How to ensure media freedom

Incentivising good ownership structures, reportage and media literacy can be some of the first steps to take

MEDIASCOPE

VANITA KOHLI-KHANDEKAR

The fear was palpable. One journalist from Ghana spoke with his face under a veil of beads. Many others whispered their worry, fear and frustration on the sidelines of the Global Conference on Media Freedom 2019, held jointly by the British and Canadian governments in London last week. Lawyers, politicians, ministers, ambassadors and lots of journalists among others were saying the same thing — the world has become a more hostile place for journalists.

Reporters Without Borders called 2018 the deadliest year on record for journalists. UNESCO confirms that at least 99 journalists were killed, a further 348 imprisoned and 60 held hostage, according to a UK government website.

The reasons range from totalitarian regimes to lack of institutional backups. Even in democratic countries with a strong institutional back up, like the US, journalists are now routinely abused and threatened. India with its proclivity to abuse female journalists found a mention. There was talk of WhatsApp fuelled lynchings and the murder of journalist Gauri Lankesh in 2017. The role of social media in amplifying hate, spreading fake news and in polarising countries was discussed too.

But it was not all hand-wringing. The idea behind the conference was to come up with ways to defend media freedom. One significant one was the formation of global legal panel. "Stemming the tide of violence against journalists requires political will, diplomatic pressure and a legal framework to support countries to improve. The independent high level panel of experts consists of the best legal minds from across the globe. Together they will develop and promote legal mechanisms to help prevent and reverse media abuses," said the UK's foreign secretary Jeremy Hunt.

On the media sustainability side, one of the discussions I took part in came up with interesting insights. Rasmus Klies Nielsen, director, research, at the Oxford-based Reuters Institute for the Study of Journalism, spoke emphatically about the business conundrum. He reckons tackling the demand and supply of quality news is critical.

He is right. Good quality journalism costs a lot of money to produce and readers don't always pay for it. The rare exceptions are *The Financial Times* or *The Economist*.

While newspapers in India do a reasonably good job editorially and are profitable, their abject dependence on advertising means they fall apart at the first sign of advertiser pressure. Roughly half of India's 400 news channels are owned by people who want a tool of influence, extortion or favour. Their idea of reportage is lots of shrill, argumentative anchors sitting in a studio and screaming out their opinions on the irrelevant issues.

Note that globally ownership structures play a huge role in creating a robust news ecosystem — *The Economist* and *The Guardian* are owned partially by trusts. The BBC is funded through licence fee TV owners in the UK pay. Some of the best media brands around the world have ownership structures that make them financially independent.

Till we incentivise good ownership structures and disincentivise bad ones the problem will persist. For instance, frowning on certain types of owners — politicians, state bodies, religious organisations or government — might help. So would insisting on transparency through details on revenues, costs, ownership, and shareholding pattern. Make it easier for newspapers, websites and news channels to invest in hard-on-the-ground reportage — whether this is through tax breaks or through grants for high quality journalism schools. There could be special incentives for schools and institutes that offer media literacy courses for everyone. And in my book, a really special incentive for advertiser literacy courses. If advertisers could separate real news from fake news and withdraw money from the latter, it should reduce if not die. Some of these recommendation have been made by the Telecom Regulatory Authority of India in a 2014 paper.

None of these, however, can be brought about by any government. A parliament-backed independent-of-the government regulatory body, a la Ofcom is what could work in India. (A point this column has made often). To foster media freedom and good journalism, media owners must accept that self-regulation has failed. They must start considering the alternatives, quickly.

If physical infrastructure has a multiplier effect on economic growth of a country then the information and news infrastructure has a similar effect on its intellectual capital — people. If the quality of our democracy is being messed up by weaponised misinformation then media needs to fight it by weaponising good journalism.

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Blowing smoke on e-cigarettes

Lobbying and counter-lobbying by big tobacco and e-cigarette makers has the govt formulating contradictory laws

SURAJEET DAS GUPTA

Big tobacco in India is facing a new challenge — global manufacturers and Indian importers of e-cigarettes, or electronic nicotine delivery systems (ENDS). At stake is a 110 billion per annum sticks cigarette market. India is home to 11.3 per cent of the world's cigarette smokers with the market dominated by ITC. Tough taxation policies have slowed the growth to be sure, it is still a huge market. Yet ENDS is not even a ₹300 crore market — mostly coming through the grey market — so many manufacturers of e-cigarettes like Juul and Philip Morris see a large potential.

But regulation has been a tangled web, the result of hectic lobbying and counter-lobbying, that leaves ENDS manufacturers and sellers in limbo between an outright ban and a classification that will put them at a disadvantage vis-à-vis regular cigarettes.

At first, ENDS proponents had lobbied the government for a separate federal regulations on grounds that e-cigarettes (a) did not fall under any specific jurisdiction, central, state or concurrent; and (b) are a different product altogether, far superior to combustible cigarettes — lacking cancer-causing tar and with a lower nicotine content that could help wean smokers off cigarettes. Now they want their products to be defined on a par with cigarettes.

