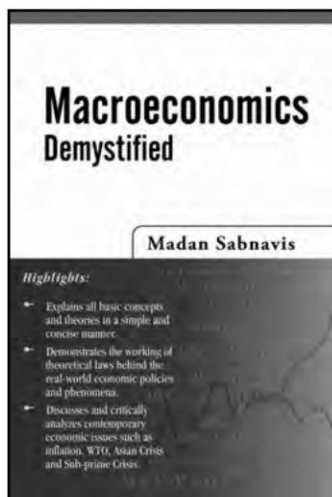


ECO- QUIRKS

An Economist's Journey into Your World

Also by Madan Sabnavis



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Madan Sabnavis



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For
Ragini and Charu

Preface

“We all agree that pessimism is a mark of superior intellect.”

J.K. Galbraith

Economists, as a rule, are considered to be cynical, and it is rare to come across an optimistic one. It is said that if an economist is optimistic, then he must be working for the government, as it is within those confines that one takes an optimistic view. Also, almost all government economists response diametrically opposite views once they are out of service, especially after retirement, or when they take up a job with the private sector, or join a non-government research institute. While the fiscal deficit will always be under control when you are working with the government, it will become unrealistic and out of sync with the economic environment when you are with a private company. When you are advising the government, you will favour a gradualist approach to economic reforms, but if you join the World Bank or ADB (Asian Development Bank), then you will be critical of the pace of reforms. Therefore, the subject has been called, not without a twist of humour, and quite appropriately, the *dismal science*.

The adage that all economists are cynics is quite true, and when such a person begins a journey into different aspects of economic activity with a critical (cynical) mind, the observations tend to be cynical, yet true. While the common man would not pause to critically analyze what he sees in his life, the economist looks into every aspect deeply, and imputes a value to everything that can be monetised. Also, there is a tendency to create a theory from patterns which emerge, or better still, if it goes against the grain of conventional thinking. That is how new theories come into being, and Nobel Prizes are won based on such out-of-the box thinking. While a person would look at the price of a soft drink on the menu card and take it for what it is, an economist would pose quite a few questions and initiate a debate. This is not

difficult when one prefixes anything that is obvious with a ‘why’, ‘how’ ‘why not’, ‘if not’, ‘is it possible’, and so on. These questions have always spurred many a debate in the area of economics, with the economists haggling over various possibilities. Things get better if there is something amiss, especially if it is an outcome of human behaviour. After all economics is called a behavioural science also.

It is with this spirit that a journey has been undertaken to look at the common, yet unusual aspects of life. To maintain an honourable balance, the paths taken are across both the dark and the not-so-dark aspects of life. The brighter though less explored venues are also included, which are also quite illuminating. The basic idea is to bring to notice the importance of common events that would otherwise escape our attention. The title is based on the quirks that we come across in our lives, which are significant as they highlight our own fickleness. The subjects discussed are not really new, and the cynic adversary reading such stories, could end up saying, “So what”? or, a simple “of course I knew this all along”. At times the reader may feel that special cases have been generalized, but then this is expected when subjects are common and where the inferences drawn are subjective. Further, while we all are probably aware of these issues or events, an audacious attempt has been made to attribute numbers to them. Here, a lot of liberty has been taken as there could be differing opinions and views on the same. While the numbers per se could change over time, and can be debated, the reader needs to note that there is nothing sacrosanct in using them, and any change is admissible. As far as possible, the numbers have been kept at conservative levels to avoid exaggeration. But, if this makes the reader still question the numbers, the outcome will be good. In fact such debates and changes would be appreciated as it would really mean that the reader has started thinking deeply on the issue, and has the makings of, to use an oxymoron, a “critical economist”. That in itself would be an achievement.

Most of the subjects that have been covered are based on pure observation, with the starting point being the quirkiness of the issue. The points of view, though tilting to the darker side are more

a reflection of human behaviour which has been gauged based on discussions with the man-on-the-street or on personal experiences generalized at times. Extensions have been made to the corporate world where a different set of quirks pervade quite significantly. Here, though it is individuals who dominate corporate action, the way things have evolved, corporate action *per se* appears quirky to the point of being amusing.

The analysis also goes into the realm of government policy where anomaly and idiosyncrasy dominate, leaving one quite baffled over its actions. For one who swears by the two TV epics, “*Yes Minister*” and “*Yes Prime Minister*”, made immortal by Jonathan Lynn and Anthony Jay, the working of the bureaucracy is quite quirky. More importantly, the name of the country does not matter; the same holds true for all Westminster-type governments, though the example here is of the Indian government. You could just as well change the name of the country and still see the same image in the mirror.

Further, societal behaviour is also quite fascinating as it adds a new dimension to the way in which economies develop and evolve over time. Societal behaviour and customs, which have evolved over time, throw a gentle light over the economics which motivates all such activity. Our own behaviour too is important as there are always games being played with our counterparts, which could be an individual or an institution. Everyone is trying to score over the other and given that the subject is about human behaviour, the responses are crafted based on psychology. So, very often, it is a case of you knowing that I know that you know, and so on.

While a lot of our actions are apparently impulsive, someone somewhere knows it and creates conditions for such an impulse. Someone had called it an invisible hand a few centuries ago, but there could be someone else actually moving it. Very often we are made to do things exactly like what the others want us to do, albeit voluntarily. This is the challenge in free societies where every player wants the other to behave in a certain manner without compulsion. The trick is to use psychology as the tool. And what is more important is that it

works most of the time. That is how organizations prosper, profits are made, employees are rewarded.

Profits were an outcome of exploitative behaviour in the olden days. But, today, profits are earned in a very respectable way and we as consumers contribute to it. We are willing to pay for every positive economic gain of the other, whether it is the government or the policeman on the road. This is the ultimate triumph of capitalism working in earnest in an imperfect market based on perfect mechanisms.

The chapters in this book have often made references to certain organisations or persons. Therefore, at the outset it must be emphasized that they could be any other entity, and the names taken are those that are familiar to the readers. There is no attempt to either indicate that the entity or person is above the rest, or in any way question the competence or relevance of the same. It is felt that a name attached to a theory makes reading more interesting than just blank references to no one in particular. A name means a face which the reader can identify with.

It is hoped that the reader continues reading this book with a smile as there is a humorous side to all the quirks that have been discussed here. At times it is serious—especially where the scene presented is a reflection of the dark reality in which we reside. You can see yourself somewhere in every chapter, and will probably exclaim at the similarity. The fact is that no one is above it, and we are really no different from one another. In fact this holds, irrespective of which side we are on—the receiving, or the delivering party. Our backgrounds may differ, and so may our lifestyles, but the commonality is that we are all human beings and susceptible almost equally to the quirkiness of nature.

MADAN SABNAVIS

Acknowledgements

A book of this kind is ruled by the characters that are discussed, and the author has to thank their quirky nature for providing the requisite raw material. If it were a piece of fiction, the protagonists would be all these entities—banks, insurance companies, experts, media, governments, corporate boards, etc.—as they are the good and bad guys, so to speak. But this is reality and, strangely enough, it is a reflection of what shadow theatre is all about. The characters and institutions are funny and harsh—funny because the thought processes are different, and harsh because their behaviour actually exposes the darkness that lingers in the portraits that are presented to us.

A big ‘thank you’ to all those anonymous persons those selected at random and who have added authenticity to the thoughts which we have harnessed here, and to all the data that has been used to substantiate these quirks.

I am particularly thankful to my daughter Ragini, and wife Charu who have been feeding me with ideas and encouraging me to look deeper into these quirky aspects of life. My brother Madhukar, in the advertising world, has inadvertently added a lot of value by standing up in defence of several of these corporate quirks and hence, provided food for thought. His insights into the consumers’ mind have added value to the sections on advertising and media. It certainly hastened the pace of this book. The heated arguments that we shared in the Barista outlets on some of these issues allowed me to reassess the arguments, but did not quite camouflage the quirks. My mother Kamala has been a picture of the typical shopper, and her reactions have made me think deeper. I also owe a lot to my father for his constant encouragement.

Above all, I would like to express my gratitude to Tata McGraw Hill and especially to R. Chandra Sekher, Executive Publisher: Professional, for agreeing to experiment with my writing for the second time.

MADAN SABNAVIS

Contents

<i>Preface</i>	<i>vii</i>
<i>Acknowledgements</i>	<i>xiii</i>
Introduction	1
1. Visiting Lesser Known Economies	7
1.1 Economy of Residential Complex	10
1.2 Economics of Flyover Construction	18
1.3 Economics of Beggary	25
1.4 Economics of Bribery	32
1.5 Business of Religion	41
1.6 Economics of Religious Festivals	51
2. Try Investing Your Money... We'll Get You Anyway	61
2.1 Banking Trauma	64
2.2 The Insurance Game	77
2.3 Playing the Stock Market	92
2.4 Why Not Invest in Newspapers?	101
3. Economics and Mind Games All the Way	107
3.1 The Mall Psyche	108
3.2 Economics of Sales	117
3.3 Rationally Challenged	123
4. Corporate Quirks	137
4.1 Whose Majority is it Anyway?	140
4.2 The Queer World of the Board of Directors	146
4.3 The 'Non-transparent' Transparent Annual Report	158
5. The Human Craving to be Known: It's All about Publicity	169
5.1 Advertising: Is It a Con Game?	171

5.2	Do You Get Your Money's Worth?	179
5.3	Economics of Media	184
6.	The Importance of Knowing the Price	195
6.1	Pricing Beyond Theory	196
6.2	Air Ticket Pricing	204
7.	Getting Professional, or Rather, 'Non-professional' Professionals	213
7.1	Consulting the Consultants	214
7.2	The Less-known Businessmen	224
8.	Oddness Around Us	243
8.1	Gender Anomalies	246
8.2	Signaling and Self-fulfilling	251
8.3	Forecasting: Charlatans at the Gate	258
8.4	The Virtues of Sinning	265
8.5	Sta(u)ffing the Bureaucracy	272
8.6	Playing with Death	282
9.	Why We Will Survive?	291
	<i>Index</i>	<i>303</i>



Introduction

... the fact that an economist offers a theoretical analysis does not and should not automatically command respect. What is needed is some assurance that the analysis is actually relevant.

—Paul Krugman

We all take a lot many things for granted and never question the obvious, because it is obvious and there is no need to do so. However, when things look amiss, then it is noticeable because it looks odd, and different from what is expected. Hence, darkness in the morning is unusual, but sunlight during the day is taken for granted. But, very often, the obvious actually has a lot of quirkiness that is veiled in the normal. This is of interest to the economist because it is unusual and interesting. Furthermore, anything unusual actually opens scope for business, because companies have to innovate and evolve for which they have to tread a different path. Human quirkiness is hence, of interest here and forms the theme of several stories that can be narrated.

The subject matter of economics is quite elementary as it starts with certain assumptions on human behaviour. In the ideal setting it assumes that people are rational, and why not? After all, we tend to assume and think that we are rational, and that our actions are guided by reason, even if it is not agreeable to the others. In fact, if we were not rational, then there could never be any theory on human behaviour. This is so because we would all expect some kind of typical human behaviour in a certain situation. When this does not happen,

then the theory would fail. In slightly textbook language it is assumed that if we prefer chocolates to toffees, and ice cream to chocolates, then, by the law of transitivity, we must take in more ice cream than toffees. However, when you observe people and their behaviour, then the issue does not become so simple. People do not react in a pre-specified way. And the same example of transitivity would probably be a specific case where we can at most say that, while generally this rule would hold, there would be other occasions when they would not. Because, if this was the general rule, then there should be less toffees in the world than ice creams. But this is not so, which means that the rule of rationality does not always hold. This makes human behaviour more interesting.

Economics has often been compared to social science, and goes beyond the frontiers of demand and supply. It is possible for one to behave differently at different times, and there is no reason to expect that everyone should behave in the same way all the time. I may like X over Y today but, in a different environment, may prefer Y even if it is an expensive action. Besides, simplifying the choice between these three goodies would not be right, especially when there are a whole set of conditions that determine the final choice. This is why observation is important. This is why we have different people selling different goods to different people. Otherwise there would be a fixed set of goods and services that we would all be consuming with little or no differentiation. And all are doing well, and hence, evidently, it is not so, that all want the same goods all the time.

Also, the subject makes a rather facile statement that we demand more at lower prices. True, it makes sense to buy more of a product when it is cheap, but if all of us behaved this way, no one would make expensive goods. Yet, they do, which means that while this law would hold in general, there are always lots of cases where we buy more when the price is higher. This is where differentiation comes in and more importantly, this kind of a market can be created. Maybe, if there are two identical products, then the lower priced one will get our vote. But, again, this does not hold because often we are brand conscious

and go for the brand rather than the product. How many of us are aware of the fact that a lot of the branded apparel that have foreign names are actually made in Tirupur or Ludhiana in India. But, when the label matters, business takes over from economics, and production is geared towards a different set of consumers. Here one is not being irrational; in fact one is more rational than ever when such a choice is made. But, economic laws fail; or rather, need to be modified when product differentiation takes place.

Therefore, in a way, what really drives economic laws is human psychology which, in turn, can be guided a lot by the product itself. Producers can create markets by bringing about a perceived differentiation so that, at the end of the day, there is a unique product which people are willing to pay for. But, to be fair to the proponents of economics, they have played safe with the ubiquitous *ceteris paribus* condition which actually states that laws work when other conditions are held constant, among them being human tastes, and a variety of other factors.

Observing human behaviour is fascinating, especially when money is involved. This is the sole purpose of this tryst with the quirkiness involved when the subject matter of economics is juxtaposed with seemingly different kinds of human behaviour in different situations. This book, as the title suggests, captures various quirks that we come across in the economic world. The issues are not really novel, and the reader is bound to feel that he knew this all along even before reading the lines on the subject. The fact that they are commonplace and that all of us are aware, is significant, because we may have just taken it as given, and not really tarried to think deeper. Each and every subject discussed is based on observation, or rather, repeated observation and conversation with the subjects in different places to really be in position where a generalization of a sort is possible.

