Of cycle and cash handling allowances

The government has shown decisiveness in scrapping 41 allowances as suggested by the Seventh Central Pay Commission. But a closer look at how some recommendations were rejected raises several troubling questions

RAISINA HILL

A K BHATTACHARYA

Less than three weeks ago, the Narendra Modi government came out with its orders to revise allowances for 3.4 million civilian employees and 1.4 million personnel of the defence forces. The new allowances that took effect from July 1, 2017, and will entail an annual additional cost of ₹30,748 crore for the government are based on a review of the recommendations made by the Seventh Central Pay Commission.

So, what changes did the review bring about in the original recommendations on allowances made by the Pay Commission? For the record, the Commission had examined as many as 197 government allowances for employees and recommended that 53 of them be abolished and 37 others subsumed in the existing ones. In one stroke, the Commission wanted the number of allowances to be slashed by over 45 per cent to just 107.

What did the Modi government do after reviewing these recommendations? It found that 12 of the 53 allowances recommended to be abolished should be allowed to continue (*see chart on page 4*). In addition, three of the 37 allowances recommended to be subsumed in existing ones should be separately retained. The quantum of increase in many allowances suggested by the Pay Commission was also enhanced.

In respect of house rent allowances, where the Pay Commission had recommended a marginal reduction, the government's final decision actually restored them to the prevailing rates for about 750,000 employees in the lower pay brackets and reduced the trigger points in dearness allowance rates for increasing house rent allowances for all.

The government's considerate approach in raising allowances over what was recommended is likely to enhance its image as an ideal employer of more than 4.8 million people. But it also cannot be denied that agreeing to abolish as many as 41 allowances and merge another 34 with existing allowances reflects a certain decisiveness that has been missing in previous governments when they were faced with the task of considering similar tough Pay Commission recommendations.

Despite that, however, it would be pertinent to ask what constituted those 12 allowances that the Commission wanted to be abolished, but were spared by the government. A look at them would raise many troubling questions.

For instance, the Pay Commission had suggested that cash handling allowance and treasury allowance be abolished on the grounds that these have lost relevance with technological advances and growing emphasis on banking. The Commission also suggested that salaries be paid through banks and ministries minimise as also eliminate cash transactions. However, this argument was set aside and both the allowances have been retained, raising questions as to whether the government is paying lip service to its own drive towards non-cash transactions.

Similarly, the government has retained the operation theatre allowance for nurses and risk allowance even though the Commission had suggested their abolition as these were meagre amounts and were no longer required with the rise in overall pay. A similar fate awaited the Commission's recommendation to abolish the launch campaign allowance and space technology allowance for the space department and the Indian Space Research Organisation. It is also not clear why the breakdown allowance and coal pilot allowance for some railway employees have been retained despite the Commission recommending their abolition.

As puzzling is the government's decision not to accept the Commission's recommendation to scrap the cycle allowance. The Commission had argued that this allowance was outdated and it had received no demand for raising or continuing it. But the government has retained it after doubling it to ₹180 per month to benefit primarily about 22,200 employees of the postal department and the Indian Railways. Could some other way have been found to compensate these employees instead of retaining an allowance that indeed is difficult to monitor?

The government's soft spot for officers of the defence forces is evident from the manner in which it dealt with the question of providing them free ration and ration money allowance in peace areas. The Pay Commission had recommended that both be abolished. But the government accepted the suggestion that free ration supplies, a scheme that was prone to leakage, be stopped, but it retained the ration money allowance for officers in peace areas. The government also ignored the recommendation that funeral allowance for defence personnel be withdrawn and instead retained it by a different name.

Remember that the decision to retain these allowances despite the Commission recommending their abolition was based on a review undertaken by two committees consisting of senior bureaucrats. Is there a conflict of interest in civil servants having a decisive say on the recommendations made by a Pay Commission? Or is it time for a new review mechanism?

CHINESE WHISPERS

Seven years of talks

As talks over consolidation of public sector undertaking (PSU) banks gather pace, a former banker narrated his experience back in 2010. A few days after taking charge of a PSU bank, he got a call from the Department of Financial Services, seeking his views on the merger of certain banks with the one he was heading. The department wanted to know the pros and cons of such a move and he had to give his feedback in 30 minutes flat. On his way to the Department of Financial Services office at Patel Chowk in New Delhi, officials from his bank gave him all the details on an Excel sheet, which he passed on to the department officials. Seven years on, talks are still on, he pointed out.