If these changing demands have been confusing, the government's reaction has been no less so. Late last year the health ministry sent an advisory to all states asking them to ban e-cigarettes. Nearly 14 states complied with the order, which included Maharashtra, Haryana, Uttar Pradesh and Gujarat.

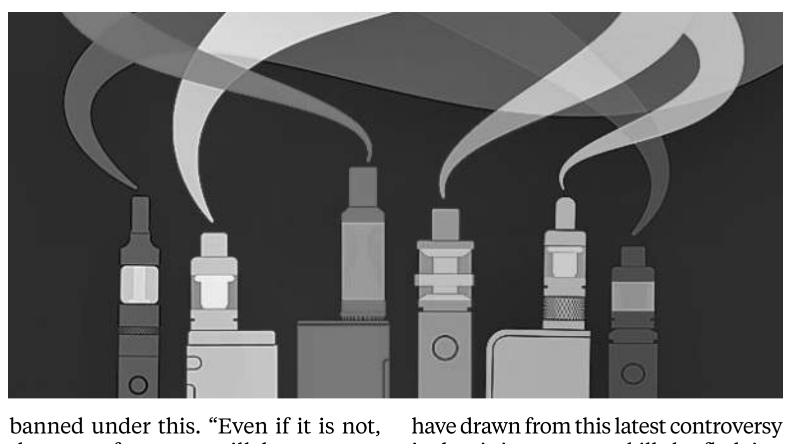
However, consumer forums and individuals went to court against the order in various states where hearings are still on. In Delhi, ENDS manufacturers got a reprieve when the high court passed an interim stay against the ban.

Though the cases are still being heard, the health ministry sought to reiterate its ban in May this year and went a step further by sending all government health research institutes an advisory not to conduct any research, workshop, or publish articles on e-cigarettes without consulting the tobacco control division. It also received an endorsement from the ICMR suggesting a ban on ENDS.

TAKE TWO

Last fortnight, another act in this drama opened with the Drug Technical Advisory Board endorsing a proposal to include ENDS as a "drug" under the Drugs and Cosmetics Act. E-cigarette makers and importers say this is another way for the government to ban their products without impacting regular cigarettes, which do not come under the purview of this Act.

The Act has two sections (10A and 26A) that give the government powers to prohibit import or manufacture of any drug if it is satisfied that its use will involve risk to life or has no therapeutic value. So potentially, ENDS can be banned under this. "Even if it is not, the manufacturers will have to get clearance from the drug controller for the product, sell it only through pharmacies and after a doctor writes a prescription," says a senior executive of a leading ENDS manufacturer.



E-cigarette manufacturers and importers also say this classification is contradictory. On the one hand, the government believes nicotine is bad for health and addictive; on the other, it has no hesitation in considering it a drug, which by definition is supposed to cure or mitigate illness. "ENDS is a recreational product and is a nicotine consumption choice with less harmful effects than combustible cigarettes. It is not a therapeutic product for mitigating disease," says one of them. He also argues that inhaling nicotine cannot be called a sickness, yet that is how it has been defined under the law. As he points out, if smoking e-cigarettes is a sickness then how can combustible cigarettes be excluded from the list?

The conclusion ENDS companies have drawn from this latest controversy is that it is a move to kill the fledging industry. But proponents of legislating e-cigarettes under the Drugs and Cosmetics Act say they are merely emulating the US Foods and Drug Administration. True, the FDA extended its authority to include ENDS, hookah tobacco and pipes. But the crucial difference is that the FDA also regulates regular cigarettes. It recently gave Philip Morris, which also makes cigarettes, approval to sell "heated tobacco devices".

The move to declare e-cigarettes a drug would also mean the government overturning its earlier conclusion by the Drugs Consultative committee in 2015 that e-cigarettes cannot be defined as a drug.

Manufacturers and importers are not the only players in this drama. There are consumers who believe e-cigarettes are healthier and the Association of Vapers India argue that they should be given the freedom to choose. There is an equally strong but quiet anti-smoking lobby — for them a ban on e-cigarettes through legislation is the first step to pushing for a ban or severe restrictions on cigarette smoking as well.

Says Praveen Rikhy convener of Trade Representatives of ENDS Devices in India, an association of importers, distributers and marketers of the product: "We don't think that the big tobacco companies in India are lobbying for a ban on us. If they ban ENDS through legislation, anti-smoking groups will find a strong legal base to ban combustible smoking too. So the big tobacco companies have to watch out too."

Tobacco players blame this strident move by the central government on misguided lobbying by some of the ENDS players. Their contention that e-cigarettes were a healthier alternative to regular cigarettes positioned the product as something of therapeutic value. "And now they are saying please treat it no differently from combustible cigarettes, it is as unhealthy. Then you have a problem," says a senior executive of a tobacco company.

Most experts admit regulation is key since an outright ban will only increase operations in the grey market, spur sale of spurious products with no control of their usage by children. Nearly 69 countries across the world have put in regulation on ENDS. But the central health ministry is determined to ban e-cigarettes. And many anti-smoking NGOs endorse the move as they believe that global regulations, such as identity proof at the point of sale to prevent children from buying the product and policing of retailers on compliance will fail in India. The issues still lie behind a smokescreen of competing interests.