The subjects covered are hence varied. Some are based on attempts to attribute numbers to our surroundings. While the numbers per se may be debated, they have been understated to avoid the pitfalls of exaggeration. It is always better to be conservative with the use of

numbers, especially where there are guesses involved. But, the purpose is actually to talk of economic numbers related to seemingly innocuous happenings in front of us. At times these numbers are quite revealing, even at these conservative levels. The reader may choose to multiply these numbers and probably get a better picture.

Similarly, all of us have our own experiences when dealing with banks or insurance companies. At times it is exasperating, and on occasions disgusting. But then, these models have been crafted in a manner that once you are in the groove, it becomes difficult to step outside. Even if you do, you get caught in a similar web. Conversing with the concerned entities, one really gets to understand the business models and the way in which things operate. Would you ever have realized that the person who is advising you on the TV to buy or sell may actually be telling you to do just what he wants you to do? Or that insurance is actually a joke on you, and that you rarely get what you thought you would get? Or that the entire experience in a hospital is a nightmare, not from the point of view of the disease and treatment, but the vicious circle that you have been engulfed in where really you do not have a fair chance, or a choice. In fact, falling ill could be just as bad as getting on the wrong side of the law.

The themes chosen are varied, and have been clubbed under specific headings to give a flavour of the subject in the real sense. Government actions have always evoked sarcasm and wit. Observing its behaviour in various respects only reinforces our feeling that all governments are quirky; despite having bureaucrats in thousands, they deliver sub-optimal solutions. Examples are taken from the Indian context, but would apply anywhere where governments exist. It is always the same story.

In the same breadth, understanding corporate behaviour is fascinating because most of us are part of this game. We talk a lot about governance; and several tonnes of newsprint have been devoted to this subject. But, when you observe the way companies behave, and the way in which the rules are obeyed, your eyebrows would remain raised for quite some time.

Odd behaviour in different instances gives a different flavour of the situation when analysed against a background of rudimentary psychology. Mind games are on, and while the subject matter of game theory makes such steps and counter-steps a serious subject, the common man uses them well enough without having attended a classroom lecture. It may be said that it is in us to play games all the time.

As there has been a tendency to look at the shadow of all the issues, which obviously have a brighter side to them, the entire exercise has been captioned under 'a cynic's journey into the world of economics'. As the attempt is to take a look at the unusual side of a normal activity, the role of the economist changes, and for want of a better term, the economist becomes an eco-cynic. In a way, all economists are cynical as they have the tendency to always talk of both the bright and darker side, and often can picture the darker side where it is not evident. This is what has been attempted here.



1. Visiting Lesser Known Economies

It is always important to remember that the ability to see things in their correct perspective may be, and often is, divorced from the ability to reason correctly and vice versa.

—Joseph Schumpeter

The major concern of all governments, and hence the citizens, is growth. We tend to look at the economy as a whole and seek solace from the fact that the country is growing, and hence, we are better off or worse off than before. The bigger picture is what matters. On deeper probing, we are told that the textbook defines the economy in terms of the concept of GDP (Gross Domestic Product) wherein all contributions from various economic entities are summed to arrive at this whole number. Therefore, there is the traditional three sector classification of the economy into agriculture, industry and services, and within these three broad sectors, there are various sub-groups, and hence the GDP is the summation of all these parts. The process of getting this data is quite laborious as different sources are used and several imputations are made to arrive at each of these numbers.

We all know that the macro picture emerges from the micro sub-plots, and most of them are broadly defined in the handbook of the CSO (Central Statistical Organization). The human mind often stops here, and assumes that the numbers come from a whole set of collections and calculations which need not really be understood. But, there are some curious cases which we see around us; and seldom do we

pause and think deeper about the implications. These are all common day occurrences which are there for us to see and evaluate, if we want to. Some of these calculations make economics more interesting, as it reflects the numbers that we otherwise would not be looking at in the normal course of activity. These situations or incidents are the theme of this section for the eco-cynic who would attribute values to everything we observe on a nearly daily basis.



We live in different kinds of residential establishments which generate a lot of money and employment. We create this economy as employers who influence the lives of those who work with us.

We all live in different kinds of residential establishments which actually generate a lot of money and employment. It is an economy that we as individuals create, where we are

employers and actually affect the lives of those who work with us. Can we actually attribute a number to this economic set-up which progresses without us consciously making an attempt to do so?

Similarly, we see several government related construction sites and look at the total cost as is revealed by the information provided. But, what about the hidden costs involved? These numbers go beyond the bribes that are involved, or the endless delays in their completion. At times one unsuccessfully keeps asking the question as to why is it that the PWD (Public Works Department) is forever digging and filling up holes. Surely, it cannot be the classical Keynesian solution of creating employment—being at work all the time. That would mean attributing a lot of intelligence which is surely lacking in this respect. There are evidently other thought processes in action here.

Further, we have all, at some time or the other, fallen on the other side of the law, but the murky business surrounding the minor offences is really significant and provides another story. We normally are overtly cynical about the institution of law, or see only the lighter side of such encounters. But, there are economic laws prevailing in this set-up which make both the parties behave as they do. And the num-

bers do all quite add up to something significant; there are methods in this apparent madness. Moreover, a bribe could actually turn out to be an efficient economic tool.

Beggars, a common sight on the roadside, are normally passed on with a touch of sympathy at best, as they remain an eyesore for most of us. But, they also have a lot of economics attached to them, which is of interest. They have their own unwritten rules of operation, and constitute an economy as they use economic principles to carry on their business, i.e., begging, which are analogous to the techniques used by marketing persons in well-established organizations. The beggar economy is hence quite an elaborate informal set-up which has its own rules and regulations, where enforcement is also not really an issue. Everyone knows the rules of the game and would not like to get on the wrong side of the system. It is after all the law of the roads that prevails here. It is unwritten, but known and followed. Besides, these people provide a lot of employment through the backward linkages, and as the eco-cynic would point out, relieve the government from a major responsibility of providing a livelihood to them. They survive, which is, what is important.

Another area which has a lot of economics is religion, as we move from the rituals of a prayer to the donation box. The fact that everything is voluntary is significant, and the methods used to draw in the funds and channel them for various purposes is even more intriguing because the entire economy runs on faith. Everyone knows that the money given cannot reach the person for whom it is intended (even believers know that God is not a human being who has need for such stuff), but yet donates for reasons that he or she only knows. But the same person will scorn a beggar who asks for just a rupee outside the place of worship! Remember, all religions talk of love and giving, but we have our own rationale for giving somewhere (in the place of worship), and refusing elsewhere (just outside the place of worship).

A logical extension is to analyse the economics of the celebration of festivals which will give some insights into what goes behind these celebrations, and how they have an important role to play in the wider picture of the service economy.

Religion extends to the new variety of godmen who have become surrogates for the Gods, and are able to extract a monetary ‘belief’ from their own followers. Hence, they also generate their own economies of significant size that matters. These people also probably do a lot of social good, but the extension of their empires into educational and social fields makes one realize that there is quite a bit of materialism involved here.

These headings are not exhaustive as there are several such incidents in our lives which actually create islands of economic organizations or economic costs that makes us think deeper. The purpose here is to stimulate such thinking. What is important here is that a simple idea can be used to generate a rather complex economy which goes beyond the plain scenes that are obvious to our eyes.

1.1 ECONOMY OF RESIDENTIAL COMPLEX

Man is small, and therefore, small is beautiful.

—E.F. Schumacher

When we talk of an economy we refer to a whole gamut of entities, and then end up adding the contribution of each and every element to come to a whole number. Therefore, we have an economy which



A Mumbai housing complex comprises around 300 flats or apartments. A housing complex lays the genesis of a very strong service economy for earning individuals.

refers to the monetary value of the contribution made by each and every element in the country which can be disaggregated into agriculture, industry and services, and further

into rural, urban, rich, poor, etc. To get a bit more complicated we use the concept of value-added wherein the value of output is adjusted for values created elsewhere. This means that while a pen can cost, say, Rs. 10, the value added will be lower as it excludes the plastic or ink which has come from other activities. In simple language, it includes the value addition from the factors of production, i.e., land, labour,

capital and enterprise. But, have you ever stopped to really think about the economy you see around yourself, where you live?

Let us think of a housing complex in Mumbai which today comprises around 300 flats or apartments. There is nothing sacrosanct about the number, and the foregoing exercise can be extrapolated into any number based on our own observations. The basic idea is that a housing complex lays the genesis of a very strong service economy from the point of view of the people who earn a living. Being in the unorganized sector, it may not really be getting counted into the GDP number that economists keep talking about. Even if it does, it would be more of an imputation, but the purpose here is to arrive at some ballpark number.

What would the economy here look like? Intuitively it can be conjectured that there is a lot of wealth in this complex, based on the location and the typical class of people who reside here. But, buying or leasing a flat in a complex is one part of the story. We can exclude this amount from the calculations as these are fixed costs in a way which are incurred by the owner or resident. These residents however together trigger a secondary set of activities which is the subject of discussion here.

The continuous stream of other activities that is generated in this set-up closely resembles any manufacturing or other common service activity. In manufacturing, this is more obvious because it is in the organized sector where account statements are recorded. But, the economy of the 'complex' is also similar as it leads to the generation of a secondary set of economic activities which have their own implications, but are not recorded in a similar manner.

It may be recollected from the rudimentary economics textbook that there is a large service sector in the country which employs an equally large section of the labour force. In fact, the service sector is the largest employer in the country, after agriculture. This aspect becomes pertinent here as this 'housing complex' would be at the heart of a service sub-economy which is into the process of generating the requisite economic forces, much like the broader sectors with their own consumption norms.

The difference here is that there is a different kind of dualism existing here, in the sense that when we are talking of our own houses, often there are services which are carried out by ourselves, in which case they do not get included in the so-called GDP of the country. But, the moment the same is outsourced and is paid for, then it enters the income stream. The usual examples that come to mind relate to the chores carried out by the conventional housewife. The traditional home has the housewife performing functions, such as bringing up the children, cooking food, keeping the house tidy, and even dropping and picking up the children from school. These activities could be outsourced to servants who would be paid, and the same service would then get included in the GDP. However, when the housewife performs these chores, they are not included. In fact, one reason why GDP in other countries is higher than that of India is because these services being performed commercially in them and are getting valued.



What is the size of a typical 'housing complex economy' in terms of employment, income generation, consumption and savings?

Yet, it is difficult to actually ascribe a value to the same. In the following case to be analysed, this aspect becomes very important.

But things surely are changing in the urban areas where there are working couples, a situation which perforce compels them to outsource jobs to servants.

The exercise to be conducted here is to conjecture the size of a typical 'housing complex economy'. This is interesting because there are several such set-ups in the country which have the same implications in terms of employment, income generation, consumption and savings.

Let us assume that there are 300 households in such a complex, with an average salary of, say, **Rs. 10 lakh per annum**. We straightaway have created a mini economy of Rs. 30 crore in front of us, over and above the capital costs that may have been used to purchase these apartments. This is the pure income being earned in this society, other than from a normal economic activity. But, this is only the starting point as there are definite secondary streams of activities that are generated by the primary one.

What is more intriguing is the service economy which is being generated by these 300 apartments. This is how it goes. Normally, each building in Mumbai employs at least two security guards in two shifts. So, this complex with 6 buildings that we are speaking of actually has 24 security guards, with an additional 6 that one pays for substitution. The salary of each guard is Rs. 4,000 per month, which means a total expense of Rs. 96,000 per month, or **Rs. 12 lakh per annum**. This is the first part of the story.

All households use the services of maids and cooks, and with the current rate of Rs. 500 per job, with there being various other odd jobs, such as dusting and cooking besides the traditional jobs of mopping, washing clothes and utensils, a household would spend a minimum of Rs. 1,500 per month on maids. This works out to **Rs. 54 lakh per annum**.

The third service we use is that rendered by the car cleaners. Typically, there are two cars per household, but if we restrict it to say, one, with cleaning charges of Rs. 200 per car, there is another Rs. 7 lakh of service income being generated in this complex which will go up to **Rs. 10 lakh** in case the car multiple is taken at 1.5.

The fourth service that comes in pertains to housekeeping where there are two cleaners for each building, with a cost of Rs. 2000 per month. This comes to another **Rs. 3 lakhs**.

The fifth service is that of chauffeurs. Almost half the cars driven today would be by employed drivers. The service charge for this is around Rs. 6000 per month, on a conservative basis. Assuming here that 100 of these 300 cars have chauffeurs, we have another income stream of **Rs. 72 lakh per annum**.

Then there is the ubiquitous laundry man who is indispensable. While washing machines have probably done away with the traditional washing job that was once assigned to them (with the expensive clothes being sent to the dry cleaner), the daily pressing of clothes is still outsourced to these workers (very often migrants from the north). An average household has an expense of around Rs. 300 per month on getting this work done, which means **Rs. 11 lakh of expenditure**.

These monetary forces being generated in the residential complex's economy are summarized in the table below.

Heading	Amount (Rs. in lakhs)
Security	12
Maids and domestic help	54
Car cleaning	10
Chauffeurs	72
Laundry	11
Housekeeping	3
Total	162

If we sum up these numbers, the total service economy that is generated by one housing complex would be between Rs. 1.4–1.5 crore per annum, or for a 100 apartment complex, the service income is close to Rs. 50 lakh. We are excluding here other full-time maids or servants, who are often to be seen in modern Indian households.

Now, if out of a population of 15 mn in Mumbai, we assume that 30% live in complexes (considering that 60% are in slums), we are talking of 4.5 mn Mumbai people (or 1.1 mn families) generating this income. Assuming now that there are 100 flats in a complex, there could be around 11,250 such defined complexes which generate service income of Rs. 50 lakh each. Intuitively, we can see the size of this economy being somewhere in the region of Rs. 5,625 crore a year.

