the past. The bankruptcy process allocates the loss. The stakes are the highest with big bankruptcies. The persons who face large losses owing to the working of the bankruptcy process will hire high-powered legal teams, and spend money on all means fair and foul, to push the loss to someone else.

What gives load-bearing capacity in the bankruptcy process? The basic architecture of the Bankruptcy Legislative Reforms Committee (BLRC) is capable of high loads. Load-bearing capacity now comes from six things: (1) building a sound Insolvency and Bankruptcy Code (IBC), (2) building a sound Insolvency and bankruptcy Board of India (IBBI), (3) run a sound regulation-making process at the IBBI and draft high-quality regulations, (4) building a sound profession of insolvency professionals, (5) building a sound industry of information utilities, and (6) and building a sound National Company Law Tribunal.

When all six elements were fledgling, it made sense to put small test cases through the new bankruptcy code. Roughly 100 small cases have begun, which is a good thing. As they go through the process, numerous flaws will be identified. A talented team is required to rapidly diagnose the failures of the system, and rapidly solve them. This team has yet to be created.

So far, not even one case has come out at the finish line, so we should be tentative in our assessment of the load-bearing capacity. Many flaws are visible which are not being addressed. Under these conditions, the entry of 12 big cases makes me nervous. Big cases are the highest load. This will place a new level of stress upon our six fledgling systems. We run the risk of an organisational rout.

Once a big case has started on the IBC journey, there is no turning back. The wise course now would be to build a talented team that will carefully watch every step that takes place with the 100 small cases and, particularly, the big ones, rapidly solve problems as they become visible, and build the six elements of load-bearing capacity. In addition, it would be wise to not undertake premature load bearing, i.e. bring additional big cases into the IBC, for the next year or two while the six systems are as yet unproven.

Load bearing in the GST

What is load in a GST? When the tax rate is high, the incentive for evasion goes up, which increases load. Multiple rates create opportunities for arbitrage through mis-classification. If ice cream has a high rate and yogurt has a low one, producers will surely sell ice cream mixed with a bit of yogurt under the garb of yogurt. This increases the demand upon enforcement capability, while giving more discretion to officials. The GST involves more load when there are multiple administrative authorities.

What gives load bearing in the GST? We need a unified Central Board of Taxes (CBT) that triangulates between corporate income tax and the GST. This needs to be backed by a strong database and research capability. The CBT combines legislative, executive and quasi-judicial branches. It must be grounded in a Tax Administration Act that sets out sound processes for the three processes. It needs sound reporting and accountability mechanisms, and oversight by a board with a careful design of composition and powers (see https://goo.gl/oR6W1G). The CBT must be the only tax administration seen by firms operating in more than one state. The GSTN and e-filing are on the right direction. But a thin layer of computerisation cannot substitute for deep public administration reform.

In the Indian GST reform, we have embarked on the highest possible load. At the same time, we lack load-bearing capacity. We run the risk of an organisational rout *(see https://goo.gl/DTDve3)*.

In the case of the bankruptcy reform, the basic BLRC architecture is sound, but the implementation is faulty. The solution is visible in the form of one talented team. In the case of the GST, the basic architecture of GST policy and administration is broken, so the journey for the Ministry of Finance is harder.

The writer is a professor at National Institute of Public Finance and Policy, New Delhi

Sebi on the backfoot on the LTCG scam?

IRRATIONAL CHOICE

DEBASHIS BASU

Last Monday, June 19, a courtroom at the Securities Appellate Tribunal (SAT) in Mumbai was witness to a constellation of top senior counsel. There was Iqbal Chagla and Janak Dwarkadas, two of the topmost counsel in Mumbai. Another top lawyer Rafique Dada, supported by senior counsel Vikram Nankani and Mustafa Doctor, was appearing for the Securities and Exchange Board of India (Sebi). More than 60 matters relating to long-term capital gains (LTCG) were listed on that day. The hearing lasted over six hours. What they were arguing over was price manipulation to book long-term capital gains (LTCG) tax, a scam which the government is keen to end but over which Sebi has been taking strange positions. After hearing both sides, the SAT bench directed Sebi to place all its documents on the LTCG scam, on record. This is the first time SAT has taken a serious interest in the issue. Sebi will have its work cut out in trying to explain itself.