CHINESE WHISPERS

More may jump ship

Former Samajwadi Party (SP) Rajya Sabha member Neeraj Shekhar officially joined the Bharatiya Janata Party (BJP) on Tuesday. Shekhar had quit the Rajya Sabha on Monday. Sources said a couple of Bahujan Samaj Party Rajya Sabha MPs could also join the BJP. On Tuesday, Shekhar was seen talking to current and former SP MPs, including Naresh Agarwal, who had crossed over from the SP to the BJP last year. As other SP MPs ribbed Shekhar, Agarwal ominously said more SP leaders were queuing up to join the BJP.

Landless roads

Opposition members in the Lok Sabha on Tuesday praised Union Roads and Highways Minister Nitin Gadkari *(pictured)* during a discussion on demands for grants for the road transport and highways ministry. Congress leader Adhir Ranjan Chowdhury said Gadkari was an "informative and innovative personality", and the Revolutionary Socialist Party's N K Premchandran said he was withdrawing all the 21 cut motions he had moved against the demands for grants as a tribute to Gadkari's "exemplary performance". However, the Trinamool Congress's Sudip Bandyopadhyay, alluding to Gadkari's detailing of his plans, including an overhead double decker bus service in cities, said the minister was a "*sapnon ka saudagar*", or a merchant of dreams. When Badhyopadhyay requested more road construction in the eastern region, Gadkari hit back, saying the most difficult state to work in in terms of acquiring land for road projects was West Bengal.

Inspired by Kennedy

Underlining his commitment to building better roads and highways, Gadkari told the Lok Sabha in his chambers he had hung on the wall a quote from former US president John F Kennedy that "American roads are not good because America is rich, but America is rich because American roads are good". He also ruled out ending toll tax charged from road users. "Toll *zindagi bhar band nahin ho sakta, kam-zyada ho sakta hai, toll ka janmadata main hoon*" (charging of toll tax can never end though toll tax rates may vary from time to time. Toll is my brainchild), the minister said. Gadkari introduced the toll system as a minister in the Shiv Sena-BJP government in Maharashtra in the mid-1990s. An MP later quipped that Gadkari got much praise because several MPs, or their families, either had a stake in the toll-tax business or were road contractors.

INSIGHT

Bypassing Parliament scrutiny

The inclusion of non-tax proposals in the Finance Bill undermines the legislative process

CHAKSHU ROY & MANDIRA KALA

The Finance Bill of 2019, in addition to amending the tax laws, also amends several other laws unrelated to taxation

The first Budget session of the 17th Lok Sabha is underway. Earlier this month, Finance Minister Nirmala Sitharaman outlined the government's budgetary proposals in her speech in the Lok Sabha. After finishing her speech she introduced the Finance Bill. The rules of procedure of the Lok Sabha refer to the Finance Bill as a Bill which is introduced each year to give effect to the financial proposals of the government for the next financial year. It ordinarily contains the details of the changes in the tax rates and other consequential changes in the tax laws of the country.

However, the Finance Bill of 2019, in addition to amending the tax laws, also amends several other laws unrelated to taxation in the country. For example, it amends the Reserve Bank of India Act, the National Housing Bank Act and the Insurance Act to change the net worth requirements of non-banking finance companies, housing finance companies and foreign insurance companies engaged in reinsurance. In addition, it proposes amendments to enable RBI to take measures for the management of NBFCs.

Even in the 16th Lok Sabha, some Finance Bills amended laws which were not connected to the taxation regime in the country. The Finance Bill of 2016 amended the RBI Act to establish the Monetary Policy Committee as a statutory body responsible for inflation targeting. The 2017 Finance Bill, changed the composition of 19 tribunals such as the Securities Appellate Tribunal, the Telecom Disputes Settlement and Appellate Tribunal, the National Green Tribunal and repealed seven other authorities including the Competition Appellate Tribunal. The Finance Bill, 2018, had 218 clauses, half of which were matters unrelated to the imposition of taxes.

In our parliamentary system, all Bills go through a detailed scrutiny process. This scrutiny process is multi-tiered. First MPs have the opportunity to oppose the introduction of a Bill. Thereafter a Bill is referred to a Parliamentary Committee composed of MPs from both Lok Sabha and Rajya Sabha which examines in detail each clause of a Bill. It also invites government and other experts to share with the committee their views on the Bill. Thereafter the Bill is debated extensively on the floor of both Houses of Parliament. However, the Finance Bill, which falls in the category of a Money Bill, does not go through a similar process. For one, it is the exclusive preserve of the Lok Sabha. The Rajya Sabha can only make suggestions for amending the Finance Bill. Also, its suggestions are not binding on the Lok Sabha. In addition, Finance Bills do not go through the detailed scrutiny of a Parliamentary Standing Committee. Which means that if a Finance Bill contains provisions other than those related to taxation they escape the scrutiny process of Parliament.