Diffusing focus by deferring meet

The Janata Dal (United) had planned to hold a meeting of its national executive, ostensibly its highest decision-making body, in New Delhi on Sunday. However, the party's top leadership had a rethink and postponed the meeting to August. The party is headed by Bihar Chief Minister Nitish Kumar (*pictured*) and the conjecture is that he didn't want the focus of and in the executive to be on the longevity of his party's alliance with the Lalu Prasad-led Rashtriya Janata Dal. Prasad and his sons Tejashwi Yadav and Tej Pratap Yadav and daughter Misa Bharti have been embroiled in a series of controversies since early this year.

A 'ban' on the lay-off question

India's third-largest information technology (IT) firm, Wipro, appears to be firmly against the idea of lay-offs, the flavour of the season in the Indian IT services industry reeling under slow growth. A journalist's question using the word "lay-off" seemed to take the company's chief executive, Abidali Neemuchwala (*pictured*), by surprise. He was quick to "ban" the question, saying it was as good as asking someone "when did you last beat your wife?". Another senior executive reaffirmed on his behalf that the company was not laying off employees; on the contrary, it was taking in more people.

Markets on a high, inflation trends a worry

Corporate results for Q1 have met expectations, but the fact that CPI and IIP are at low levels means the economy is still in the doldrums

FRONT RUNNING

DEVANGSHU DATTA

Another week, another new high for Indian markets. This is part of a global trend, with most of the world's large markets trading at or close to their record levels. The Q1 corporate results have, so far, been up to expectations. This week features an important central bank monetary policy meeting and possibly, political news which could move the markets.

The US Federal Reserve has made four successive rate hikes and also discussed launching a "reverse QE" where it starts to sell off some of the bonds acquired during that long period of quantitative easing. However, inflation in the US is at just 1.6 per cent, which is well below the Fed's targeted levels of two per cent. High-speed data such as car sales looks soft, too. It's possible the Fed will just maintain status quo.

The Bank of Japan will continue with its own QE programme and it continues to hold a negative policy rate. The European Central Bank (ECB) has also decided to hold status quo but it will "discuss" unwinding its own QE "in autumn" whatever that might mean. Europe seems to be enjoying its best phase of corporate expansion in many years and inflation has picked up but it's generally well below the two per cent target level for the ECB. Indeed, the ECB may even expand its QE (which is running at €60 billion/month) if inflation eases off.

If the Fed doesn't hike, traders might spark another global rally. The dollar could see some selling — the rupee has already hardened substantially on foreign portfolio investment inflows. Meanwhile, Donald Trump's ties to Russia and alleged collusion between Russian state-backed hackers and the 2016 presidential campaign continue to be under investigation. If this blows up into impeachment, or even threatens to go that far, there is bound to be an effect on market sentiment. It has already damaged this US administration's ability to push through meaningful legislation.

China is another story. The China Banking Regulatory Commission has said it will crack down on risky financial behaviour, and take steps to reduce "chaos" in the market. This doesn't involve rate hikes but it could tighten the flow of credit to bubbly sectors like real estate. Despite that, Chinese stocks are likely to climb due to inclusion in the MSCI Emerging Markets Index from June 2018. Passive index funds will mandatorily buy those stocks in 2018. Hence, active investors are already front-running and buying into Mainland stocks.

In India, corporate results have been reasonable. Hind Unilever delighted the markets. Infosys and TCS both scrambled in at close to the admittedly low consensus expectations. It's worth noting, however, that both information technology giants saw manpower reduction in Q1, 2017-18 and the portents don't look good for the sector. ITC took a beating when the Goods and Services Tax Council plugged in another cess on cigarettes.

Reliance Industries announced a 1:1 bonus and a new scheme for Jio. It has maintained extremely high gross refining margins and operating profits and both comfortably beat consensus estimates. However, interest costs have almost doubled and given that Jio will require continuing massive expenditures in the future, there may be a blip at some stage. Incidentally, the Jio announcement of free feature phones and flat tariffs has caused another disruption in the telecom industry and telecom stocks are being sold down yet again.

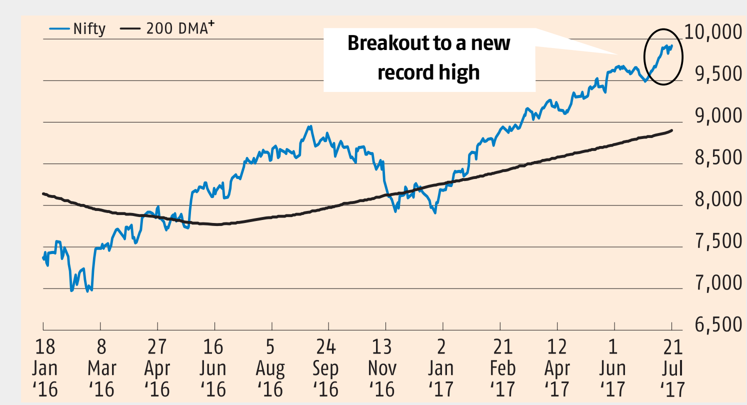
The latest inflation numbers indicate a worrying trend. The Consumer Price Index for June dropped to the lowest in five years at 1. 5 per cent year-on-year. The Index of Industrial Production for May is also pretty low at 1.7 per cent, well below consensus. If those numbers are to be trusted, the economy clearly is still in the doldrums. Almost everybody expects a rate cut and other monetary loosening measures from the Reserve Bank of India (RBI) in early August. There's already an anticipatory bull run on bond street as a result. Speculatively, if the RBI does cut and the Fed doesn't hike, there could be some selling pressure on the rupee.