The important thing about this fact is that it is pure tax-free income which is being generated, and does not get counted under the taxable income bracket. The reason is quite straight forward: it is not accounted for as it is in the unorganized sector. The same set of services, if rendered by the house owner, would also have been unreported. However, if, as it happens in western countries, these services are sourced from regular agencies, then they would be taxed. In fact, in these countries, the employer, even if an individual, has to also provide for retirement and health benefits.

But this is important because, if this number is multiplied over various towns and cities, which at the macro level can be taken to be

10 times this amount, there is a substantial income which gets unreported in the country on account of the issues involved in tracking it. But this income gets well spent as most of these earners are normally spenders, and not savers. There is, hence, an important demand for products being generated by this section. Almost 90% of the money earned is spent by these families on consumption, with the balance being invested either in consumer goods, or in gold and jewellery.

The expenditure on consumption goods is significant as it provides a good market for products which are targeted at this aspirational class which strives to keep up with the Jones'. Therefore, this category of people would be the ones which would prefer to spend on trendy mobile phones, apparel, two-wheelers, etc., and also move from the regular cinema theatre to a multiplex, and from a wayside restaurant to McDonalds. These people comprise the class which could be looking at the ladder, and improving its standard of living.



The growth of cities to metropolitan centres and towns to cities will hasten the process of growth of these 'housing complex' economies.

The growth of cities into metropolitan centres, and towns to cities will hasten the process of growth of these 'housing complex' economies. Property prices have been rising, and as it has become progressively more difficult to own a bungalow in bigger cities, the preference is for housing complexes. These complexes in turn have also undergone a change with the focus now being on luxurious living, with the amenities provided increasing multifold. They have become symbols of a lifestyle, that too, a grand one. Jacuzzis and penthouses are more common today than they were yesteryear. The result is that the rates quoted for the services provided by the working class for the same jobs has also increased proportionately, and the value of wealth and income being generated by these complexes has risen commensurately.

Let us look at the cost of the services of a maid who does the job in the kitchen. It starts from a low of Rs. 300 per month in the dis-

tant suburbs, and rises to Rs. 800–1000 per month as one moves to south Mumbai, which is the most affluent part of the city. Similarly, a cook, who would be happy with Rs. 500 per month in the suburbs, will demand nothing less than Rs. 5000 per month as the towers become higher, and the swimming pools deeper. Therefore, the value of Rs. 1.5 crore for a housing complex of 300 apartments would rise to Rs. 2–2.5 crore as the wealth level rises. This phenomenon of growth in the economies of complexes has spread in other urban centres where the cost of land has gone up, making apartment living more attractive. Further, with incidence of crime also rising, people have shifted to these complexes for secure living.

The other significant aspect of this economy is that it involves creation of new jobs too. Every new complex opens up opportunities for 300 positions for maids, another 300 for car cleaners, 30–40 housekeepers cum security staff, and maybe 100 drivers. While there would be multiple jobs taken up by a maid, considering that there are still a variety of jobs to be done, there would be at least 500 fresh positions available in this set-up. As the labour that is recruited is generally from adjoining areas, access is easy and cost of travel is reduced. The dynamics here are quite interesting and need some comment.

Labour Dynamics

An interesting feature of these economies is that there is always a first mover advantage, as these workers flock to the houses for jobs. The rates are negotiable and the loyalty levels higher when the first inmates move in. The maids then erect barriers and ensure that new ones can come in only after they reach their saturation levels. Otherwise, it is virtually impossible to come in unless the resident brings a maid from outside. Even then, the maid cannot take up work in other houses as there would be threats issued to her if these unwritten rules are violated. The security men are the brokers. They are the first-point-of-contact for a resident for getting domestic help, and their commissions are high—they could run from Rs. 50–200 to send a maid to the house. They are a sort of employment agency, except that the

employee pays for the job while the employer provides goodwill. At the next level, there is the formation of an oligopoly where the maids get together, fix the rates, and steadily increase their charges. Once they do so, it will be difficult to resist their demand because, if you were to change the maid, the cost of replacement could just be higher. As all would tend to gain, no one really goes back on these deals. In fact, deviation is rare, and if at all done, is quite a hush-hush affair.

In the male fraternity of car cleaners, force is used to restrict entry. Have you ever thought of how, and why a complex has 3 or 4 'leaders' who allot the cars among the cleaners? The salary sharing is fixed. The resident pays Rs. 200, of which a maximum of Rs. 100 is passed on to the cleaner doing the job. The rest is kept by the 'leader'. He ensures that there are physical barriers; a cleaner cannot dare to go directly to the car owner and get the job, and also the full amount of Rs. 200 for himself. This would be the most logical thing to do. Therefore, when the complex develops, there are allocations made by the early set of cleaners, and once this is done, others really have no choice. One way out for a prospective employer is to get someone from outside. But here, the basic principle of rationality fails as rarely does one go out looking for help, preferring invariably to have someone already working in the same complex. Therefore, the possibility of outsiders coming in is limited. Further, even when they do come in, they soon learn of the prevailing rates and ask for the same amount.

Therefore, the oligopolistic forces ensure that the wage rates remain at a higher level. The spread of perfect information is only a matter of time.

Now, if one were to compare these structures with those of the corporate sector, the resemblance would be quite stark. Business lines invariably gravitate towards the formation of monopolies or oligopo-



Compare these structures with those in the corporate sector—monopolies or oligopolistic set-ups are formed, and barriers are set up through predatory pricing or financial pressure through large scale marketing.

listic set-ups, and barriers are set up through predatory pricing or financial pressure through large scale marketing. However, while laws are there to ensure that the large players do not swallow the small ones, at the micro level, the same cannot be ensured. This aspect adds continuity to the system which is repeatedly reinforced in these zones.

Therefore, the basic principles of economics are observable here as the so-called market system changes from a buyers' market (residents are buyers of the service) to a sellers' market (the providers of service), with the rules of competition giving way to creation of oligopolies, and the law of force (instead of the commercial law which is used through the regulatory processes in the commercial world) being used to ensure that the rules are obeyed. The resemblance to the capitalist system is, hence, stark.

1.2 ECONOMICS OF FLYOVER CONSTRUCTION

Nothing is so permanent as a temporary government program.

—Milton Friedman

Among the major sights in the city of Mumbai or any other metro city are the under-construction infrastructure projects. We have grown so cynical of such 'work-in-progress' that it is normal now for us to dismiss these projects as hotbeds of corruption where large sums of money are paid to obtain such contracts, and then delays are caused to extract escalation costs from the government. When the project is half-completed and funds run out due to genuine reasons, the higher cost has to be approved by the government, or else they continue to be in the 'work-in-progress' state. The system of tenders is looked with suspicion as the same contractors get the contracts to build flyovers, even though they have a history of constructing low quality roads. Tenders are floated and the lowest bid gets the offer. Though the bids are 'sealed', often the lowest bid could be known, and the favoured party puts in a lower number which then is selected in the qualifying process. This is well-known and needs no further description.

The process of disbursement of funds is also tardy. As there are long bureaucratic processes involved, everything takes time. While the initial payment is made to the contractor, subsequent release of funds could be problematic as there are inordinate delays. The government department, usually the Public Works Department, may not have the money, and even if it does, would have to make the necessary application within for disbursement. The files have to move, and the absence of anyone along the hierarchy would mean the file gets stuck. Until the money is disbursed, the contractor is not in a position to plough in his own capital. The project thus remains incomplete, with the workers missing and huge concrete slabs lying around. Often, large sums have to be paid for getting the disbursement order, with the contractor having two options: first, to wait for the funds, which may mean the project gets delayed. Second, to pay the money, and get it back by way of providing inferior final products.

The quality of construction is often poor as a result of which economic impediments are created. Bad quality of roads is one single reason for higher operational costs which get into the final price of the product that we consume and pay for. When the time taken to get to the destina-

tion is longer than necessary, the transportation costs move up, and so do the labour cost (overtime for the driver and his assistants). Good quality roads lower costs by ensuring higher level of efficiency. However, when one talks of individuals using similar facilities, these lesser known facts need some elucidation.

Evaluating the socio-economic cost of such projects is interesting, and is the subject for discussion here. The actual cost, or the escalation from negligence, is one part of the story which we read about in the press. But, the other costs which are of interest to the eco-cynic deal with the value being imputed to the resulting inefficiency. Since we



Let us evaluate the socio-economic cost of such projects—one is the actual cost while the other is the value being imputed to the resulting inefficiency.

normally look at the project cost and the cost over-runs, there would be more interest when we enter the other extraneous costs that are incurred but are often not taken into account by us.



The cost of the flyover was to be Rs. 30.78 crore. There would of course be cost over-runs which was normal, even if there were no time overruns.

The illustration here is of a certain variety, but it can be extended to cover any other infrastructure project. One such project that describes

best these costs is the flyover that was constructed outside the Mumbai domestic airport—it goes over the little crossroad that leads to the airport. It is newsworthy, not because it is outside the airport, or because of the inordinate delay in its completion, but because of its economics. This, in fact, holds for almost all infrastructure projects which involve roads and flyovers in the country. It is the economics which is mind blowing as, when we multiply these costs over all such projects everywhere across the country, the numbers would be astronomical!

The project was commissioned in October 2006 and was to be completed in 18 months, which means that it should have been completed by March 2008. The cost of the flyover, as was revealed on the board placed alongside, ostensibly because of the transparency warranted by the RTI (Right to information Act), was to be Rs. 30.78 crore. There would of course be cost overruns which is normal, even if there are no time overruns. Normal cost escalations are usually factored into the project cost as it is assumed that these costs would increase over time as prices of cement, concrete, steel, labour, etc., increase every month. Further, there would be quality issues and repairs which invariably start days after the flyovers are ready. But, those are not the issues to be discussed here as they have direct costs which could be seen somewhere in the government's books of accounts. The interim period however is the area of interest, due to the implications.

Traffic jams became regular once the road was divided and fenced for this project. The so-called division of the road was alongside this flyover to be, which meant that the traffic flowing towards the flyover at a reasonable speed had to perforce slow down as the 6-lane traffic converged to 2, or at most 3 lanes on one side of the road. The peak time for this stretch of the highway is 9 a.m. to noon, and 5 p.m. to 11 p.m. The former is the office-going time, while the latter is the office-returning time which also coincides with the schedules of heavy vehicles which make an exit from Mumbai.

Given that the number of lanes had been reduced, the speed of the traffic was curtailed significantly even though the quality of the road was satisfactory. Once the road started deteriorating, which is the case in the monsoon pe-

riod, the pace slowed down even further. As a rule, the authorities see the futility of repairing the roads, even the highways, during

the monsoon, the reason given being that the potholes need some dry weather to remain firm. and since in the monsoon one is not sure of the next shower, it makes no sense to repair the roads until the season is over. Yet, one never fails to notice that all roads used for the *Ganapati* festival, a major event in the state of Maharashtra, are repaired during the immersion time, even if the clouds are forever pouring rain on the city. Religion helps, and its power is evident here.

Anyway, the traffic crawled at a very slow pace as there was not much room to move around. The fumes emitted are significant, but are being ignored here. The slowdown began 2–3 km at both ends of the construction site and the traffic jams carried on from the flyover preceding the one under construction till the one succeeding it.

Close observation over different time periods revealed that, on an average, during every minute, there were 400 vehicles that passed from the two opposite roads when the signal turned green. This



Again, assuming that there are 22 working days in a month, the 18-month project would cost around Rs. 30 crore.

means that in an hour, when there were roughly 45 minutes of passing time, 18,000 vehicles passed by this signal. Given that there are 9 peak hours when this traffic is witnessed, we are actually talking of around 150,000 vehicles passing by every working day of the year.

Now, each vehicle that passed by crawled for a distance ranging from half-a-kilometre to 3 kilometres on an average on the two sides of the road. At a conservative level, we can assume that a vehicle lost 1 km per litre in this stretch, meaning that if the vehicle's mileage is 10 km per litre, it would get reduced to 9 kms. This means a total of 150,000 km, or 15,000 litres of petrol lost every day. The cost of these 15,000 litres can be split into 80% petrol and 20% diesel or an average of around Rs. 50 per litre. This was the rate at the time when the flyover was under construction. At this rate, the loss of money would be Rs. 750,000. Again, assuming that there are 22 working days in a month, the 18-month project would cost around Rs. 30 crore (Rs. 29.7 cr), which is nearly the same as the cost of the project. Given the cost overrun of the flyover, this would mean an additional cost of Rs. 1.65 crore for every month's delay. With the project being delayed by a quarter, there was an additional cost of Rs. 5 crore. The flyover was commissioned in July 2008, which means a delay of over a quarter (the interesting part is that only half the flyover was ready). Construction of the second half was to begin subsequently!

This is only the direct cost involved. There are two other costs which can be quantified to highlight the economic strain imposed by such a construction. Both petroleum and diesel are heavily subsidized by the government. The subsidy for petrol is in the region of Rs. 10 per litre while that on diesel would be around Rs. 20 per litre. These numbers, mind you, keep changing as the international price of oil keeps fluctuating on a daily basis. Also, the duty structure changes, and the exact price varies on a real-time basis. However, a value of Rs. 15 per litre may be taken on a conservative basis as the cost of subsidy per litre of fuel used on this road. With nearly 5.94 mn litres being involved in this 18 month period, the cost of subsidy that should be added to the fuel cost of Rs. 29.7 crore calculated above would be

Rs. 8.9 crore. So, now we are speaking of Rs. 38.6 crore of fuel cost for the nation for a flyover that was scheduled to cost Rs. 30.8 crore to begin with. As mentioned earlier, any time overrun means an additional outflow of proportional expense on this score.