The first speaker of the Lok Sabha, G V Mavalankar, was of the opinion that a Money Bill could contain provisions other than those related to the imposition of taxes if such provisions were necessary for the administration of that tax. His successor, M A Ayyangar, provided a more specific interpretation of what could be included in the Finance Bill. In 1956 he said, "I would normally urge upon the Finance Minister, not only he but also all his successors, to see to it that only those provisions which relate to the raising of taxation should be included in the Bill. The procedure should be followed and no other provisions should be given attention to unless they are absolutely consequential." In 2017, the Speaker of the Lok Sabha also suggested that every effort should be made to separate taxation measures from other matters.

Changes in the taxation regime of a country may vary depending on the economic policies being followed by a popularly elected government. Such changes can only be done by the directly elected house as long as the government enjoys the confidence of that house. However, structural changes in our legal system, which are unrelated to taxation, should only be done through the established mechanism of scrutiny and deliberation by both houses of Parliament. There is no reason to exclude the Rajya Sabha from deliberating on the changes of a permanent nature to the legal system and having its opinion addressed. Such changes should only be made through separate Bills which go through the full scrutiny of Parliament.

Bypassing of this process results in such changes getting embroiled in litigation. Currently, the Supreme Court is hearing several petitions that question the constitutional validity of changes made to the structure and composition of tribunals as was done by the Finance Bill, 2017. More importantly, when substantive structural and regulatory changes to laws are included in the Finance Bill, it sets a bad precedent and undermines the role of Parliament in ensuring that the lawmaking process is rigorous as well as consultative.

The authors are with PRS Legislative Research

LETTERS

All eyes on the SC

This refers to "Crisis for IBC" (July 16). It seems that the NCLT and the NCLAT, through the recent judgments on stressed IL&FS and Essar Steel respectively, have shaken the confidence of the creditors in the financial market. The concept of the financial market has been shaken due to the treatment of secured and unsecured creditors. The secured creditors enjoy the rights of faster payout in case something goes wrong, they accept a low rate of interest and thereby low return on investment. The trust of the financial market is built on this simple rule that is not followed in this case.

If this trend continues, the total credit architecture will break down because of trust deficit in the financial markets and the purpose of IBC is going to be defeated in the long run.

This would also result in a lack of foreign investment in the stressed assets making IBC futile in the long run. I agree that PF might make a loss in exposure to IL&FS but it is up to the guarantors and also the regulator to ensure the right of the beneficiaries. Everything now depends on the judgement of the Supreme Court.

Partha Sarathi Mukhopadhyay Nagpur

The real picture

This refers to "Celebrating 50 years of bank nationalisation" (July 15). The writer says that the RBI governor was not kept in loop. This reminds me how and when the governor was brought into picture.

I was working in the central office of RBI at Mumbai then. The rumours were afloat for some days in the wake of Morarji Desai's virtual dismissal from finance ministership and takeover of the finance portfolio by the then Prime Minister Indira Gandhi that banks were likely to be nationalised any day. In the midst of these rumours, governor L K Jha at Mumbai received a call from the prime minister's office in Delhi that the PM wanted to meet him urgently. Presuming that she wanted to discuss the issue of bank nationalisation, Jha sent for his secretary and dictated a detailed note saying that banks were already under comprehensive "social control" and nationalisation would not serve any purpose; on the other hand, it would cast an unnecessary responsibility on the government and the RBI.

With that note in hand, Jha entered the PM's chamber, a day later. Just as he was at the entry door, she addressed him saying, "I see you are carrying a fat note. You may leave it here", pointing to a small table by her side, "and join the team in the adjoining room and help them in drafting an ordinance to nationalise all the private sector banks with deposits exceeding ₹50 crore".

The rest is history.

R C Mody New Delhi

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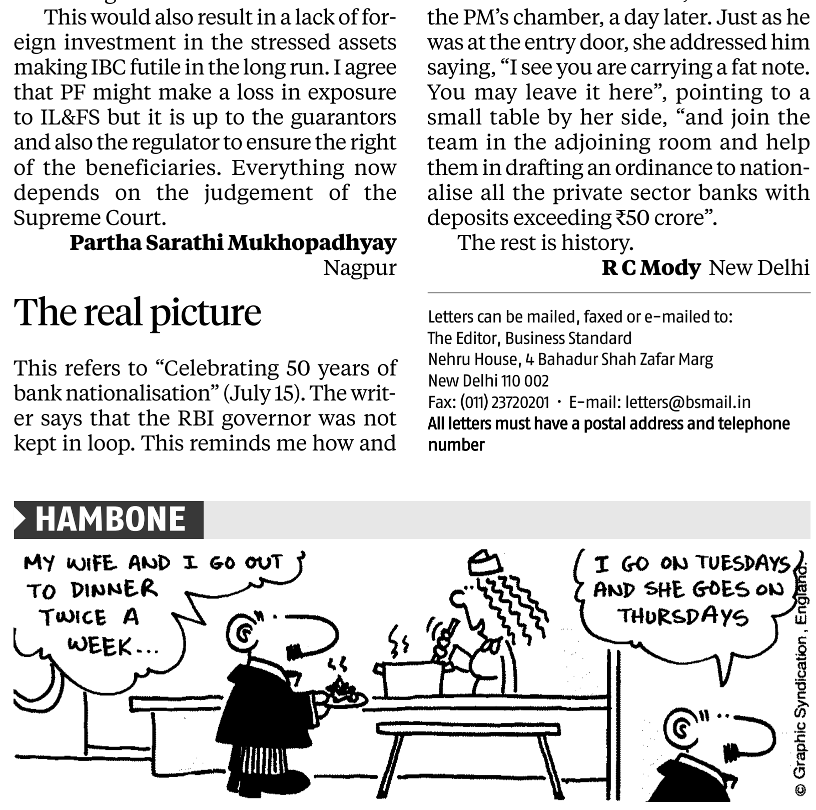
HAMBONE