However, there is said to be dissension in the Monetary Policy Committee about the wisdom of rate cuts at this instant. The RBI has several other problems. Apart from attempting to deal with the non-performing assets crisis, it has not been able to submit its own financial accounts. This is due to the fact that, for some reason, it has not yet been able to count the cash returned during the last two weeks of demonetisation. This would be funny if "demon" hadn't damaged so many businesses, led to multiple deaths in queues and caused such massive job losses in the informal economy. There are also rumours of a rift between the finance ministry and the RBI. So nobody is quite sure what the RBI will do.

The technical situation looks quite rosy of course given successive new highs. Valuations are currently at PE 25 for the Sensex-Nifty and at PE 32 for mid-caps. Those are tough to justify fundamentally but the advent of GST means that investors may ignore Q1 results if those are bad.

As of now, the market is likely to continue heading north, at least until the RBI's next policy meeting. But if it breaks, we could see a 10-15 per cent correction.

ON AN UPSWING



	Value		Equations
	Jul 7	Current (Jul 21)	Change %
Nifty value	9,665.8	9,915.25	**2.58**
Index PE	24.6	25.32	2.93
Index dividend yield	1.10	1.01	-8.18
Index book value	3.58	3.53	-1.40
USD INR (RBI reference rate)	64.59	64.32	**0.42**
FII net equity buys/sales (Jul 1-7) (₹ cr)	3,616.82*	**2,977**	
DII net equity buys/sales (Jul 1-7) (₹ cr)	6,676.11*	**2,117.32**	

* June 1-30 net equity buys/sales, +200-Day Moving Average
NB FIIs bought net debt of ₹19,155 crore (May 1-31) and ₹25,685 crore (June 1-30)

BUSINESS LIFE

When a restaurant is simply perfect, not novel

'I'll only try something new' is as much a mistake as 'I'll only eat things I know'

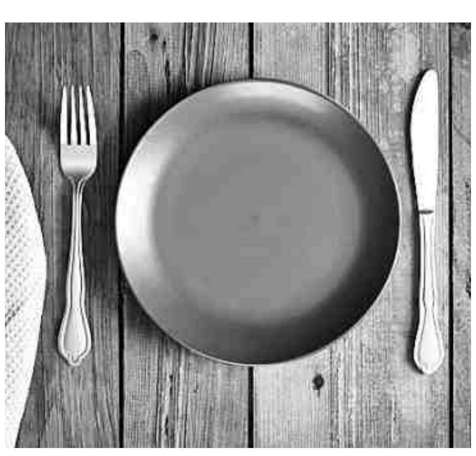
MEGAN McARDLE

Washington is a great city for bumping into people. Physically small and compulsively social, it provides a wide range of acquaintance, and a narrow scope of space in which to go about your everyday business. So you are always running into someone you know — on the street, at the doctor's office, in the pub you happened to drop into on the other side of town.

This serendipity is usually pleasing, but never more so than when you discover that a couple you're very fond of has, completely independently of you, hit on the idea of dining at the same place and time as you. We pushed the tables together; the waiter held our order while our friends decided. Then we fell into some of the best food it's been my pleasure to have in Washington... and also to wondering why it had been so easy to get a reservation there.

The restaurant in question is Mirabelle, a fine dining establishment that's aiming for Michelin stars — and ought to get them, if you ask me. It's run by Frank Ruta, who served as a White House chef under Carter, Reagan and the first President Bush. And it produces extraordinary food. Everything we had was a wonder, even if it was deceptively simple: The best thing we ate was an heirloom tomato salad, which was so perfect that one suspects the chef might have sold his soul to the devil in order to unearth the world's best tomato, and learn how to serve it so exactly right that you could not imagine further improvements.

Yet the restaurant was not crowded. It was roomy even for 6:30. Which is, of course, how we'd easily been able to procure a reservation not very far in advance, rather than submitting to the elaborate waits and protocols often required by the top restaurants in our area.