The other factor that has to be taken into account is the time spent crawling along. In India, we rarely pay attention to the time spent in waiting, as it has become a part of our lives; we spend hours together waiting to pay bills, submit application forms, and collect our goods, or for that matter, in travelling. In fact, it has been pointed out that for a flight of 95 minutes from Mumbai to Delhi, one spends one hour in reaching the airport, another 30 minutes to check-in, 60 minutes to be allowed to board the aircraft with a lot of apologies, and another 45 minutes to taxi out of the run-way. Once one lands in the other airport, there is another 30 minutes to taxi in, 20 minutes to take your luggage out, 20 minutes to haggle with the cab men, and an hour to reach your home, with an added



If one hour is valued at Rs. 200, then the value of total man-hours lost is Rs. 480 crore!

10 minutes to haggle with the driver again. Therefore, an air journey of 95 minutes actually makes a person spend 275 minutes, or four and half hours!

In this entire period of 18 months, there would be around 60 mn vehicles travelling across this area, of which, we can assume 80% are light to medium vehicles. So, we are talking of around 48 mn vehicles with at least 1 person in each. The average income at a conservative level for a person owning a car, or riding a taxi would be Rs. 4.8 lakh per annum, or Rs. 40,000 per month or Rs. 1,800 per day. Assuming that we have a 9-hour working day, we can value a working hour at Rs. 200.

Now comes the interesting part. All these 48 mn passengers actually spend an additional 30 minutes (on a very conservative basis) per single journey on this stretch of the road. This works out to 24 mn man-hours spent in 18 months waiting to cross the flyover. If one

hour is valued at Rs. 200, then the value of total man-hours lost comes to a whopping Rs. 480 crore! A truly outrageous waste of money.

However, as mentioned earlier, in India people are actually used to waiting for hours. Let us look at an average working person between 20 and 70 years of age, who has, say, 50 years of adulthood. With a family of 4, and around 12 visits to the doctor every year for oneself and family, the waiting time is around 600 hours. Further, with a career of 30 years, and making 10 air trips a year on business, with a minimum of 2 hours delay for every flight, he would be spending another 600 hours in waiting. The third routine activity of going to work by any mode of transport involves an additional hour at the signals or traffic jams, or at railway stations which, at 250 days and 30 working years works out to 7500 hours. Adding these three events means a horrendous 8700 hours! Almost one full year of life spent in waiting!

These calculations are a conservative approximation of the cost that gets hidden when we embark on an infrastructure project, such as a rudimentary flyover. Very often only the direct costs are considered. Only the cost of construction is taken into account. But, when there are time overruns, the inflated cost comes into the picture. The inconvenience caused to the public and the accompanying cost is never really taken into account, which, as can be gauged here, could be multiple times the cost of the project. If one were to also add the cost of environment degradation on account of the emissions on this 3 km road stretch, the cost to society would go many more steps higher.

Countries like India which are trying their best to embark on such projects to enable growth, run this high cost risk. This is especially so in urban areas where considerable inconvenience and strain has to be absorbed before the projects are up and running. Whenever such costs are evaluated, one needs to take a closer look at the indirect costs, such as the cost of fuel consumed, subsidy on fuel, and time costs which, when added, is often much higher than the cost of the project. The eco-cynic would certainly add these numbers to the actual cost to arrive at a more accurate measure of the project.

1.3 ECONOMICS OF BEGGARY

She calls out to the man on the street

Sir, can you help me?

Its cold and I've nowhere to sleep

Is there somewhere you can tell me?

He walks on, doesn't look back

He pretends he can't hear her.

—Phil Collins: “Another Day in Paradise”

One of the common sights in the streets of Mumbai, or rather any town or city in India is the beggar population. Traffic signals, bus stands, railway stations, shopping centres, and places of worship are some of the areas where beggars can be found. One either develops a sense of pity or revulsion for these people. They represent the dark side of progress in a country which is regarded as one of the fastest growing economies in the world. In fact, Goldman Sachs has put India along with nations like China, Russia and Brazil (the BRIC's economies) to be watched for their growth by 2050. That seems a long way off today.

But, in none of the other countries mentioned here does one come across a large population with these levels of deprivation.

And yet, their presence

is still comforting when one reads of the people in the interiors of states like Orissa who are perishing out of starvation, or of the farmers of Vidarbha in Maharashtra, who commit suicide when they are unable to repay their debts. The fact that they are alive, is significant.

The story of these beggars is remarkable because it shows their will to live, and their struggle for survival. To survive in a world where people willingly donate large sums of money to political parties and places of worship, or think nothing of spending over Rs. 10,000 for a meal in a five-star plus hotel, but are yet reluctant to part with a rupee to a beggar, is a challenge. But, the fact that the beggars do it in or-



The story of these beggars is remarkable because it shows their will to live, and their struggle for survival.



Curiously, in taking to begging, these people also provide some important economic motives.

der to survive is quite an achievement. Curiously, in taking to begging, these people also provide some important economic impulses.

The reasons for the prevailing ambivalent attitude towards beggars are two-fold. The first is a feeling of pity for these people who are born underprivileged, and continue to remain so forever. In fact, the beggar status is mostly inherited as a beggar's child has little hope of joining the mainstream of society. The tradition is carried on, just like in some of the other frowned on professions. The second is of revulsion. There are several instances of beggars turning to crime both petty and serious. And there are also several instances of beggars living a grand life as they own a couple of apartments in the main suburbs of Mumbai. There are also some cases of beggars who drive to work or get down from their taxis and change into their begging wear. Therefore, it is very difficult for many to look at them always with pity or sympathy. But, from the economic standpoint, all views are without taking sides, the purpose here being to look at and evaluate the value of the beggar economy as it exists in the country today.

Modus Operandi

Beggars are smart economic operators. Just like a company would look out for the right market—Mumbai or Bangalore is preferable to Jaisalmer or Belgium. It is the same with the beggars. They look for places which have the best market potential. Therefore, metros and big cities and towns are in, and the smaller ones are out. This way, they are well-informed and know where the opportunity lies. In Mumbai, one cannot often make out the language that they are speaking among themselves, which means that they are not original inhabitants of Mumbai, or Maharashtra for that matter. This also means that beggars

are very much mobile, and since they do not own anything, they need not have the fear of leaving behind anything when they migrate from one place to



they migrate from one place to another.

Beggars are very mobile, and since they do not own anything, they need not have the fear of leaving behind anything when

they migrate from one place to another. This also implicitly shows that they are well-informed about the opportunities that exist in the country which is gained either by word of mouth, or through experimentation. The communication has to be oral as they do not know how to write, and do not receive letters talking of these opportunities.

They go where there is money and hope, to lighten your wallet. There is less business to be had in a forlorn place where people have little money. Besides, just like how corporates take into account the differences in spending power in the metro, urban and rural areas, the beggars do the same while locating in different places. Therefore, the beggars' markets are fixed. Once they choose their markets, they use the same principles as the multinational FMCG (fast moving consumer goods) companies. They look at places with high footfalls. Here again, the same economic theories are in play, where a vegetable market is less preferred to the vicinity of a mall, a cinema theatre, or a railway station.

Once the locations are chosen, there is a case of market distribution, as competition is a major issue. Too many beggars spoil the show. When there are 20 beggars around, one is less likely to part with money than when there are 5 of them scattered around. Human psychology is simple here. When there is a single beggar, one feels like giving, but having another five crowd around rakes up one's ego and makes one less willing. Even the charitable would not like a stream of beggars flocking to him. You may have noticed that beggars rarely converge on a single person unless it is a foreigner, and even there, such flocking is restricted to children who have not yet mastered the art. Therefore, they either distribute the markets either through force—the large ones

who are part of a mini-mafia use threat to drive out other beggars, or they work in collusion. If you observe a traffic signal where the waiting time is long, they either move line-wise or block-wise. This



Your countenance reflects your willingness to pay. A curt nod from you will make them move on.

distribution ensures that they do not waste their time going to the same person—who either would not look at them, or would not

provide the alms twice. Besides, the sectors are clearly demarcated, and there is not much choice. They have to necessarily be great time managers as they have between 2-3 minutes on an average at the signal to market their poverty. Hence, they have to be good readers of the human face, which they learn with experience as spending too much time in front of a person who will not budge is sheer waste of time. They need to master the art of figuring out who would be willing to give them money.

Marketing is considered to be an art, and that is what is taught to you in a business school. What twenty advertisements, or the efforts put in by a full-fledged marketing team are unable to achieve, is accomplished by these beggars by a few flashes of brilliance. They are good mind readers. Your countenance reflects your willingness to pay. A curt nod from you will make them move on. However, paying any kind of attention makes them get persuasive. This is just like the salesman in a garments' shop who will attend on you if you look interested. The second technique they use is to appeal to your kinder spirit. This is not difficult to do. They will tell you about their state of penury and the fact that they have not eaten for the last two days. Or there is the ubiquitous doctor's prescription which is shown to you. Children normally go to women for their alms, while the adults go to their peer group. Women are seen as less likely to refuse children as it is generally believed that somewhere inside they see their own children in the faces of the beggar kids.

When this approach does not work, they fall back on the use of psychology to evoke the desired response. Just like how salesperson

at the garment shop will tend to tell you that you look good in a certain clothing (unsolicited compliments to make you fall for it) as we feel flattered, the beggar uses the technique of evoking disgust which could be a gentle touch on your hand. This is repulsive and the only way out is to part with the money. Or else he will put his head on your feet and beg for money. Rarely does anyone still maintain a straight face when such a thing happens.

Female beggars have a distinct advantage as they can strike a chord. In Mumbai, it is very common to see them carrying a baby with a milk bottle at traffic signals. This is to appeal to your milk of human kindness. The other star performer is the little sweet looking girl who goes around hopping from one person to the other. There is an innocent smile as she begs, which can melt even a hard heart. The men and boys among the beggars have a tough time as they are often questioned why they are not working despite being able bodied. Therefore, they feign deformity. Have you noticed that rarely is a lady in crutches—she always has a baby in her arms. The men and boys among them have a deformity, while the little sweet girl has the smile. The sad part is that the beggars often invest money to have themselves deformed!

Beggars have fixed timings too and you may have noticed that they also follow snack time and meal times when they huddle together to eat. This is the time when the streets are free of them. It coincidentally is also the time when there is less traffic on the roads. This is similar to the practices in shops when the staff relax during the off-peak hours in the afternoon. Siesta time is strictly followed by them post noon and they do take time off to rest until the next busy phase begins in the evening when people are on their way back home from work.

The distribution of the spoils is fixed in most cases. If it is the same family, then it remains with them. But, if not, they need to share part of the earnings with the mafia. The mafia has a fixed collection from each group, and often babies are drugged and lent to them for Rs. 200–300 per day. The girl goes for a higher cost, while the male baby at a lower one. Therefore, there are commercial laws

that need to be obeyed. Also, they cannot encroach on anyone else's territory.

Sizing this Economy

The beggar economy is thus, large and intricate. The earnings of a beggar vary between Rs. 100–200 per day depending on the area where the business is conducted. This is exclusive of the other income they may earn from being part-time salesmen of national flags before



Even today, some shops which deal with small value items give beggars a commission of up to 5% for the coins, as they are required in their business.

Republic Day and Independence Day, or flowers sellers as and when flowers are available in abundance. You would get roses at a good price: a set of 20

for Rs. 50 while the florist charges Rs. 5 for a single one. Over time the minimum acceptable denomination of currency has become 1 rupee, which is the norm in metro cities, though 50 paise may be acceptable in the smaller towns. However, disdain for anything less than 1 rupee is the rule today. The money is invariably in the form of coins, which becomes crucial at times when there is a shortage of coins in the country, which happens once in a decade in India. These coins come in handy. This is big business as people exchange notes for such change at the beggar's point. Even today, some shops which deal with small value items give beggars commission of up to 5% for the coins, as they are required in their business.

It is estimated that there are around 10 lakh beggars in the country, of which 67% are in urban areas, and the rest in rural areas (an official survey has arrived at these numbers). The urban beggars average Rs. 100 per day, which means Rs. 650 lakh per day, while the rural ones earn around Rs. 30 per day, which comes to Rs. 100 lakh per day. This adds up to a total of Rs. 750 lakh, or Rs. 7.5 crore per day. Multiply this figure by 365 days, and we have a basic economy of Rs. 2,750 crore!

This money is fully tax-free, and is free float of cash in the economy. The important thing about this money is that rarely is anything saved except by the so-called 'affluent' beggars who invest in property. But, those beggars are more of an exception than the rule. Most of the beggars live on the roads, and really have no shelter. This money hence can be treated as pure consumption income, which means that one can trace this new chain of economic activity.

The spending is essentially on food and drinks. They do not spend on clothing or shelter as such things are provided gratis by people, or the government at times in shelters created for the destitute, or they make do with nothing. The money is spent on only food items because toothpaste or other luxuries, like cosmetics, are really out, as it is a case of survival for them. Maybe a part of the money, up to 20%, would be spent on items, such as tea and biscuits, which is part of their snack during their professional hours. . Therefore, the little tea stalls around the road, or station are their favourite haunts. At times they even get them free. The rest is spent on fuel and groceries, etc., for preparing their meals. While some of them do send money home, the number that do are

not really significant. Medical care is irrelevant, as they build some immunity to diseases, and perish when the case is severe. Or else, they visit the municipal hospitals for free treatment.

The sheer size of the money involved, and the number of people who generate this income makes them an integral part of the system. They are actually helping in generation of employment elsewhere where this money is spent. At the same time, they are not dependent on the government for any subsidy as they are not registered, and do not have a ration card. They do not seek employment and hence do not compete for the limited unskilled jobs. They survive by appealing to mankind's instinct of kindness, and this makes them a special class of people in the country.



From the point of view of the government, it really has one million people off its shoulders, as these beggars are fending for themselves and surviving,

From the point of view of the government, it really has 1 mn people off its shoulders, as these beggars are fending for themselves and surviving, without putting pressure on it for employment or depend on any of its support schemes. Therefore, 10 lakh beggars actually mean around Rs. 1,825 crore of money that it may otherwise have had to spend at the basic level to provide them with an income of \$ 1 per day which is the informally accepted norm for defining a person who falls below the poverty line for 365 days through various relief schemes. This way it is an indirect saving for the government!