To understand why, let's recount how this scam works and what Sebi's actions have been so far. Black money holders who wish to convert their cash into tax-free long-term capital gains (beneficiaries) work with market operators to identify listed dormant companies. Once the beneficiaries buy the shares of such companies, the operator starts ramping up the share prices. After a year, the operator tells the beneficiaries to arrange the cash to be laundered. Various small players convert this cash into cheque and transfer it to an account of the dummy buyer of ramped-up shares. The beneficiary offloads the shares and gets a cheque from his broker. The capital gain comes to him tax-free since it is out of long-term investment.

The Central government has been taking a series of steps to curb this. The Directorate of Investigation (DIT) of the Income-Tax department, Kolkata, did a detailed investigation, with written confessions from various entities involved, named many brokers involved in the scam, and passed on the report to Sebi for action. But the market regulator dithered. During demonetisation and the campaign against black money, on December 29, 2016, Sebi prepared an Information Memorandum (IM), which mainly attempted to discredit the DIT's work. It said "no documentary/independent evidence in support of the statements of the operators were provided...the statements provided by DIT may not be sufficient to establish connection between" the various players. "Moreover, charges made on the basis of the statements of operators/stock brokers/front entities of operators etc., provided by DIT may not stand the test of legal scrutiny".

Sebi argued that it "is primarily concerned with violation of securities laws... these cases are mainly resulting in evasion of tax". However, if there is price manipulation, Sebi will act. The IM was signed by two whole-time members, and top- and middle-level officials of the legal, surveillance and investigation departments and the then chairman, UK Sinha. The note recorded that 145 cases were being investigated. Of those, in 55 cases investigation had been completed. Sebi passed no orders against the beneficiaries in 43 cases despite completing investigations. However, Sebi had passed interim orders against 12 other cases on similar facts. Can Sebi act selectively? This was the crux of the argument in SAT last Monday.

What happens now that SAT has asked for all the documents — the basis for Sebi's debatable decisions on the LTCG scam — to be placed before it? Sebi will find it hard to explain why it has acted against 12 entities and not against 43 others. It appears that it has now completed investigations into more than 100 of the 145 cases. If SAT really gets into this issue, it will realise Sebi's odd stance on this in early March, when one of the 12 cases involving price manipulation and LTCG evasion came up for hearing before SAT. Then, Sebi gave an affidavit saying that it will "obtain the approval of the competent authority for clarification of the intention and object of the Information Memorandum". Experts wondered which "competent authority" above the chairman had signed the IM. Astonishingly, on Monday, Sebi counsel argued that the IM, signed by the chairman and two whole-time members, did not represent the view of the Board. Clearly, SAT has a lot to ask and Sebi has a lot to answer.

Another, and bigger, issue is why Sebi is so lenient with the weakest link in the whole chain, namely, the stockbrokers of the buyer's side who are a party to laundering cash into cheques, and that go out as tax-free capital gains to the beneficiaries? Brokers are responsible to know their customers. The least Sebi can do is work with the I-T department and nail the brokers who are helping launder money. Unlike the previous chairmen who messed with the LTCG scam issue, despite a keen focus of the ministry of finance, maybe the new chairman and the revenue secretary will want to know — as much as SAT does..

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Creative disruptions

BOOK REVIEW

WALTER ISAACSON

During the week of Barack Obama's inauguration in January 2009, three young would-be entrepreneurs — Brian Chesky, Joe Gebbia and Nathan Blecharczyk — crashed on air mattresses in unfurnished rooms they had rented in a rundown house in Washington. They spent some of their days at a Metro station handing out fliers that urged strangers to offer rooms for rent, and in the evenings they fielded angry email complaints from a woman who had rented space in the basement. Despite the difficulties they faced that week, the huge demand for accommodations from people who had flocked to the inauguration convinced the group that the business they were hoping to create would succeed if they persisted.