Figuring how to do one thing the best way is important PHOTO: ISTOCK

This is a tragedy. Some of the best food in our city is going uneaten, and we wanted to know why. The restaurant has had glowing reviews and ought to be garnering word of mouth by now. So why aren't people queuing up and anxiously begging better-connected friends to help them get a reservation?

There are the prices, of course, which are set to match the restaurant's aspirations. All right then, yes, but: Washington has lots of affluent people with silly money to spend on food. So why weren't more of them at Mirabelle last Saturday night?

I cannot prove it, but my sense is that the crowds have not flocked as they should because the one thing Mirabelle isn't is novel. In fact the *Washington Post* once described Ruta as having an "allergy to trends". Most menus these days read as if someone sat down and said: "I like lemon meringue pie, but it's been done. What's our twist on the classic?"

At Mirabelle, there is no twist; the menu would not have felt out of place at an upscale country inn three decades ago. What's special is the dishes themselves, because Ruta doesn't do different, merely perfect.

The result is infinitely more rewarding than "Sure, you've had chocolate cake. But have you ever had it with lime marmalade and fermented bean sprouts?" I like trying new foods, to be sure. But a fetish for novelty is as big a mistake as a pathological fear of anything you haven't eaten a thousand times before. Both are ways of fixating on the detail of familiarity, while missing the central point of food, which is how it tastes. And at Mirabelle, it tastes wonderful.

Figuring how to do one thing the best way is as important an innovation as thinking of a zillion different other things you might do. But in this market, I'm not sure it's equally rewarded. The affluent young professional class is starting to look like the culinary equivalent of a jaded old roue, floating from place to place in constant search of the new rather than the one.

I'd rather have the one best than the many pretty goods. And as soon as I can figure out how to get a mortgage on the dog, I'll be going back to Mirabelle to enjoy it.

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LETTERS

Let's not jump the gun

With reference to the editorial, "Presidential prerogatives" (July 21), President-elect Ramnath Kovind's overwhelming victory in the just concluded poll indicates that it was marked by considerable cross-voting, which is also a pointer to his "acceptability" across party lines.

However, as rightly observed in the editorial, astute mobilisation by the ruling coalition in Kovind's favour made things smoother for him. Congratulations to him.

While Opposition parties got together to project former Lok Sabha Speaker Meira Kumar as their unanimous candidate for presidency, they could clearly see the writing on the wall.

The editorial has liberally quoted several instances when the incumbent president had refused to toe the line of the executive and taken an independent view of an emerging situation. Kovind is unlikely to conform to a template in which the president's role is purely ceremonial and, essentially, subordinate to that of the executive.

Yet, the president might find it difficult to insulate himself from the pressure tactics of the Narendra Modi government. After all, how can he be at loggerheads with the government that has given him the post of president? He would never like to be seen as a stumbling block in the government's ambitious plans and initiatives, more so when Opposition parties have been opposing him.

We should not draw any conclusions about will he, won't he at an initial stage. Let him cross the bridge when he comes to it.

S Kumar New Delhi

United fight for pension

Government and family pensioners have been getting updated pension while current employees are getting salaries, according to revised pay scales since January 1996.

Pension schemes were introduced by the Reserve Bank of India, the National Bank for Agriculture and Rural Development, banks, LIC and GIC in January 1986 in accordance with central government pension rules with sanction from Parliament. However, managements of banks and the RBI, at the behest of the government, have denied updated pension to these pensioners.

LIC pensioners have been fighting for updated pension and 100 per cent neutralisation in dearness relief for pre-August 1997 pensioners in high courts and the Supreme Court for the last two decades. Cases filed by the RBI and bank pensioners, too, are pending in the courts for long. Meanwhile, hundreds of pensioners have died without getting justice.

Unfortunately, the government and the managements do not take cognisance of the genuine demands of citizens and workers unless there are large-scale protests. The pensions of State Bank of India employees were improved when then went on strike for six days. The government sanctioned One Rank, One Pension (OROP) after defence personnel surrendered their gallantry medals and went on hunger strike at Jantar Mantar in New Delhi.

The government is unlikely to intervene and courts might take several years to decide the pending cases. Hence, it is incumbent on the employees and pensioners of the RBI, LIC and others to fight together. They must display their strength by holding protests and dharnas in Mumbai, Chennai, Kolkata, New Delhi and other cities.