One must recollect that when the government spends on the poor, it is usually through programmes, such as food-for-work or various employment relating programmes. As these people are out of the purview of these programmes, it is in a way a major saving for the government. If both the direct and indirect incomes are added, we actually get a size of this economy in the range of Rs. 4500–5000 crore.

Hence, the economy of the beggar is significant, and operates on sound economic principles. All market participants are good mind readers and are well versed with psychology, even though they have not been to the classroom. Strategic plans are hence evident, and ground rules set for all to follow. The income generated is significant and provides sustenance to the backward chain which is, in way, quite strong. By being fairly independent and self-sustaining, this segment does not really take any assistance from the government or claim jobs elsewhere in the country. By virtue of providing backward linkages and given their sheer size, they contribute positively to the economic growth of the country. Moreover, as the eco-cynic would put it, the fiscal deficit is really free from any obligation to look after their requirements.

1.4 ECONOMICS OF BRIBERY

Money, get away

Get a good job with good pay and you're okay.

Money, it's a gas

Grab that cash with both hands and make a stash.

*New car, caviar, four star daydream
Think Ill buy me a football team*

—Pink Floyd, “Money”

This is a situation which the reader would have experienced sometime in his or her lifetime, or witnessed casually on the roadside anywhere in India. You are driving a car or a 2-wheeler, and as you are about to cross the signal, the light turns orange or amber. You are not sure whether the signal was orange when you were crossing, or had turned amber after you had crossed the invisible line. There is a burly traffic constable who stops you and asks you to park alongside in a very authoritative manner. You could speed across but today that is difficult since he could follow you, or ask the cop ahead on his phone to block your progress. From here on begins the ordeal.

You are asked to show all your documents. The licence, the registration book, the insurance papers



If you have all of them, life is slightly easier—only slightly. You have broken the rule and the cop has your papers. He hands over the other papers and keeps the licence with himself.

and the pollution certificate have to be produced, and are scrutinized by the cop to see if all are in order. If you have all of them, life is slightly easier—only slightly. You have broken the rule and the cop has your papers. He hands over the other papers and keeps the licence with himself. You try and argue that the signal was not red when you crossed the line. But, he will tell you that when the signal turns orange, you have to stop in your place and not proceed. But if you had stopped, he could still penalize you on grounds of rash driving and sudden braking. The signal otherwise is meant for those who have already crossed the line. But, where is the line? He points out the invisible line which no one can see. Alternatively, he insists that you had crossed when the light turned red, and that he is right and you are wrong. He has the authority and you don't, which means that you are on the weaker side. Besides, he already holds your licence and you cannot possibly snatch it from his hands. It is not different from a

situation where you buy a consumer item. The money is paid and the product flops, and you need to claim your warranty—you somehow never manage to get a replacement, and you cannot argue because the money has been paid. The cop can figure out that you are in a good job, and from there on the mind games begin.

He asks you to pay Rs. 200 fine for ignoring the traffic signal. You argue that the fine is Rs. 100 and not Rs. 200. He tells you nonchalantly that the rates have changed, much like the foreign exchange rate in the bank. Now, there are two routes open to the cop. The first is that he sees that you are defiant. The game from his side is clear. He asks you to come to the police station after a week and pay the fine and collect the licence. He also checks your address and then informs you to come to the station which is at least 15 km from your place of residence, which actually means that he can harass you like hell. He has your licence in his hand and you cannot get it back. You are not sure of your rights. Can he actually take your licence away and ask you to come to the station after you receive a letter from them by registered post? Why can't he take the fine and give you a receipt there and then? He says that he does not have the receipt book. But, he shows you a receipt book for confiscating the licence, but says that the other book for charging you is either not with him or is full, or that he does not have the authority to do so. Now, your defiance gets diluted and you are on the defensive.

The other option for him is to straightaway pass on subtle signals to ease the situation. This is where the rudiments of game theory come into play. You turn conciliatory as it is your bad day and there is nothing much you can do, so might as well play along. He says that you could give him Rs. 200 and take a receipt from him. He looks away from you waiting for you to react to him. He obviously does not want you to choose this one.

Either way, the doors for negotiation are opened up. You could then start bargaining with him. The Rs. 200 could become Rs. 100 or Rs. 50 or Rs. 20 depending on your stature. If you have a large sedan—Honda, Skoda, Lancer, Toyota, etc., then Rs. 100 is the lowest he would come down to. If it is a smaller vehicle, say, an Indica,

Santro, Wagon-R or Zen, then it is Rs. 50. If it is a two-wheeler, then it is Rs. 20. If it is an auto-rickshaw or a taxi, then it is Rs. 10. You pay the money, take the licence back and are silently glad that you got away easily.

What has really happened, is a simple economic game where both the parties have bargained and come to the best solution, giv-



It is a simple economic game where both the parties have bargained and come to the best solution.

en that it has to be accepted that an apparent wrong has been done for which amends have to be made. No individual would like to be taken to court to make the payment, and the policeman knows this fact. At the same time, if you are willing to go to court, there is no money to be made by the cop, and it is time wasted for him because he could have used this time to catch another person and extract the same from him. Therefore, he is also in the mood for bargaining. The issue is that no one knows the rules of traffic penalties. The law says that a cop above a certain grade can fine you on the spot, but how do you know what the badge on his shoulder signifies? One does not know the powers of the cop, or whether he can stop you even if you have done no wrong, or for that matter, you do not know whether or not he has the right to confiscate the licence.

Over the years, the entire approach to such deviance has been formalized, and there is an unwritten set of parameters set as a bribe-sheet. The list below gives you the so-called fines for traffic offences, and the extent to which one can bargain his way out of the mess.

Offence	Penalty (Rs.)	Negotiated penalty
No licence	500	200, 100, 50
No proper documents	100	100, 50, 20
No insurance papers	1000	500, 200, 50
No helmet	100	20
Negligent driving	1000	100, 50, 50
Lane cutting	100	50, 50, 20

Signal breaking	100	50, 50, 20
No PUC	100	50, 50, 20

Source: Delhi Traffic police web site for column 1 and 2, while column 3 is based on observation.

This is part of the big bribing game that goes on the roads everyday in India. The bribes are more rampant across the highways where trucks are subjected to a series of halts which results in large quantities of bribes being paid. Nobody knows the rules of the game, and even the policemen are not sure. To one's mind, the simplest way of punishing an errant driver is to issue a ticket on the spot and collect the money. But, there are antiquated rules which have not been revisited or documented for the public. No one is sure of the rule, and one can get bullied by the law. If you want to go to the station and pay the fine, you have to wait for the letter (which comes by post). Then you need to take leave from work and go to the station which is far off, and probably spend the same amount as fuel charges. So, it pays to enter the bribing stream. More importantly, it is an efficient way out. You probably pay less than you would have paid if you went to the station. The cop charges a fraction of the offence fine and spares you the trouble of going through the ordeal. The government loses, but who cares, because, from the point of view of the cop, he could have let you drive on, in which case there would have been no money involved, and the government would not have got anything anyway!

To the question that is often posed: why does the average cop look corrupt? The answer would be that he looks corrupt because he *is* corrupt. The job of a policeman is to stop a wrong from being done. Even if the cop just stands at the crossroads and does nothing, no one will break a signal because he knows he will get caught. So, the traffic flow is orderly. But, more often than not, the cop positions himself where he can catch people breaking a rule either advertently, or out of confusion. Most policemen position themselves where there is a left turn. As a motorist, you are not sure whether it is a free turn, or there is a signal. If there is a signal, the bulb may not be functioning, and you think that it is not operational, and take the turn. There is a belief that the cops disable these signals so that the driver is confused.

Why does the cop feel inclined to take the bribe? The obvious motivation is money, and the saying that those who don't have enough are more likely to fall prey to this temptation holds good. In fact, often policemen argue that for the kind of a salary they get, it does not make too much sense to risk their lives to catch an armed criminal because, by taking such a risk, the reward is a certificate, which has little value, and maybe a sum of Rs. 1,000 which has little use today. There is more to be made in the safe confines of the traffic department where he can vent his frustration, and earn a tidy sum in the process.

The salary of a traffic constable would vary between Rs. 5,000–Rs. 10,000 per month. The working hours are long, with one putting in around 12 hours of work in the sun, or rain. There is a natural amount of frustration which builds up waving one's hands all the time. Now, let us look at the opportunity available for the cop. On an average, the cop who has a crossroads signal to monitor, can stop around 5 persons per hour and assuming that he is active for 4 hours, can come in the way of around 20 persons, on a conservative basis. There are rules of course in the form of an informal code of conduct in dealing with bribes among the police. When there is a group of cops standing, then the money has to be shared according to their designations, after the money is pooled. If the constable is alone, he could keep it for himself, which can run to up to Rs. 1,000 per day which, on a monthly basis, is Rs. 30,000. Keeping 50% for himself, he could still at least double his salary with these bribes. Given that the pay scales of the police change slowly, and when they do, the pay increases are fairly moderate, it is but natural that the numbers do not measure up to the goodies on offer in the shopping streets. There is hence, an incentive to earn this income which is obviously tax-free! The rationale here is that a person who owns a car costing at least Rs. 400,000 and spends Rs. 200 per day as fuel charges can afford to pay a bribe of Rs. 100 once in a while to the policeman—some sort of a warped modern day Robin Hood where you rob the rich to take care of the less privileged which in this case is the cop himself!

These numbers are important because of the enormity of the sums of money that we are speaking of. In 2007, Delhi Police reported col-

lections of Rs. 100 crore as fines from traffic offences, which appears to be an understatement. Considering that only 1 in 5 offences is officially booked, the loss to the police revenue could be Rs. 400 crore per metro city which, when summed up across the country could well cross Rs. 3,000 crore per year. The same revenue loss could be interpreted as the perks given silently to the police forces. Since the government is not in a position to raise their salaries, it probably is better off allowing them to take these bribes as it is what in economics is called a



Considering that only one in five offences is officially booked, the loss to the police revenue could be Rs. 400 crore

per metro city which, when summed up across the country could well cross Rs. 3,000 crore per year.

Pareto Optimal situation—where someone is better off, and no one worse off for reasons explained before.

As mentioned earlier, a simple system of issuing coupons for offences and reducing

the amount of fine would bring in greater revenue for the police. If the amounts are disproportionately high, there is always scope for a bargaining game, which results in a win-win situation for the offender as well as the cop. But, once the amount is kept low, the police force would end up gaining the most. This is in fact, a very important message for the police force. The fines must be kept to the minimum to garner the same. Higher fines are surely a deterrent but they provide scope for negotiation which will actually reduce the amount, officially collected quite substantially, making the system inefficient. A lower level of fines, implemented through a coupon booklet where the receipt is issued instantaneously can be combined with a reward for the cop who issues the maximum number of tickets—in the form of an official share, or a step towards a promotion. This way, the force could be kept motivated, and the revenue collections increased.

It is now accepted that all public services reek with corruption to the point that it has become a habit today to take and give bribes. Both the parties involved have accepted this fact, with value being derived from the bribe. The bribe is the passport at all the check-posts into

and out of cities. Mumbai, for instance, has three major check-posts: the western suburbs, central suburbs, and Navi Mumbai. On an average there are around 1,000 vehicles that pass through these posts every hour on the inward route. With around 10 active hours in per day, on the conservative side, there are around 10,000 goods vehicles that enter the city laden with material. The rule says that the vehicle has to be inspected by the officials, who have to check that the goods carried are, what are stated in the documents. If an octroi tax has to be paid, then it is collected. The official has a right to inspect the goods if he is suspicious of anything. This can get cumbersome.

The bribe is the obvious route out for the driver. The charge ranges from Rs. 50 to Rs. 200, depending on the situation. If it is a clear case of violation, then you pay Rs. 50 to avoid harassment by the inspector who threatens to open the consignment. It would go up to Rs. 200 if the documents are not in place. Intuitively, one can see a sum of Rs. 5 lakh being transferred to these officials every day. This amount, when multiplied by 300 working days, amounts to Rs. 1.5 crore, and it is only in the city of Mumbai! If the same is multiplied across the 50 major cities in the country, this amount would come close to Rs. 50 crore every year, which is distributed across all these government servants.

The story of a vehicle's bribe-laden journey does not end here. The vehicle often traverses several such check-posts during its journey, and the sum forked out can go up to Rs. 500 right from the inspector, to the constable along the way who stops the vehicle for a bribe on some pretext or the other. The grounds for fining could be over-speeding, carrying more goods than allowed, lights not being switched on, documents not in order, excess number of people travelling in the vehicle, incorrect stopping or halting, etc., This sum actually gets woven into the freight that is charged by the company to the consignor/consignee. The cost of transportation goes up, but the goods are delivered on time. The cost is not much given the value of the goods and the inconvenience that has to be gone through in order to move the goods across towns. In case of producers or traders, the fine is a small amount, given the capital that can get blocked if the goods

get held up at these posts.

Corruption in the form of bribes assumes curious dimensions in India. The Centre for Media Studies has shown that in 2005 the poor, i.e., those living below the poverty line, had paid as much as Rs. 880 crore as bribes for 11 services, and the main bribe takers were the police and the judiciary. The other corrupt services, as expected, are education, hospitals, electricity, water supply, legal, taxation, gas, etc.

For the eco-cynic, bribing is actually a very efficient way of getting things done. If one ignores the high moral ground which is usually taken for dissuading people to take bribes, in a bureaucratic set-up, bribes work. For example, if you need to get a driving licence, you have to get a learner's licence first. This requires a simple test to be



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taken. Next, you need to learn driving for at least a month after which you have to go for a regular test. This is a test of skill as well as memory where various signs are shown

to you. If you pass, so be it, or else you need to reappear after a time period. This is a long drawn-out procedure. The simpler thing is to join a driving school and pay a fee of Rs. 2,000–2,500 for learning, as well as for a licence. A part of this money goes to the examiner in the Regional Tax Office (RTO), and your licence is there to be had. Or simpler still, the so-called 'RTO advisory services' offered by several little bucket shops will get you the same in a couple of days time on paying Rs. 1,500. So, where is the hitch?