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Dealing with DHFL

Asset destruction should be minimised

Dewan Housing Finance Limited (DHFL) has released its unaudited and uninspected financial results for the March quarter, setting off fears for its continued survival. Its stock tanked after the markets opened this week to the lowest point in years, as the results reported a loss of ₹2,223 crore in the March quarter. Earlier in July, DHFL defaulted on its obligations to repay ₹2,858 crore. The company also reported major possible stress in its wholesale loan book. It further said that regulators found its capital adequacy ratio below the required 12 per cent, and there were "gaps" in documentation for loans worth more than ₹20,000 crore. Since DHFL is a listed company, it has raised money from retail investors, including through public deposits. Almost 30 banks have lent it almost ₹40,000 crore of its total loan book of over ₹90,000 crore, and 10 mutual fund houses have lent it about ₹5,000 crore under 165 schemes.

The banks have come up with an inter-creditor agreement (ICA) to restructure DHFL's loan book. The issue here, however, is that banks have less than 75 per cent of the outstanding loans to DHFL — which means that the ICA is not binding on other creditors. Mutual funds are rightly concerned about two aspects of the ICA. For one, they are reluctant after their experience with a standstill agreement that was offered to the promoters of Essel earlier this year which attracted adverse regulatory attention. In addition, the banks' plan to pay off retail investors and provident funds with exposure to DHFL. Presumably, this is a consequence of the nationalised banks' political concerns. However, the mutual funds correctly point out that such unsecured investors cannot be treated at par with secured investments by debt funds. This would severely undermine the credit markets, already shaken by legal decisions that appear to de-prioritise the repayment of secured loans.

The crisis in DHFL is a regulatory error, and also reflects poorly on the credit rating agencies. In dealing with the consequences of the default, three ordered principles should be kept in mind. First, the stability of financial markets — in particular, secured creditors should be given preference. Second, the viability of the housing finance market. The difference between the wholesale and retail loan books of DHFL — the former far less secure than the latter — needs to be taken into consideration. And, finally, asset destruction should be minimised. That last principle means that if DHFL is merely illiquid and not insolvent, it should ideally be saved by an infusion of capital. The question is whether that is true — and, if it is, why banks are not insisting on a closer probe of its books, or threatening a change in management unless the promoters infuse cash into the company.

Crucially, when it comes to the question of evaluating the usefulness of additional capital, banks must not take an over-optimistic view of the possibility of completing projects. The DHFL crisis is also a reminder that a legal framework for the resolution of financial companies should not be further delayed.

A road map for PSUs

Time to address the bigger underlying issues

Debt in public sector undertakings (PSUs) is on the rise. As reported by this newspaper on Monday, the average debt-equity ratio in a sample of 40 listed non-financial PSUs went up by 10 basis points, year-on-year, to a new high of 0.68 in FY19. The ratio has worsened for the third consecutive year. The balance sheet of the private sector also deteriorated, partly because of unfavourable earnings, marking a reversal in the deleveraging process. While this could affect revival in investment, weakening PSU balance sheet will have implications for government finance as well.

The combined borrowing by PSUs went up by 13.5 per cent, while their cash balance declined by 12.8 per cent during the last financial year, to a large extent because of the government's dependence on dividend payments to balance the Budget. This could lead to multiple problems for PSUs, and the government being the largest shareholder would also suffer. For instance, given their lower cash balance, these firms will not be in the best position to make investments, which will affect growth prospects and the ability to generate cash. This would not only be a drag on the flow of dividend in future, but also on tax collection. Further, continuous government interference affects investor sentiment, resulting in lower valuations of listed PSUs. Depressed valuations weigh on resource mobilisation through disinvestment. Therefore, the government would do well to reduce its dependence on PSUs to fund expenditure. This will, perhaps, be possible only if it has a broad policy for the PSUs.

To be fair, problems in the context of managing PSUs and the need for a broader framework are not new. Governments in the past have also used cash-rich state-run firms to supplement revenue collection. As a result, the bigger underlying issues remained unaddressed. For instance, as a 2018 report of the Comptroller and Auditor General of India showed, out of 212 companies that declared profits in 2016-17, about 75 per cent of the contribution came from 49 companies in three sectors — coal and lignite, petroleum and power. This clearly shows that most profitable state-run enterprises are in sectors where the government has excessive control. Further, there were 188 government companies with accumulated losses in excess of ₹1.23 trillion, and the net worth of 71 companies had been totally eroded.