Ramanath Nakhate Mumbai

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HAMBONE

BY MIKE FLANAGAN

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Seek long-term capital

Overdependence on foreign debt must be avoided

Foreign portfolio investment, or FPI, continues to pour into India. So far, the month of July has seen an inflow of about $2.4 billion, taking the total for the year up to approximately $25 billion. Much of this came in a great surge in March, perhaps after the Bharatiya Janata Party's victory in the Uttar Pradesh assembly elections raised expectations of a revived reform agenda. So far in July, the vast majority of the funds have flowed into debt. In fact, it could be argued that the authorities have aided the flow of foreign portfolio investment into Indian debt; the market regulator, the Securities and Exchange Board of India (Sebi), earlier this month, marginally raised the FPI investment limit in central government securities (G-Secs) to just under ₹1.88 lakh crore from ₹1.85 lakh crore. The limits for FPI in state development loans were also revised. This followed a decision by the Reserve Bank of India (RBI) to change these limits for the July-September quarter. The RBI increased the investment limits for FPIs in G-Secs by ₹11,000 crore to ₹2.42 lakh crore. More startlingly, the FPI limits for state development loans were increased by 22.5 per cent, or ₹6,100 crore.

Is India developing a dangerous overdependence on robust foreign flows? FPI flows, which depend on expectations of robust reform, may reverse swiftly as and when those hopes are dashed. And it is not as if domestic conditions are the only criterion; as the RBI's Monetary Policy Committee pointed out in April, there were net outflows in FPI between November 2016 and January 2017, thanks to "turbulence in global financial markets" that "set off a bout of global risk aversion and [a] flight to safe haven[s]... The tide reversed with the pricing in of the Federal Reserve's normalisation path and improvement in global growth prospects". The RBI MPC also pointed out that the FPI surge in March was focused especially on debt markets as opposed to equity markets; the former had been the dominant recipient until February. Another unfortunate effect has been to keep the rupee artificially high, which renders India's exports even more uncompetitive.

Some moves by the authorities would indicate that concerns are developing about a dependence on FPI debt in particular. Last week, Sebi said that rupee-denominated bonds in the foreign market ("masala" bonds) would no longer be issued until FPIs' utilisation of their total quota of corporate debt (₹2.44 lakh crore) fell below 92 per cent. The market regulator should have started auctioning the remaining limits when FPI possession of corporate debt went above 90 per cent, but it seems to have let that slide a little. And the RBI has tried to tweak the FPI quotas to ensure more debt is bought by long-term, "patient" capital such as pension funds. Only a fifth of G-Secs in FPI hands are held by long-term investors. Earlier this month, citing macro-prudential management, the RBI indicated that future increases in the limit for FPI investment in state and central government debt would be allocated in a three-to-one ratio in favour of long-term investors. This bias towards long-term funds should be enhanced; secure guarantees for hot money should be minimised, so the macro-economic effects of dependence do not pose a structural danger to the economy.

Appealing, but impractical

Universal Basic Income is an idea whose time hasn't come

Policy circles are yet again abuzz with the possibility of implementing a universal basic income (UBI) in India. According to definition, under a UBI scheme, the state is supposed to take away all existing subsidies and replace them with a single cash payout to all citizens, regardless of what they do and how much they earn. Proponents of the UBI assert the government could, in one stroke, get rid of a whole host of problems that plague the modern welfare state. For instance, there will no longer be any need to painstakingly figure out who is eligible for a subsidy and who is not, since the UBI is "universal", not targeted. As such, there won't be leakages due to petty corruption and there won't be errors of exclusion (where the undeserving are given subsidy) or inclusion (where the deserving lose out on subsidy).

The UBI idea is not new but three broad elements have raised its appeal: The continuing inefficiency of the modern welfare state where service delivery is pathetic; the recent failure of the global economy to create enough well-paying jobs, leading to demands for active state intervention; and the advancement in information technology, which allows the state to conceive of reaching each and every citizen directly. No wonder then that the UBI is one of those rare ideas that have enticed policy wonks across the spectrum. The left-of-centre thinkers like the UBI's promise of reaching the poor in an efficient manner and the right-of-centre ideologies see it as a way to curb the ever-expanding state machinery and allow for greater play of the market forces and prices.

And yet, the UBI is an idea so impractical that, if implemented, it could lead to poor consequences. There are questions galore. For instance, what should be the level of the UBI? If it is, as some have suggested, ₹300 per month, then it is too low to compensate for all the existing state interventions ranging from cheap food grains to subsidised schooling to maternal health safeguards to crop insurance to employment guarantees. If the UBI level is much higher, it will not be fiscally viable to fund it — interestingly, in 2016, Switzerland, with a GDP per capita of over $75,500 (as against India's $1,800), overwhelmingly rejected the UBI because it would be too costly. Moreover, a high UBI invites moral questions such as why people will work if everything is free, and how their behaviour will alter if there is no work. In any case, removing all subsidies is an impractical idea in a democracy such as India. Finance Minister Arun Jaitley hit the nail on the head when he said the government could land in a situation where people stand up in Parliament and demand continuation of the present subsidies while pushing for the UBI. That's something the Budget can ill afford. What is required, instead, is to use the UBI trigger to make the existing government machinery more efficient in delivering public goods as well as education and health care.