Studies conducted have shown that bribing is always an optimal solution from the point of view of the two parties concerned. The giver of the bribe gets the work done because, more often than not, there is a bigger sum of money involved. For example, a file which needs a signature where a project is involved means a lot of money, and paying a small percentage of the sum is a minor cost compared with the

cost of capital locked up for this purpose, waiting for clearance. The opportunity cost of not paying the bribe would be higher than the cost incurred in not having the project moving. For the receiver, it is evidently a monetary gain. Hence, in such a situation no one loses, especially if the document has to be signed without a cost. In case there is a monetary loss, such as in a classic police case, it is more of an opportunity cost foregone as the policeman could have very well let off the offender without a charge, which would have been appreciated.



Studies have shown that bribery is always an optimal solution when there are two parties. The giver of the bribe gets the work done because, more often than not, there is a bigger sum of money involved.

However, bribes per se become inefficient when there are distribution aspects which are brought in. If there is a commodity in short supply and must be distributed, and if there are the rich who are willing to pay the premium which the poor cannot, then the bribe is inefficient from a social point of view, though the market forces would automatically include it in the price and reflect the willingness to pay. But, when the commodity is inanimate, like honesty, bribes really work and make life easier for all as there is no physical good involved which affects its allocation!

1.5 BUSINESS OF RELIGION

I count religion but a childish toy, and hold there is no sin but ignorance.

—Christopher Marlowe

A common sight on the roads is a drawing in colourful chalk of a deity on the footpath anywhere in the country. These drawings are quite artistically done, and are in fact a part of a profession by which one earns a living. The artist may not be a believer, but surely derives a living from the sketches as they appeal to the common man. The deity is the local one usually, or one that is associated with a particular day of the week, when traditionally devotees make it a point to worship that

deity. The idea is not to gain appreciation, but to earn money. Alternatively, there are cut-outs of a Goddess associated with Saturdays which is revered by people who pay obeisance in the form of monetary offerings. The act of earning an income from religious icons is intriguing and deserves a deeper look, given the universality of religion where people do not think before giving, provided they believe in the deity that is being worshipped. This is interesting because, when we make an offering on grounds of belief, it is never really questioned. But the same given for charity evokes considerable debate. The arguments are centred on the end-use of the money, which we do not bother about in a temple, even though we know that God does not make use of the offering!

One of the integrating factors in life is religion. Religion binds people and brings them together. It is not surprising that, whether or not we like it, different groups of people who speak the same language in the metaphysical sense actually are brought together by a common religion. There are of course a large number of further classifications which bring about sub-divisions but, for the purpose here, religion has been chosen as the integrating factor. Germinating from this thought, an economy that is generated deserves some description. Though this holds for all religions, and rarely do we come across a place of worship which says that money is not welcome, our discussions here will be in the context of the majority religion.

It is felt that religion is a unifying factor and helps to pass down dogmas which are imbibed by the believers, and passed on through generations. They believe in the Gods, and pray to them for their upkeep more as a matter of duty which is layered with belief. They do believe that their Gods take care of them and as a matter of duty, visit the respective places of worship and make offerings to the deity. Most Gods have a unique temple that is dedicated to them, which becomes the ultimate journey and destination for the believer. There could be multiple centres of this kind, in which case all of them are potential destinations. This holds for all religions, and all these visits mean monetary offerings. Also, there are rarely temples dedicated to a sin-

gle deity. There are miniature sub-temples in the same structure that allow for prayers to related Gods. Intuitively, one can see that from the economic and monetary point of view, there are actually multiple SBUs (strategic business units) in the same economic structure. Otherwise, in the Hindu way of life, people could be followers of a single deity, which is normally an exception. As most Hindus believe in an array of Gods, the temple invariably covers a series of them in different parts of the temple structure. Hence, while the main temple may be associated with one deity, the others are placed alongside the complex, and the fact that these Gods are related makes them more compelling in such a structure.



Intuitively, one can see that from the economic and monetary point of view, there are actually multiple SBUs (strategic business units) in the same economic structure just like in Hinduism where people follow many deities.

Now, the issue of making an offering is interesting because it is common to all religions, and all countries. The offerings are made either for fulfilment of a demand for something good to happen, or as some kind of thanks giving for something good that has happened, thanks to that particular God. It could also be purely a habit where, as a matter of routine, one donates money. But then, the agenda must have one or both of these motivations. Both of them are, in a sense, either an economic transaction where a payment is made, or in a different sense, a bribe that is offered to the God for helping out.

These offerings are generally in the form of cash; they could start from, say, 50 paise, and go on to large sums of money. There are also variants in the form of food or ornaments that are donated. Rarely does one ask as to what is done with the money, as that is not the purpose of putting the money in the box. It is assumed that you are thanking your Lord for whatever you wanted. This holds for all religions, and people of all faiths. As the believers far outnumber the

non-believers, intuitively one can see that there is a lot of wealth that is involved in these acts.

Religious people and institutions hence tend to create their own economies, which is not really surprising. The process is an integrated one where funds collected have a purpose, as they are channeled into other related activities which have an economic significance. Hence, places of worship are one way of generating funds where they are put to different economic uses. The place of worship is owned by a trust normally, which is an association with credentials, and would typically be a registered one. To run this place of worship one needs manpower with all the functional responsibilities, just like in any company—workers, officials, accountants, security personnel, auditors, management, trustees and above all, the priests. Further, maintenance of the place would need a certain quantum of funds for housekeeping, postal charges, electricity charges as well as repair. Often, there are kitchens attached to the place, which would mean having cooks. The work done in the place could be full or part-time, paid or voluntary. This is the face of the shrine.

Further, there are institutions floated by religious trusts which conduct economic and social activities which, in turn, become individual profit centres. Hence, there are educational institutions, hospitals, social service organizations, etc., run by the trust which may be called a non-profit organization. Nonetheless, they will be involved with the flow of funds from the main shrine. This holds true for all religions and communities. The usage of funds can be questioned, but once the money is voluntarily collected and disbursed according to the rules laid down by the association, and all taxes are paid (or granted exemption), then it becomes a perfectly legitimate route from where a variety of economic services are spun off through the main activity.

Let us look at a religious institution, say a temple or church. There are myriads of people who visit them, and make donations. People flock to these places based on sheer belief. They either have a habit of donating money, which could start from a few coins and move right to bagfuls of ornaments. More often than not, people offer these dona-

tions because they are convinced that their God has helped them out, and that they need to give something in return. These are perfect economic activities, and can be likened to the donations that we give for admitting our children to schools and colleges, or donations we give for any kind of charity. They are physical transfers of money, much like the subsidy payment made by the government. On the face of it, there is no corresponding economic activity in all these cases, but funds are transferred because one feels good doing it. This is similar to the cash benefits that are doled out by the government on occasions.



More often than not, people offer these donations because they are convinced that their God has helped them out, and that they need to give something in return. These are perfect economic activities, and can be likened to the donations that we give for admitting our children to schools and colleges, or donations we give for any kind of charity.

The interesting part of such transactions is that they amount to quite a tidy sum of money. One of the more transparent temple systems in the country is the one at Tirupati which is managed by the Tirumala Tirupati Devasthanam Board. This is probably one of the most transparent set-ups where information is provided on the flow of funds. There are evidently more of such places of worship which may have equivalent numbers to show, but have not put them up for public information. For the year 2008–09, Tirupati reported a budget of Rs. 1,925 crore. The table below gives some of the reported incomes and items of expenditure of the temple.

Flow of Funds (Rs. in crore)

Income	Amount	Deployment	Amount
Hundi collection	425	Fixed assets	130
Hair sale	100	Interest	146
Interest	310	Laddu cost	60
Darshan tickets	100	Reinvestment	145

Laddu prasad	40	Fresh investments	50
Choultry	30		

Source: *Economic Times*, 20th April 2008.

The economy created by this temple is awe-inspiring. It has around 17,000 employees, which is larger than the head count of private sector banks (except ICICI Bank, and HDFC Bank), Andhra Bank, Corporation Bank, Bank of Maharashtra, Oriental Bank of Commerce, etc., One can guess the jobs that are being performed under this umbrella, where most of the work is administrative in nature, and the staff deal with around 50,000–60,000 pilgrims on a daily basis. Besides, the temple also manages around 15 trusts, charities, educational and social service activities, etc., besides the normal temple affairs.

The amount of money spent in these visits would again be of interest. At the rate of 60,000 footfalls per day, there are roughly 22 mn people who visit this place every year. Assuming an average expense of Rs. 500 per head, which would be on transportation, boarding and lodging (if not making use of the free facilities in the premises) and offerings, etc., a total of Rs. 1,100 crore would be the minimum expense incurred, on a very conservative basis. This sum could go up to 5 times, if one adds the expenses of the richer devotees who would be spending probably a couple of thousands per head for the entire exercise.

The Tirupati temple is probably the world's richest religious institution which even surpasses the Vatican, which is another interesting example of a religious economy. In 2006, for instance, the Vatican ran a

surplus of 2.4 mn Euro (Rs. 15 crore). The Vatican earns money from sale of real estate as well as from financial activity, and actually has a treasury to manage these affairs.



The Tirupati temple is probably the world's richest religious institution whose profit even surpasses that of the Vatican, which is another interesting example of a religious economy.

Considering that there are over 50,000 major temples, churches, gurudwaras and mosques in India, one can guess the amount of money that is channelled through these institutions.

How do god men and saints perform?

If religions do well to create economics of their own, albeit inadvertently, the godmen are not really far behind as they have their own following. The basic principle behind this economic motivation is faith. If one can believe in a God to deliver happiness, then the same can be routed differently through a human being who has similar thought processes? The rise of godmen, and alternative approaches towards the metaphysical has progressively become significant in India as it embraces a larger populace and provides options for those seeking solace. Most of these godmen—though they would not like to be called so, are actually getting people to seek salvation and happiness through traditional modes of yoga, breathing exercises, meditation etc., which are really speaking not really new, but are made to appear novel. In fact, the new set of teachers, though dressed like the traditional godmen, do not talk of religion, and prefer peace as their God. This way, they are able to attract devotees from different religious and class streams and thereby diversify their faith base.

An interesting aspect of all saints and their like who evoke deep admiration from the people is that they are dressed in saffron or white, and almost always have long beards. Is there a systemic pattern here? One school of thought is that such activities of these god men would qualify for tax benefits, and in order to claim such a status, it is necessary to dress like the typical Indian *sadhu* (saint).

While this has not really been proven, it could still be said that this type-cast attire lends an aura of mysticism to them, which has come to be seen by the people as being akin to the divine.

These so-called saints and godmen have their own following as there are lots of people who believe in them, and are willing to donate large sums of money to their establishments. Thus, the new Indian godman's establishment is actually a little empire which earns a lot

of money from just not donations, but also other activities, such as education (at times, even higher education), hospitals, and manufacturing. Here is an illustration of the value of some of these godmen as mentioned in the news magazine, *Tehelka* (Shantanu Guha Ray: June 30, 2007). It must be mentioned upfront that the numbers here are at best conjectures as they are closely-held associations which do



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not reveal the flow of funds. The purpose here is not to really get into these numbers, but merely have an idea about the sum of money that could be involved in such en-

terprises. and what is more important is that these are good business models that could be replicated in other walks of life.

The name of Sri Sri Ravishankar is generally associated with an easy breathing technique, which leads to sublime happiness. The course includes modules on skills for dealing effectively with challenging emotions, relationships and situations, and includes basic yoga exercises. Attending the same could take one down from between \$ 50–350 if the location is overseas; and within the country, it would cost a couple of thousand rupees, depending on the length of the course. The participants in these programmes normally include the rich and the famous as the less-privileged have little money to spend on these indulgences. The total worth of the institute is said to be about Rs. 400 crore per annum, and includes pharmacy, health centres, and the more well known 'Art of Living' programmes.

Mata Amritanandamayi is also valued at Rs. 400 crore, and runs schools, management institutes, and hospitals. In fact, her empire could stretch to around Rs. 1,200 crore according to another estimate, if the indirect revenue is added. A medical seat in a speciality hospital cum medical college could take you down by Rs. 40 lakh. These numbers compare well with the fees that have to be paid for some of

the more premier management institutes. Her followers are across the world, and people would not mind paying substantial amounts to have her embrace them.

Baba Ramdev is valued at around Rs. 400 crore and has a pharmaceutical company as well as a university under his fold. Sudanshu Maharaj is valued at Rs. 300 crore and runs a series of meditation centres while Murari Baba is valued at Rs. 150 crore. All these institutes obtain land and tax benefits as they manage to draw on these benefits on grounds of carrying on charitable activities where the money is ploughed in from other activities. The Osho International Meditation resort has 49 publications in 55 languages, and is better than any holiday resort, with 66 airconditioned rooms.

These are some of the names that are spoken of, and the list is not exhaustive. Some decades back, persons, such as Maharishi Mahesh Yogi and Satya Saibaba were popular for creating their own following. While they did provide peace and cures for a number of disciples, the entire exercise involved large sums of money being passed on to their trusts or organizations which, in turn, supported such activities.

The curious point here is that normally all the skills that are imparted by these people do not involve a cost except that of proprietary knowledge. The eco-cynic's view is that they continuously talk of simple living and simple thinking, and while they invoke specific Gods at times, more often than not, they are only conducting yoga classes or 'art of living' sessions which are to free the mind and improve the internal health of the person. Therefore, if they are actually into preaching simplicity and higher living, they should not be charging anything for the courses or sessions. But, the fact that they do means that they are actually running commercial enterprises and should be treated as such entities. "It is economics, stupid!" is what the eco-cynic would say. But, to be fair to everyone with proprietary knowledge, which goes a lot with the brand of professionals and consultants, the same principles should apply, which means that there is really nothing wrong in making money from knowledge, which is what all of us do anyway!