Evidently, these PSUs are a drag on government finances. To its credit, the government has reiterated its commitment to strategic disinvestment. It needs to accelerate the process. This will enable the government to recycle assets and push investment. It is important to note that proceeds from disinvestment should ideally be used to fund capital expenditure and create new assets. NITI Aayog has a list of PSUs for strategic disinvestment and this could be a good starting point. However, the government should not stop at loss-making ones and aim to get out of all non-strategic PSUs over time.

In this context, it would help if the government has a clear medium-term road map, so that disinvestment is not used just to bridge the shortfall in revenue collection. A road map would also enable market participants to plan for the kind of assets they want to bid. In the interim, PSUs should be given full functional autonomy, which will help improve valuations.

ILLUSTRATION: BINAY SINHA

A well-being fiscal Budget

There are lessons for India in New Zealand's path-breaking attempt at taking a philosophical approach to budgeting

India just presented its annual Budget along traditional lines. New Zealand just presented its annual Budget using a well-being framework. It is a path-breaking first attempt. What New Zealand has essentially done is to adopt an "overarching philosophical approach" as its conceptual basis and world view. It has used indicators contained in a Living Standards Framework (LSF) to assess well-being, and has used carefully delineated information for technical definitions and laborious data sets for chosen indicators that are currently accepted internationally as well-being criteria[1].

As I have explained earlier, "subjective well-being" has become a concept that is currently quite widespread. It comprises overall life satisfaction and sense of meaning and self. It is reflected in the use of time or the quality and quantity of people's leisure and recreation time, in other words, people's free time when they are not working or doing chores. Reflecting India's low international well-being or happiness ranking (see my columns *Indians and their unhappiness* of April 15, 2019 and *Policy-making with happiness* of May 15, 2019), should India too attempt to adopt a well-being approach for its future Budgets? That would make India's prevailing challenges transparent during the Budget process. Secrecy behind Indian Budgets has lost any useful role.

PARTHASARATHI SHOME

To achieve such an objective, we need to examine New Zealand's approach — LSF and its instruments. The social foundation of LSF is civic engagement and assurance of governance. Better governance is reflected, among other things, by the proportion of the population reporting discrimination, and every group with its distinct cultural identity exerting the ability to be itself. This would be an appropriate recognition for incorporation in India as well.

The five priorities that were set by New Zealand in its 2019 Budget comprised a sustainable and low-emissions economy, support of digital participation, lifting Maori and Pacific incomes and skills opportunities, reducing child poverty and family violence, and improving child well-being, and supporting mental well-being. These were then broken up into measurable criteria.

Regarding selected microeconomic criteria in LSF, quality of environment comprised a central concern. This included scientifically measured air quality, satisfaction with water quality and natural space footprint within a 1km radius of dwelling. Criteria included under health comprised life expectancy at birth, self-reported health status, limitations in daily activities, and proportion of population with poor mental health. Another criterion, housing, included rooms per person, housing cost overburden, and housing quality. Knowledge and skills were reflected in the educational attainment of adults (upper secondary and tertiary) as well as cognitive skills at age 15.

Macroeconomic criteria such as income and consumption were, of course, not ignored, including people's disposable income from all sources, how much people spend and the material possessions they have. Within jobs and earnings were included unemployment rate, median hourly earnings, work accidents rate and job strain.

Next were societal conditions. Safety and security included intentional homicide rate per 100,000, self-reported victimisation and feelings of safety. Social connections include social network support, loneliness and time spent in positive social activities. The methodology included questionnaires and data on couples with and without children.

The LSF framework is not static. It recognises that there are four capitals whose growth, distribution and sustainability have ramifications on inter-generational well-being. The four capitals comprise, first, natural capital—aspects of natural environment, including land, soil, water, plants, and animals. Second is social capital—trust, rule of law, cultural identity, connections between people and community—norms and values underpinning society. In it are embedded the rudiments of preservation of the Maori culture, that of the original New Zealanders. Third is human capital—people's skills, knowledge, physical and mental health—enablement to work, study and enjoy recreation. And fourth is financial and physical capital—houses, roads, buildings, hospitals, factories, equipment, vehicles — having direct roles in supporting incomes and material living conditions. The capitals are interdependent and work together to support well-being.

The process was complex. Ministerial decisions were made based on, to begin, government priority setting and value judgements. The above government priorities were informed through data, analysis, advice, and involved various ministries such as environment, social development, child well-being unit, treasury (finance), and other agencies. Then it went to the full Cabinet and Cabinet Committees that checked adherence to overall Budget strategy and regulation. Finally the Budget was agreed by the Cabinet.

New Zealand admitted some risks. These included limits on the prevailing state of knowledge of the wider range of government activity that it proposes to cover. Service line agencies may be expected to view well-being as an exercise justifying what they already do, though the exercise should be about doing something different.

No doubt international leadership is needed to underline the importance of well-being Budgets in elaborating and justifying expenditure components and allocations. It would also indicate the direction of inter-generational sustainability of government expenditure. Countries could take unilateral steps. India faces massive problems of environmental sustainability as well as slower than acceptable reduction of poverty, extreme poverty and its socio-economic indicators. There is not much justification needed in this observation as revealed in an array of global cross-country indicators that I have been pointing over two years. A new approach by government is needed to enhance transparency in priority setting through open and participatory consultation, and then introduce authentic monitoring and evaluation.