ILLUSTRATION BY AJAY MOHANTY

Strategic thinking in financial markets policy

The machinery of the equity market can be used to obtain benefits for all the other parts of financial markets trading

SNAKES & LADDERS

AJAY SHAH

The Securities and Exchange Board of India (Sebi) has released a discussion paper on the working of the equity derivatives markets, which represents a collection of views of the critics. The equity market in its modern avatar came into place in 2000-01 and largely works well. The concerns that have been collected together in the discussion paper have been debated and turned down many times. Financial markets policy must aim to obtain high liquidity to foster capital raising, and to address India's declining market share in the global trading for Indian underlyings. The ideas of the discussion paper will harm these objectives.

A pool of seasoned participants

Fairness to consumers is important as an end in itself. In addition, it is not possible to have a liquid financial markets system without the trust of financial market participants. If there is a lack of fair play, individuals will defect from the markets, which will hamper market liquidity.

The participation of individual investors in the equity spot and derivatives markets has long been a touchy point. We in India want individual investors to obtain profit but avoid losses. We want individuals in the IPO market, but we are unhappy when the price on the secondary market goes down after the company is listed. This is an incorrect conceptual framework. Equity investment is the best asset class, but it comes with associated risks.

Consumer protection problems in Indian finance fall into two categories: Those at the edges of the law (ponzi schemes, dabba trading, NSEL) and those within it (insurance products). In the latter case, a key ingredient of the problem is the long delay: The years or decades between the decision to buy and the discovery of the outcome. In financial market trading, there is no such delay. When bad decisions are made, losses show up within a day or three. Everyone involved in financial markets makes mistakes, gets rapid feedback, and corrects herself. This helps reduce the consumer protection problem.

Research on investor behaviour in India has shown that there is a learning process: When people come into financial markets trading for the first time, they make mistakes on questions like diversification, but they get better in time. Over time, there has been steady growth in the community of persons who have finished this learning.

Policy decisions about the equity market in the late 1990s and early 2000s were difficult, as a pool of seasoned financial market participants was then lacking. Policymakers at Sebi, the National Stock Exchange, and the Ministry of Finance made the call that we should start on this journey, knowing that there would be this learning process. The process of maturation has been underway since 2000. There is a small trickle of new participants every year, but the bulk of the people in the market are seasoned participants. Every new participant talks with a few seasoned ones. The fixed cost of getting knowledge about derivatives trading into the Indian financial markets ecosystem has been paid.

Concepts and evidence in consumer protection

Many elements of the Sebi paper have weaknesses in information and logic. It expresses the point of view of the critics of the Indian financial markets, but does not demonstrate that there is a problem and the case for intervention. The state of the art in Indian policy thinking on consumer protection is found in the work of the Financial Sector Legislative Reforms Commission (FSLRC). The FSLRC fully thought out the economic principles and legal foundations for consumer protection. When questions about individuals and the financial markets are raised, the path to systematic use of evidence and logical conclusions lies in using this framework.

Policy thinking requires thorough research and evidence. The experience of individual investors from 2000 onwards is visible in the records of brokerage firms and at NSDL/CDSL. A significant body of financial markets research is now available, and much more needs to be done, which poses questions and obtain sound answers using these datasets. The right path to sound thinking on these questions lies in combining the intellectual framework of the FSLRC with this empirical evidence. The Sebi discussion paper lacks both.

The purpose of financial markets policy

The objective of financial markets policy is to achieve liquid and efficient financial markets. Market liquidity reduces the costs of trading suffered by all market participants, including individuals. Market efficiency yields sound pricing for all buyers and all sellers, so that everyone gets a fair price when buying or selling.

High liquidity must percolate to the 500th and 1000th and 4000th company, so that the widest possible list of firms are beneficiaries from the reduced cost of capital of listed equity. This will spur greater primary market issuance, as smaller firms harness the unlisted-to-listed premium. The Indian financial markets ecosystem should yield lower costs of transacting when compared to Singapore or London, so that India can have a higher market share on the global landscape. These objectives will not be served by the thought process of the Sebi discussion paper.