The logic behind all this

The basic point here is that there is a lot of money involved in running religion or as these other activities would be called, 'life-style' as a business. There is a pattern in a number of these cults. Land is obtained cheap, and the 'idol' turns into a person, provided people are willing to accept the human icon. The donations, which are the main source of earnings, is mostly in cash. This is an easy way for disposal of unaccounted money from the point of view of the donor while, for the institute, it is a convenient form. The trust or institute has the option of disclosing the amount of collections and claiming tax benefits by channeling the same into activities which are considered to be philanthropic in nature. Hence, we never come across the trust actually running hotels or other commercial services. There is a lot of cross-subsidization going on here, with each activity feeding into the other in a joint manner so as to channel the funds across all the frontiers. This is analogous to corporate activity where companies have cross-holdings in other outfits. Therefore, this is actually pure application of sound commercial principles.

They are invariably for education or healthcare where the users also pay the charges. The policy followed is quite straightforward. The poor are provided services normally free of cost, or at a very subsidized rate. The rich are the ones who have the ability to pay and follow the leader, who is created, to begin with, by the poor. There is, hence, a mixed economy set-up here, where the ability to pay decides how much one will be asked to pay. With a multitude of activities and services being provided, and money being collected, there is scope for taking advantage of the tax benefits being offered which, in turn, results in a net income for the person.

However, a lot of good also emanates from these practices as they do lead to the creation of social services which, while run commercially, do provide free help to the needy (which is probably more important). The economic implications cannot be ignored as they do affect the lives of different sets of people in the value chain.

Hence, all such services need to be viewed in a balanced manner when it comes to passing moral judgment. But, to the extent that they blend with wealth means that they are economies worth analyzing.

1.6 ECONOMICS OF RELIGIOUS FESTIVALS

The best any human can do is to pick a delusion that helps him get through the day. This is why people of different religions can generally live in peace. At some level, we all suspect that other people don't believe their own religion any more than we believe ours.

—Scott Adams

Religion is big business but, in a way, it can also be viewed as an economic activity. Not just in terms of direct interface, as was discussed earlier, but also as leading to a slew of other economic activities which, on reflection, actually creates jobs and income, and hence sustains people. Capitalism advocates the use of market principles in all walks of life; the extension applies to religion too. There is a theory that religion by itself is a market where there are rational decisions taken to create a set of rules which get translated into scriptures and customs, which are then handed down through generations. The economy of religion is the obvious creation, and is the crux because the process actually starts the secondary and tertiary rounds of activity. Therefore, certain customs that have evolved over time do, in fact, serve the purpose of a number of interest groups in the economic sense today, even though they would have started more as symbolic rituals representing of an higher realm of thought. Whether or not this is true, is debatable because, at times, this could just mean trying to trace a pattern in something which may not exist.

Yet, the economy that is generated from



There is a theory that religion by itself is a market where rational decisions are taken to create a set of rules which get translated into scriptures and customs, which are then handed down through generations.

religion directly deserves some exploration by the eco-cynic. The economy created directly by religion has been described in some detail earlier, but the fallout of these doctrines leads to the creation of supplementary economies which are actually very practical, and have been handed down over the ages through tradition. The allusion is to festivals which have a story or legend attached to them; it surrounds the lives of Gods and is celebrated in style in a way that has got redefined over time to become more or less a custom today. The story is remembered every year and just like a birthday, is celebrated regularly by the people on a mass scale.

More importantly, it involves liberal outlays of money which make it a self-sustaining economy that covers production as well as employment. It involves a large section of people, especially the lower echelons, which makes festivals necessary, even as they provide strong backward linkages along the way. These festivals bind people together and release a lot of stress as people really take time off to enjoy themselves. Hence, they have other social benefits, and broader economic connotations too. One of the leading indicators of the health of the US economy is taken to be the queues outside the shopping districts and supermarkets at the time of Christmas. Longer the queues, better is the economy faring, and larger the discounts. Well, one can smell a recession here—but more of this later.

In India, the Diwali festival is one which is celebrated almost throughout the country, especially by the Hindus. In fact, a large number of non-Hindu families too celebrate Diwali as it has become a universal festival, just like New Year's Day, not because they know the



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significance of the festival, but because it is there to be celebrated. In a country with a population of 1100 mn, we can assume that there are 275 million families. Of this,

around 80% are Hindus, which means that there are 220 million Hindu families. Let us assume that 25% are the very poor, and would not, or rather cannot, really afford the luxury of a festival. This can be contested because every human being would like to celebrate on some days, whether it is a birthday or a festival. The former may not be known to the illiterate poor, but festivals can never be missed as they have a very strong visual edifice. Even beggars tend to spend their earnings on this day in a different way than on the other 364 days. This leaves us with 165 mn families, or 16.5 crore families.

Now, let us look at the basic expenditure that is incurred on an average by these families. The number of families can be further stratified into three groups, where 10% (1.65 crore) are the top-end families with very high incomes (the affluent), another 20% (3.3 crore) with high incomes (government), and the rest with moderate incomes (11.55 crore). The affluent may spend at least Rs. 5,000 per Diwali in the form of expenses on clothes, fireworks, sweets, flowers, etc. This means that there is a total spending of Rs. 8,250 crore for one single occasion. The high income spenders may spend around Rs. 2,500 per family, which amounts to another Rs. 8,250 crore. Add to this a minimum average spending of Rs. 1,000 by the other families, and we have a total spending of Rs. 11,550 crore. Therefore, on just one occasion, there is a total expenditure of about Rs. 28,000 crore. This would be in the form of consumption expenditure that includes consumer goods too.

However, the story does not end here. India uses around 800 tonnes of fresh gold every year through imports. Assuming 25% is purchased during Diwali time, as this is the period that is associated with wealth in most Hindu communities, there is another staggering amount of expenditure incurred at the goldsmith's doorsteps. At a price of even Rs. 10,000 for 10 grams of gold, one tonne would cost Rs. 100 crore. Thus, we have another Rs. 20,000 crore of expenditure being incurred for every Diwali. If we add these numbers, it can be seen that one festival generates Rs. 50,000 crore of expenditure. Most of this expenditure is committed, and there are only marginal adjustments when

inflation is high. Clothes have to be purchased and fireworks have to be indulged in. The same holds for sweets that have to be consumed.

An interesting feature of the fireworks is that they are generally manufactured in Sivakasi, which is known for both fireworks and poverty. There are around 200,000 workers who are employed in these factories and could be earning between Rs. 60 to Rs. 120 per day. The age factor also matters here. Smaller kids might be given only Rs. 40 per day for a 10-hour job, which is considered to be a fairly handsome amount considering that most of them are vagrant labour which would otherwise have been on the street's begging. Therefore, while Human Rights activists have been pitching for their protection, as working in such hazardous conditions could mean contraction of diseases and certain early death, the fact that there is a large income being generated is significant from the economic point of view. In fact, some apologists for such activities claim that such risks exist in a number of other small and medium enterprises manufacturing chemicals where there are limited safety standards in place. Why blame only the fireworks industry? Also, the absence of these jobs could actually mean the children falling back into the poverty zone, which is not something that they would prefer. The fact that these children are willing to



Some apologists for such activities claim that such risks exist in a number of other small and medium chemical manufacturing enterprises with limited safety standards. Why blame only the fireworks industry?

take risks means that there are no options for their families.

Therefore, Diwali is a big occasion for the country and typically, it is the season which is associated

with higher consumer spending. This happens in both the rural and urban centres. The rural folk are the ones who earn money from the harvest sales and tend to spend on three broad categories of goods: the first is on foodgrains and related items for the rest of the year as the products are stocked for the year. The second is on consumer durables (this is also the time when the retailers attract customers by provid-

ing discounts). The third is on jewellery which, however, could be by way of either recycling old ornaments into new ones, or purchasing of fresh ornaments. This is considered to be the best investment of value for rural folk, and is preferred to any other form of savings.

The urban folk generally use festivals as an occasion to buy new things for their households, which extends to white goods and consumables like clothing. In fact, one way to guess the state of the economy is to see the level of discounts that are offered. The larger the discounts, the greater must be the depth of spending, as retailers and manufacturers compete with one another to garner a greater share of the consumer's wallet. This means that there is a backward supply linkage to these related industries which have their own implications on their production plans.

Another major spender during this time is the corporate sector. The indulgences start from the humble sweets, and then move on to dry fruits, watches, white goods, Mont Blanc pens, jewellery, etc.,. The logic is quite clear. You need to maintain relations with everyone and by now, it is a habit that gifts have to be given to a large cross-section of corporate society on Diwali. They are given to the media, superiors, clients, friends, colleagues, government officials and so on. Every company has to keep the media happy, so there are gifts given ranging from sweets and gift coupons to dinners and parties for the families. Borrowers need to keep their lenders in good humour and will gift dry fruits and consumer or kitchen items to them. Government servants with power have the right end of the pen which needs to be made flexible through constant flow of gifts on these occasions. On an average, a company may spend at least Rs. 5 lakh on this occasion. This means that with 5000 big companies around, there could be another Rs. 25,000 crore worth of transactions taking place on this occasion at various outlets. This excludes gifts that may be given to employees. An organization with a staff of 20,000, which gives a gift of Rs. 100 would be spending Rs. 20 lakh for internal good wishes!

At the lowest levels, there are millions of cards that are sent which have a major bearing on the stationery industry as well as the artists.

Given that a normal card starts at Rs. 5 per piece, and could go up to Rs. 10 when sold in bulk, this spending amount would range around another Rs. 100 crore during this time-period. The number multiplies like crazy as we approach the New Year, though the emergence of the SMS has brought down this business considerably as the SMS is a cheaper and quicker mode of conveying such wishes.



This consumption-expenditure cycle again has backward linkages with related industries, such as sugar, edible oils, colouring agents, spices, etc., which are into the production of these sweets.

Similarly, when we speak of 165 mn or 150 mn Hindus families celebrating Diwali every year, we are also talking of at least $\frac{1}{2}$ kg of sweets being purchased

or prepared in every household. This translates to something like 75,000 tonnes of sweets, which is quite mind boggling as it means a total expense of around Rs. 500 crore again! It helps the small scale manufacturers of sweets in the country who depend critically on such occasions to make their product. This consumption-expenditure cycle again has backward linkages with related industries, such as sugar, edible oils, colouring agents, spices, etc., which are into the production of these sweets.

Another example

Another very good example of a major economic activity is the festival of Ganesh Chaturthi in Maharashtra. The festival is typical of Maharashtra where the elephant-god is worshipped by everyone. However, over the years, the quiet festival which was practiced at one's house has become quite commercial with the occasion being a major business proposition. In Mumbai it is a big festival characterized by celebrations for a period of 10 days. However, by itself this festival generates a little economy on its own which cannot be ignored. This festival is illustrative of a mini-economy that is generated across the

country when communities celebrate their specific festivals, which invariably involve a deity. The curious point here is that a large section of the people involved in these festivities actually earn most of their income from these festivals, and hence, for them, this season would be analogous to the harvest season for farmers.

In Mumbai itself there are around 11,000 registered *mandals*. A *mandal* is a kind of a group or association which espouses the cause of the deity. These are registered entities and carry on their business as any other corporate entity. Though particularly active during this festival, these *mandals* would be conducting other programmes too during the year. Most however, are dormant for the rest of the year and become active only when the festivities are around the corner. What exactly are these festivities?

The festival could carry on for up to 10 days, though there could be some variations starting from per day, and going up to 10. For this, the *mandal* needs to bring in an idol which could cost upwards of Rs. 50,000, depending on its size. The heights of the idols may start from 2 to 3 feet and move up to 12 feet or more. These are grandiloquent idols with rich colours and adorned with considerable amount of jewellery. The jewellery could cost over Rs. 1 crore! (An insurance policy was taken for Rs. 2.65 crore in 2008 for a single idol). Part is borrowed for the occasion, while the rest comes from donations which remain with the *mandal*. There are various options here. The members of these associations go around collecting donations, and it is expected that everyone gives something. There are around 14 million people in Mumbai, of which 80% are Hindus. Therefore, there are around 2.8 mn Hindu families in the city. Assuming that 75% of them are willing to make a donation, an average of Rs. 50 per family (the poor contribute more, while the affluent pay this token amount to buy peace), there is a collection of Rs. 10 crore from individuals. Business establishments have to give out a larger amount, which starts from Rs. 1000 and could go up to Rs. 10 lakhs. Total collections from the business community often run to Rs. 50 crore, with 5 lakh of such establishments donating an average of Rs. 1,000.

The festival does not end here. There are individual idols that are worshipped in almost all Maharashtrian Hindu families. In Mumbai, 53% of the population are of Maharashtrian background, which means that there are at least 1 mn of the 1.4 mn who celebrate this festival. The average expense per family, on a conservative basis, would be Rs. 500, which includes purchase of the idol, sweets, and other paraphernalia for the actual *puja*. This, in turn, means that there is an outlay of Rs. 50 crore to be spent. Hence, in one city alone, there is an expense of at least Rs. 100 crore for the festival. There are, in addition, incidental expenses, such as on deployment of police, traffic snarls, electricity, etc.



The basic point here is that festivals are important for reasons that go beyond religion. They are virtually mandatory celebrations for various communities, and people use them to spend money.

The basic point here is that festivals are important for reasons that go beyond religion. They are virtually mandatory celebrations for various communities, and

people use them to spend money. This money performs a useful function by generating employment, as well as strong backward linkages. The thought of children producing fireworks under sub-human and dangerous conditions at Sivakashi may repel us. But the alternative, which is poverty, is worse. While one would like the children to study and enjoy a decent life, the hazardous jobs they do raises broader issues of the responsibility of the state, or rather the state's irresponsibility which makes the children work in such hazardous conditions. Similarly, the fact that there are 1 mn idols being produced actually means employment for the craftsmen who have no other talent, and must depend on such festivals to keep their households running. These sculptors come from the rural hinterland to the city to sell these idols as a higher price can be commanded in it.