Adopting the LSF by India would require massive efforts but it can be done. So much statistics is gathered in India anyway. Now an approach with new components and careful attention to detail would be needed. Perhaps India can become the first emerging economy to present a well-being Budget or at least announce its intention to do so in the next three years? Only then government expenditures to improve and hasten the well-being of the Indian population could be transparently tracked and corrected. That is the only way India can truthfully improve its near bottom global position on well-being.

[1]Our people, our country and our future, Living Standards Dashboard Report 2018, Government of New Zealand, illustrated by Tony Burton of New Zealand Treasury at London School of Economics last week.

Back to more govt staff, more PSU outlay

In 2014, Prime Minister Narendra Modi had inherited from his predecessor, Manmohan Singh, a government whose manpower size was about 3.45 million. A little-known fact is that in the first three years of his first term, Mr Modi did remarkably well in reducing that headcount of government staff in various central ministries to 3.23 million.

Predictably, the pace of reduction slowed with each passing year. After effecting a 4 per cent cut in the government's manpower size to 3.31 million in 2014-15, the pace of reduction fell to 1.6 per cent at 3.25 million in 2015-16 and even further to 0.44 per cent at 3.23 million in 2016-17.

Yet, the reduction in the government's headcount by a little less than a quarter of a million in just three years was creditable. The magnitude of the squeeze was also quite substantial, though it was lower than the reduction of about 13 per cent in 2000-01 under the Atal Bihari Vajpayee regime and 6.5 per cent in 2011-12 under Manmohan Singh.

NEW DELHI DIARY

A K BHATTACHARYA

Worryingly, however, more than the entire gain from the manpower reduction in the first three years of the Modi regime was frittered away through an addition to the headcount in the last two years. From 3.23 million in 2016-17, the government headcount rose by 7.8 per cent to 3.49 million in 2017-18 and further by 3.7 per cent to 3.61 million in 2018-19.

What led to the surge? Of the increase in the manpower size by about 250,000 in 2017-18, the bulk was on account of a headcount rise in the government's tax department by about 70,000, the civilian defence staff by about 45,000 and in the police department of the home affairs ministry by about 61,000. The total increase of about 128,000 in 2018-19 was largely due to the manpower size of the Indian Railways growing by about 99,000 to 1.37 million.

It may be sheer coincidence that the decline in the government headcount took place in three years after the formation of the Modi government in 2014 and the trend reversed when just two years were left before the next general elections. Were the elections a factor in the surge in the manpower?

Whatever may be the reason, there is now clear evidence that the Modi regime is not averse to the idea of a large government. In other words, it may talk about providing maximum governance through minimum government, but it does not actually consistently and sustainably work towards shrinking the size of the government. An indication of this approach is evident from its manpower headcount as also from the nature of its engagement with the public sector. Just as the manpower size in the last two years went up, the Modi government's engagement with the public sector also increased.

In the last five years of the Modi government, for instance, the government pumped in fresh equity into public sector undertakings or PSUs to the tune of ₹6.26 trillion. The Manmohan Singh government, between 2009 and 2014, invested only about ₹2.33 trillion through equity. Of course, the bulk of the fresh equity invested by the Modi government in PSUs is on account of public sector banks — as much as ₹2.52 trillion. But in addition to that, the Modi government also invested ₹2 trillion in the Indian Railways, ₹1.14 trillion in the National Highways Authority of India (NHAI) and ₹17,320 crore in Air India.

It is reasonable to argue that the Modi government had little option other than raising government equity in public sector undertakings at a time when private-sector investment flows had slowed significantly and government investments were necessary to keep the growth momentum intact. A total investment of ₹3.14 trillion in the Indian Railways and the NHAI could be justified on that ground alone. Even the need for infusing ₹2.52 trillion of equity into public sector banks could be justified on the ground that these banks, burdened by huge non-performing loans, had to be rescued with more capital so that they could get back into the business of prudent lending and promote economic activity.

Thus, the public sector capital outlay (including their internal resources, loans and government equity) jumped from ₹2.96 trillion in 2014-15 to ₹8.43 trillion in 2018-19, the last year of the Modi government's first term. How steep this rise was can be gauged from the fact that the share of public sector outlay in total expenditure of the Union government went up from about 18 per cent in 2014-15 to 34 per cent in 2018-19.

Even as the public sector outlay kept rising, the government also began dipping into the reserves of PSUs. In 2014-15, the government took credit of ₹31,692 crore by way of dividends from PSUs. The dividends receipt kept rising in the following years and was estimated at ₹45,124 crore in 2018-19, even though the PSUs' profitability or financial health did not show any extraordinary improvement.

The Modi government's increasing engagement with the public sector had another dimension. In the five years, between 2014-15 and 2018-19, the government sold PSU shares through a variety of methods (including the sale of one PSU's shares to another PSU) to raise about ₹2.88 trillion, but without any single instance of privatisation. The Manmohan Singh government had raised only ₹99,367 crore in its five years from 2009-10 to 2013-14 and that, too, was without any privatisation.