Also in town for the festivities were two other hustling San Francisco start-up jockeys, Travis Kalanick and Garrett Camp. They had used a website to find more comfortable accommodations, but on Inauguration Day they couldn't get a cab and had to sprint miles in the wicked cold to get to the mall on time. The cab problems they had in Washington helped persuade him that the company, then called UberCab, had potential.

At certain moments in history, a confluence of technological and social advances creates the opportunity for a new field of innovation. That was happening at the beginning of 2009. A few months earlier, a reluctant Steve Jobs had been persuaded by his colleagues to allow other companies to develop apps for the iPhone. That happened just as Google Maps and GPS and other tools were enabling more wondrous mobile-based services. And as the 2008 financial crisis receded, the overcaffeinated venture capitalists of Silicon Valley became frenzied in the pursuit of new potential unicorns.

Three new fast-paced narrative books written by seasoned business journalists. In addition to these narratives, which are generally celebratory, it is also useful to read a darker counterpoint, Jonathan Taplin's *Move Fast and Break Things*, which argues that the radical libertarian ideology and monopolistic greed of many Silicon Valley entrepreneurs helped to decimate the livelihood of musicians and is now undermining the communal idealism of the early internet. "The original mission of the internet," he writes, "was hijacked by a small group of right-wing radicals to whom the ideas of democracy and decentralisation were anathema."

In the case of Uber, both co-founders were already somewhat successful serial entrepreneurs. The idea for an on-demand car service originated with Camp, but Kalanick shaped it. He was a maestro of collaborative brainstorming. He turned his San Francisco apartment into a gathering place he called the Jam Pad.

Collaboration, however, can only go so far. It is also necessary to have an intense, driven leader with the visionary brilliance and obstinacy of a Steve Jobs. After finally signing up full-time as CEO in 2010 and edging Ryan Graves down a notch, Kalanick became that.

A good litmus test to determine a person's basic ideological outlook is to ask about Uber's use of surge pricing. To some, it is a sensible way to match supply and demand by encouraging more drivers to come out and some consumers to find other transportation during periods of peak demand. Hotels and airlines use variable pricing all the time. Some of the problems could have been avoided with a bit more sensitivity — Uber would have been wise to kick in its own financial incentives for drivers during a major crisis — but that was not an instinct that came naturally to Kalanick. "Anyone who whined about surge pricing, in his eyes, was too thick to understand the laws of supply and demand," Lashinsky writes. The hard-driving testosterone-fuelled culture of Uber eventually caused problems. Chesky has been more sensitive to public concerns, but the complex issues raised by Airbnb are as challenging, especially in places where the service is dominated not by easygoing millennials renting out a spare bedroom but instead by developers who buy up multiple houses and apartments to convert into short-term rentals. That can destroy residential neighbourhoods and decimate the supply of affordable housing. To his credit, Chesky has tried to deal with these issues as well as the problem of racial discrimination that had infected the service. I watched in admiration earlier this year as Airbnb and my hometown, New Orleans, painstakingly negotiated a complex agreement, with enforcement and taxing mechanisms, specifying the number of days per year each type of place could be rented on Airbnb.

What these books show is that societies must find ways to absorb economic transformations, because it is futile to resist them. Peer-to-peer technology may be disruptive, and its effects can be messy. But it has an inexorable tendency to empower people to find — and produce — new offerings that improve our lives by reinforcing the most basic rule of entrepreneurship, which is to make something that people really want.

WILD RIDE
Inside Uber's Quest for World Domination
Adam Lashinsky
Portfolio/Penguin
228 pages; $28

THE AIRBNB STORY
How Three Ordinary Guys Disrupted an Industry, Made Billions… and Created Plenty of Controversy
Leigh Gallagher
Houghton Mifflin Harcourt; 236 pages; $28

THE UPSTARTS
How Uber, Airbnb, and the Killer Companies of the New Silicon Valley Are Changing the World
Brad Stone
Little, Brown & Company; 372 pages; $30

MOVE FAST AND BREAK THINGS
How Facebook, Google, and Amazon Cornered Culture and Undermined Democracy
Jonathan Taplin
Little, Brown & Company; 308 pages; $29