The Ministry of Finance, Sebi, and the NSE pulled off one of the biggest achievements of India's economic reforms in the 1990s and early 2000s, with the transformation of the equity market. The equity market is the construction site where the Indian financial markets system is built. The machinery of the equity market can be used to obtain benefits for all the other parts of financial markets trading. A single consistent framework of financial firms, exchanges, and regulations is now feasible for equities, corporate bonds, government bonds, commodities, and currencies.

The rest of Indian finance has worked poorly. Banking has lurched across crises, insurance has struggled with fair play, the bulk of pensions is at the Employees Provident Fund Organisation, which has not changed, the BCD (bond-currency-derivatives) Nexus has stagnated. Most parts of Indian finance have floundered, while organised financial markets trading has made progress, led by the equity market. The Sebi discussion paper shows a certain loss of institutional memory about this journey. It is important to go back to the foundations, about why we have financial markets, the objectives of financial markets reform, and the long-run strategy for policy.

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

Using 'default' options to improve governance

IRRATIONAL CHOICE

DEBASHIS BASU

A year ago Lena Groeger, a journalist, developer, and designer at *ProPublica*, wrote two fascinating pieces titled "Too Human (Not) to Fail and Set It and Forget It: How Default Settings Rule the World". Her first piece argued that smart design can keep you from scr**ing up. Imagine a coffee grinder that works only when the lid is on. "Even if you wanted to, you could NOT chop your fingers on the blade, because the 'on' switch for the grinder is triggered by closing the lid (as opposed to a normal blender, which leaves its blades easily accessible to stray fingers)," writes Groeger. Or fire doors that stay unlocked in an emergency. This concept has a lot of names, she says, but none is more delightful than the Japanese name for it, *poka-yoke*, which literally, "avoiding mistakes".

Extending this idea, her second article argues that in many ways we act by default (without even knowing it). "Defaults are the settings that come out of the box, the selections you make on your computer by hitting enter, the assumptions that people make unless you object, the options easily available to you because you haven't changed them." Human nature is to live with whatever defaults they have been set on. Examples include default temperature in the fridge, some default settings on cellphones, or default choice of browser (in 2002 Google did a $50-million deal with AOL to be the default search engine. The rest is history.) At a more general level, default settings can be used to improve social behaviour such as saving more.

A promising area of applying default settings is using them to improve governance. Governance has many dimensions. One of the most important ones is to reduce friction between the government and us, the citizens. What if the default setting inside the government is such that approvals of various kinds get auto generated, if the department concerned does not object to an application for approval within a time period? What if the pension of a retired employee gets auto deposited in the pensioner's account a few days after retirement, with the onus remaining on the department to raise any objection within a few specific days? Or compensation/government dues of different kinds are automatically triggered if the department concerned does not raise an objection. Or, if the department has not acted on a valid reply which was given in response to an objection. This will benefit thousands of voiceless and faceless people waiting for years to get their pension or compensation or other dues because of someone somewhere is sitting on their files. I can think of many others. Here is one that fits the season — every citizen gets a rebate from municipal or road tax if a satellite survey establishes that potholes occupy more than a certain percentage road space of the main arteries.

What I am suggesting here is quite different from "nudge" — using behavioral cues to get people to do socially useful stuff. In a piece published here in late January 2016, titled Policymaking for the Lazy, Selfish and Vain I had argued that humans are essentially lazy (we do not want to spend time and effort to learn something new), vain (the explosive growth of social media — Twitter, Facebook, Instagram, Pinterest etc., owe their success to our vanity), and selfish (we quickly calculate what is our immediate return from a new idea and whether it will offer a higher return than the cost or time we are asked to spend on it.) Policymaking can be more effective if these human traits can be used positively — save more, stop littering, recycle more, go out and vote, and so on. This is what the UK did with a "nudge unit" housed inside the Prime Minister's Office. I noticed a few months after my piece, coincidentally, the NITI Aayog announced that a nudge unit would be set up in India.

But nudge is to get people to do things that are socially desirable. I am talking of getting the government to do pro-citizen stuff through embedded default options. People are lazy, vain, and selfish everywhere and all governments can use best nudge practices to goad them. But governance quality varies wildly. West European and North American countries deliver better governance than Asian, African, and South American ones. In the latter, the state is unresponsive, extortive, and often cruel. Since PM Narendra Modi is showing no interest in living up to his pre-campaign promise of "minimum government", it's time for default options to force governance to be pro-citizen as nudge makes the citizen do social good. Also, since the interface between the government and citizens is mainly in cities (corporations), towns (municipalities), and villages (zilla parishads and panchayats), the experimentation must be done in the states, not (ironically) in a building that was once called Yojana Bhawan.