There could be many reasons for the way the Modi government has increased its manpower size or improved its engagement with the public sector, either through higher outlays or by raking in more revenues from PSUs in the form of dividends or disinvestment. But this is an aspect of the Modi government, where it differs from the Atal Bihari Vajpayee government and which is not often recognised.

Darkness in the trading ecosystem

BOOK REVIEW

NAMIT GUPTA

What's the difference between, say, 30.79 milliseconds and 29.29 milliseconds, where one millisecond is one-thousandth of the smallest unit of time on your wristwatch? One-and-a-half milliseconds and a few million dollars or more, made or lost, Walter Mattli would have you know in his book *Darkness By Design: The Hidden Power In Global Capital Markets* as he takes you on a trip into the sinister world of stock market deals based on algorithmic trading.

Mr Mattli, a professor of international political economy and a fellow of St John's College, Oxford, paints a gloomy picture of the state of affairs in securities trading and laments the systematic decimation of the traditional floor-based co-operative stock exchange model, and its subsequent replacement with opaque, greed-driven, supercomputer-based split-second buying and selling of instruments. The author also blames unabated market fragmentation, brought on by rapid globalisation and the spate of M&As and corporate restructuring, for handing over the reins of the trading business to a few players.

This clutch has been using both its financial muscle to frenetically invest millions of dollars in fibre-optic networks to stay ahead of the competition and its political clout to change the core membership structure of the stock exchange. Obsessed with speed, these corporations, to whom membership to a platform like the New York Stock Exchange was off limits by decree at one point, were willing to pay top dollar for speed once they got one foot in after years of lobbying and silently calling the shots on the preambles of the exchanges that once regarded them as persona non grata. In 2010, for instance, traders were paying as much as $14 million for a leased line that gave them a 1.5 millisecond information edge over their immediate rivals who were hooked onto a Chicago-New York network. The arithmetic made sense simply because a one millisecond advantage could translate into a gains of $100 million a year, the author explains.

If that hasn't left you astounded, Mr Mattli informs you that milliseconds are now passe, and that microchips today capable of doing trades in just about 740 nanoseconds — one nanosecond is a billionth of a second — and efforts are on to achieving speeds in picoseconds, or one-trillionth of a second.

The quantum leap in automation has also rendered political boundaries redundant, allowing for trading across markets the world over, fostering fierce competition in domestic and cross-border arbitrage, and giving rise to a slew of financially engineered products in the trading universe.

So how has all this changed the trading landscape? Mr Mattli convincingly argues that it has eradicated what he calls the honest broker-partner model and replaced it with a handful of giant corporations that strictly cater to a wealthy clientele while simultaneously cornering the profits in off-market deals using supercomputers in locations miles away from the trading floor. In effect, this lot has virtually killed traditional stock exchange. The author buttresses his argument with statistics and other evidence. Consider this: The New York Stock Exchange, the global leader in securities trading for much of the 20th century, saw its overall share in the domestic market decline from 80 per cent to about 24 per cent in the past decade, even as there was a spike in the number of orders from a few million daily to several billions today.

In all of this, the small investor seems to have lost out, despite the quantum leap in efficiency and rationalisation of brokerage costs. Mr Mattli cites a 2014 US survey in which a staggering 70 per cent of financial industry participants believe that the current capital market ecosystem is unfair to investors, while only 18 per cent believe it is fair.

The author comes down heavily on what he describes are bad market governance, in which "scammers will scam as long as deception, manipulation, or misrepresentation pays". While he comes down particularly hard on collocation for concentrating power in the hands of a few, Mr Mattli also points out to more disturbing signs of this transition to an entry-barrier-driven business, such as the series of flash crashes in which markets nosedive for no apparent reason, only to recover within minutes. Within this domain, there are large erratic price swings in individual stocks over milliseconds, which he explains are daily occurrences in today's markets. He adds that one source identified as many as 18,500 such mini flash crashes between 2006 and 2010 in the US stock exchanges alone.

But there is a pinhole in Mr Mattli's dark world that lets in a little bit of sunlight to dispel the gloom. The author praises recent regulatory initiatives by the US SEC to monitor alternative trading systems, although he does mention that its response to the so-called dark pools has been delayed. But the US isn't alone in clamping down on opaque trading practices. References have also been made to the initiatives by other regulators, such as the 2012 expansion of market integrity rules by the Australian Securities Investment Commission and the adoption in 2014 by European regulators of the Market in Financial Instruments Directive reforms, which came into effect in 2018.

Mr Mattli's book is a delightful chronicle of the changes in the way trading-related information has flowed, right from the days of America's first stock exchange in Philadelphia, when express coaches were used to deliver news, to the advent of wire services, courtesy a certain Mr Paul Reuter, to the present era of nanoseconds. You don't necessarily have to be an investment buff to want to pick up this one, and even a mild interest in modern American history is sufficient for one to buy it.

DARKNESS BY DESIGN: The Hidden Power In Global Capital Markets
Walter Mattli
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