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Lives among the ruins

BOOK REVIEW

ELIZA GRISWOLD

"I lived in a country where dying was taught to us from childhood," the writer Svetlana Alexievich said in her 2015 Nobel Prize acceptance speech. "We were taught death." Alexievich was speaking of Belarus, where she grew up and where, during World War II, 2.2 million people died — nearly one person in four. The scale of this suffering seems impossible to fathom, numbers so large that the mind snaps shut. Yet one needn't cast back in history for such figures. Since the war in Syria began six years ago, 6.5 million people — more than one in three Syrians — have been internally displaced, and another 470,000 are dead. Now, as the war grinds into its seventh horrifying year, literature written in English and borne out of the conflict is finally beginning to reach the rest of the world.

Alia Malek's memoir, The *Home That Was Our Country*, is one of the finest examples of this new testimonial writing. Born in Baltimore to Syrian-American parents, Malek is a journalist and attorney who landed a job in the civil rights division of the Justice Department less than a year before 9/11. She quit the US for the West Asia, where she travelled and taught human rights for the better part of a decade.

In April 2011, Malek moved to the Syrian capital of Damascus to report in secret for *The Nation* and *The New York Times*. The country was in the initial throes of what many hoped would become a democratic uprising born out of the Arab Spring. Yet there were already terrible signs that the regime of Bashar al-Assad wasn't going to give up without bloody reprisals. In an attempt to quell reports of dissent, the regime banned many foreign journalists. Malek went to work anyway. As a cover story, she tells her Syrian cousins that she's writing a book about her maternal grandmother, Salma, the daughter of a Christian businessman, Sheikh Abdeljawwad al-Mir, born in the Ottoman Empire in 1889.

Her cover story wasn't entirely false, as that book becomes this one, and Malek grounds her narrative throughout in her grandmother's story. Salma, a charismatic and embittered matriarch, grew up as the chain-smoking daughter in a family that prized only men, and after suffering a stroke, spends the last seven years of her life in her Damascus apartment, "locked in" her body, paralysed yet alert, able to communicate only with her eyes. When Salma dies, she leaves behind a chic flat for Malek's family, which, after decades of feuding with a hostile tenant, they succeed in reclaiming.

As Syria burns, it falls to Malek to renovate the flat — haggling for light fixtures from the Electricity Souk during a blackout, and keeping an eye on a corrupt contractor while the Assad regime gasses its own people, drops barrel bombs — oil drums loaded with shrapnel — from helicopters, and disappears thousands to be tortured in underground prisons.

Malek observes almost none of this firsthand. Instead, her war is largely made up of what she can't see. She lives day to day under the cloud of claustrophobia and menace that dominates the Syrian capital, where her presence poses a significant risk both to herself and to her Syrian family.

Although it becomes increasingly clear that her family would prefer that Malek leave Syria immediately, she stays on for two years, conducting clandestine interviews with ordinary Syrians undertaking extreme acts of courage — from those shuttling medical supplies to besieged areas to others launching ingenious and nonviolent protests against the regime. Some have survived unspeakable horrors in the basement of the nearby office of the security forces.

In her neighbourhood, as elsewhere, she realises, the proximity of the mukhabarat, as the security forces are called, has a double purpose. Their nearness terrifies local civilians into submission.

By contrast, *We Crossed a Bridge and It Trembled* chronicles Syrian lives that are anything but normal. In it, Wendy Pearlman, a professor of politics at Northwestern University, collects the accounts of refugees, most of whom have fled the brutality of the Assad regime. Many of these voices render themselves unforgettable. A doctor named Annas tells Pearlman during an interview in Turkey how he and others found unconventional ways to treat protesters gassed by the regime: "People were choking on tear gas and we'd pour cola on their faces, which counters the effect of gas. Their faces were sticky and glistening."

These oral histories aren't dutiful case studies. Instead, Pearlman shapes her subjects' narratives, winnowing interviews down to stirring illustrations of human adaptation. In a tent in Lebanon's Bekaa Valley, Pearlman finds a woman named Bushra, a mother who has, five years into the war, raised her children largely on the move and out of doors by necessity. One day, she took her young daughter to a woman's centre, which was in an actual building. "After living in a tent, she was amazed by the real walls and real floors," Bushra tells Pearlman.

What makes Pearlman's and Malek's books particularly necessary is their insistence on foregrounding the extraordinary heroism of ordinary Syrians — both those who remain trapped in the yoke of an oppressive regime, and those struggling to make new lives in unwelcoming places.

WE CROSSED A BRIDGE AND IT TREMBLED
Voices From Syria
Wendy Pearlman
Custom House/HarperCollins Publishers
290 pages; $24.99

THE HOME THAT WAS OUR COUNTRY
A Memoir of Syria
Alia Malek
Nation Books
334 pages; $27.99