Festivals, thus, have the power of spurring the economy as they touch all sections of the people, and are not restricted to just one class. They lead to large spending impulses from different communities as

they are occasions when everyone spends money at the same time, unlike birthdays or anniversaries where expenditure is restricted to individuals. The fact that they have been institutionalized means that they are critical for economic growth as a whole. This holds across the world, where Christmas, for example is the time for big spending in the west. All purchases of clothes, electronic items, household goods, etc., are reckoned during this season. This is also the time when Walmarts, and Sears, and JC Penny come up with their discounts. This season also means big business for banks as higher credit card spending means more income for the banks.

Festivals therefore complement religion in spreading values, and also in helping to create a different kind of economy fostering its own series of economic activities. The money involved is large, and all of the expenditure is voluntarily incurred (at least most of the time). They add to the growth of the economy by enthusing consumption, and are hence clearer to understand than religion where the involvement of the metaphysical is higher.



2. Try Investing Your Money... We'll Get You Anyway

And if the cloud bursts, thunder in your ear, you shout and no one seems to hear, and if the band you're in starts playing different tunes, I'll see you on the dark side of the moon.

—Pink Floyd, “Brain Damage”

All of us as individuals are keen on saving our money, not just for the rainy day, but also to earn some income in the form of interest for deferment of consumption. Therefore, everyone tends to look at various options for saving or more to the point, investing their funds in the most profitable manner. There are various options before us which we look at, and normally tend to diversify our portfolio, depending on our risk appetite. Hence, if we are risk-inclined, we could look more at the stock market and less at the bank deposit. But, almost all people have some kind of exposure to the bank, though there would be many who never looked at the stock market. A bank deposit is intrinsically superior to government savings through certificates and other provident funds, as they have the convenience associated with banking that is not afforded by government savings.

Further, there is a pressing need to take some cover against contingencies through the insurance route. With life becoming progressively uncertain in an era where life expectancy has increased, quite ironically, the number of younger people perishing on account of coronary related diseases or cancer has increased manifold. Hence, there is some kind of a compulsion to take life insurance so as to provide support to the family in case of such an eventuality. But, given

the higher incidence of disease, there is also demand for health insurance. and as we become more affluent and acquire vehicles and other luxuries, they too need to be insured. Therefore, the demand for these services increases. Besides, while taking such decisions, the insurance route also provides some incentive for investment as there are tax-free returns, which make them comparable to those offered on, say, a bank deposit. Therefore, insurance is a viable and preferred savings option for individuals.

As the stock market has become important, more individuals have been tempted to join the fray. But the main question is, how does one go about such a job. Capital markets are actually good avenues to skip the middleman and access the borrower or lender directly. But, it is not really easy for the novice to do so. This has led to the proliferation of the mutual funds as well as the business media which provides clues, and often expert advice to individuals investing in the fund.

This is one part of the story where there are three major institutions that exist, and provide a solution for most of the savings related issues. But, when this kind of a symbiotic relationship develops, there is a quirky twist that is observed, as witnessed by the games that are being played—mainly by the counter party to the individual investor or saver. In this process, the saver or investor often end up getting an unsatisfactory deal, and left unhappy. But, does he or she have an option? Maybe not, because there are these invisible hurdles placed by every institution which works towards its own interest. Can you get out of this system?

When you try and change the bank, it does not work, as you face the same environment under a different umbrella. Insurance gets even more complicated, and the capital market can leave you wondering as to why at all did you venture into this terrain. For instance, if you turn to insurance, one view is that the policy which was to give you peace, actually cannot do so, because, by its very nature it has to be balanced in favour of the insurance company, or else the business will never survive. Therefore, while insurance gives one the illusion of security, it is not designed to benefit the insured, and is actually modeled to

look at the profits of the company. Besides, the way these systems operate is quite murky. There is absolute absence of transparency as there are a multitude of parties that come in the way, together complicating the processes.

It is the same with the stock market, when the advisor gets you to do what he wants, you to do. Mutual funds talk of fund managers, and you keep wondering if these are the people who actually earn a bonus for a lifetime on your investment, and then quietly make an exit when the chips are down, leaving you with humble returns while they lead a flashy life. But, the difference here is that it is made quite clear when you enter the market that nothing is guaranteed, and your reward depends on the market and the way the funds operate—if this could be a consolation.



Banks have become tougher to access. Insurance companies too have a wider offering. And when you use a mutual fund to access the capital market, you often feel that you have not got a good deal.

This section hence, deals with the murkier side of these financial services which are based on the profit motive. Banks have become tougher to access, even though they provide myriad services to the customers. Insurance companies also have a wider offering, and most of the time, you are unaware of the finer points of the policies that you have taken. And when you use a mutual fund to access the capital market, you often feel that you have got a lesser deal.

Given that these stories could create an element of diffidence in you (as a saver) and make you wonder if anything makes sense, a slight digression is made in a lighter vein to a novel form of saving which you could explore to earn returns which are mind boggling. Its right in front of your eyes and has not been explored. Maybe it is time to look at the second-hand newspaper market.

While all these areas are open to us for earning an income, there is a lot more to learn from our politicians. The elections for the Parliament for 2009 had a lighter side, especially in the area of disclosures to be

made about individual wealth. Basically, all candidates had to disclose their wealth as in 2009. The same numbers were also there for 2004. At the national level, the average wealth per candidate who stood for elections increased at an average rate of 17.1% during this period. It was as high as 251% for Tamil Nadu, 185% per annum for candidates from Delhi, followed by 114% in Gujarat, and 50% in Haryana. We will never know how they did it, but these numbers would beat any return generated by any wealth manager or fund manager anywhere in the world, especially as two of these five years coincided with the financial crisis. Maybe we should use these people to manage our wealth.

2.1 BANKING TRAUMA

Banks hire dull people and train them to be even more dull.

—**Nassim Nicholas Taleb**

Banking is quite a mundane business for a layman. The relationship with a bank is mostly confined to depositing money in return for an interest payment. The interest rate is the reward paid by the bank to induce you to part with money so that the bank can intermediate and lend the same money at a higher interest rate. This is based on the assumption that there is a cost for intermediation which includes the risk assumed when lending, besides the administrative costs that are involved. To use some jargon, banks are better placed to take care of the issue of asymmetric information on the creditworthiness of the borrowers, and hence reduce the probability of adverse selection. From the point of view of the depositor, it is better to keep the money with the bank and earn an income than let it lie idle at home, with the assurance being that the money will be returned anytime it is required. The carrot provided here is an interest payment for waiting.

For a long time, we had few choices for banking, and this meant that one had to choose between one public sector bank over another, and the die was cast based on proximity. Interest rates were fixed by the system, and the choice was only between names. All these banks belonged to the government. But if they didn't belong to the gov-

ernment, they could at times offer higher rates, but you could not be sure of their future, in terms of their remaining solvent. These private banks got their business from their own community as they were community-based. One normally pitched for the public sector banks, as depositors (as a rule) are generally risk-averse, and are in this segment because they do not like to venture into other markets. The other niche banks however, as mentioned earlier, being community-based did their business quite efficiently.

The banking experience was noteworthy. You needed the bank more than the bank needed you. You wanted to put your money in the bank to save it, and also earn interest, while the clerk did not care if you did so or not. With some trepidation, you approached the bank branch. Dealing with the clerk meant dealing with his tea cup, his early morning chat with his colleagues, and maybe his breakfast too. If you were short-tempered, you could yell at him, but he would not care. You could threaten to report the inefficiency, but he did not mind because, frankly, you



If you were short-tempered, you could yell at the clerk, but he would not care. You could threaten to report the inefficiency, but wouldn't know where to complain.

would not know where to complain. Even if you did, no action would be taken as these gentry were unionized. It was virtually impossible to shake the behemoth. The pass book would be updated in a week's time, but if you spoke in the mother tongue of the clerk obsequiously, things could move faster. Customers could move to another bank, but that would not matter because you would get the same treatment there. Therefore, you had to go to the bank any way and become reconciled to indifferent service and returns.

There were no other products offered, such as besides the deposits and the loan. Yes, there was the locker, and this is where the bank manager could get you to keep a fixed deposit for a long duration. The discretionary power was there with the manager, and there would be a long waiting list for the same. Normally, no one ever gives up a

locker in a bank; it is transferred as a legacy to the next generation. The banker had the upper hand here as you would do anything to get the locker which cost you around Rs. 200 per annum. The same facility in a private vault would have run into anything between Rs. 2,500 and 5,000 per annum.

Borrowing was even more bureaucratic, and often a percentage had to be given to the officer to sanction the loan. If you did not part with the money, the file would not move. If you got the sanction, the clerk would demand his cut for making the entries, while the peon would have to be paid for moving the file. It is not surprising that the 'hair-cut' on a loan could extend up to 10% at the retail end. Companies borrowing money had to appease the officers with gifts and perks, (such as provision of a free car and so on) otherwise there would be defects found in the application, or else, the ubiquitous mathematical tools of return, or internal rate of return, would be used to show that the project was not feasible. Besides, the bank had a Minimum Lending Rate (MLR) which meant that it could charge a higher rate if the financials so demanded. If the banker wanted, he could go beyond this rate on grounds of risk. Therefore, he had to be rewarded for charging a lower rate.

So, you see, banking was generally typified by this set-up and no one really complained, as one never knew what better to expect. In a way, it was an efficient system, just like the bribe economy that has been spoken of. A borrower who took a 'haircut' in the principal which was eventually given to him, rationalized the same as being part of the interest cost, which was $x\%$ more than the stated rate. The basic point is that if there are unwritten rules which are known to all, then they are followed to a tee, and the comfort level of every individual is satisfactory.

The change

A bank is a place where they lend you an umbrella in fair weather and ask for it back when it begins to rain.

—Robert Frost

Things however, changed with the advent of private banks after finan-

cial reforms were introduced, and the euphoria generated was amazing, as the business models were based on efficiency, technology, and courtesy. Banking was to become a new experience and more importantly, there was a choice for the customer as banks tried to distinguish themselves from one another. This is a fallout of competition anywhere in the economy, where the market adjusts and ensures that the response is appropriate to retain one's share.

The private banks had a single point agenda of increasing the breadth of their business. This was done by offering several products besides the traditional deposit and loan. There were different kinds of deposits which were introduced, such as auto-fixed deposits where any balance above a threshold automatically became a fixed deposit. Products were cleverly crafted for children and senior citizens. Companies were tapped to create salary accounts so that, all employees were compelled to have their accounts in the bank, and could then be convinced to deepen their relationship.

Loans were diversified and schemes like consumer loans, auto loans, mortgages, etc., were repackaged to target business goals. Consumers were enticed with ATM cards, debit cards and credit cards. All these facilities became status symbols, as they were hitherto being offered only by foreign banks. Then, Internet banking was introduced, and once that was done, phone banking and mobile banking was not far away. Needless to say, the private banks now resembled foreign banks, but were accessible to the common man. Offices were well laid out and airconditioned. The staff spoke good English, and was dressed well. If you were lucky, there was channel music to soothe your senses.

One of the paradigms that set by these banks was the concept of cross-selling. The idea was that a customer who



Cross-selling was one of the paradigms set by these banks—when a customer comes in for a deposit she/he should walk out with other products.

comes in for a deposit should walk out with other products. This is just like what happens in a super market where the lady who

comes to buy a kilo of vegetables walks out with perfumes and hair dye, and some kitchenware. Hence, you as customer are often accosted by the bank personnel and asked to invest in mutual funds and insurance. Nothing wrong here except that when you respond by saying that you would not like to invest elsewhere, they actually take the trouble of telling you that you are wasting your money in the bank! Your deposit earns 8% per annum on which a tax rate of 33% leaves you with say 5.4%. If, instead, you shift it to an insurance plan, or a mutual fund (ULIPs or unit linked insurance plans are the flavour of the day), then you can earn tax-free returns ranging from 10 to 20%. Now, how does that sound? You then start wondering whether the bank's strategy is to get you into the deposits, or into mutual funds. Maybe the fees earned on cross-selling are higher for the bank but, as a customer, you are suitably confused.

The travails start now

That is the good part of the story. But, ironically, today banking with a high-end private bank is more of an ordeal than a pleasure. The techniques and strategies used by these banks to build business were admirable. But once the threshold levels were attained, and the systems were rolled out over, say a decade, then the problems surfaced in the form of several customer-related issues. The cause of this change of view is technology, and the fact that these banks are unable to handle large numbers of transactions. Initially, banks vied for the customers' wallet and lured the public. Once that has been done, they have realized that they are not able to service these customers, and are now trying to drive them away if they do not bring value to the bank. The preference is now for big tickets as, having a large number of customers is not worth the trouble, and the cost of handling those numbers is getting out of hand. Let us see how this works at present.

The customer is not acquainted with the products that are offered, or has been forced to take. He does not have to do this when dealing with, say a public sector bank. The account opening formalities apparently seem to be simple, but there are catches which are not explained

upfront. You are given a debit card and are charged for the same, whether or not you want it. This was a complimentary service provided earlier in the form of an ATM card, which is now called a debit card. You are to maintain a minimum balance in your account which is much higher than that required by a public sector bank. Next, the banker does not want to interact with you directly, and if you dare to visit the branch with deposits or withdrawals of more than what you should be doing, then you are charged for it. All this is, of course, mentioned in fine print in the terms and conditions that you had accepted. More importantly, the pass book system has given way to statements, which will be sent to you periodically only. The



If you ask for this statement more regularly, then you have to pay for it. What happens in the rural areas where customers may not be net savvy, and go to the branch out of habit?

e-mail statement is available, so one has to be Internet savvy to access them. If you so much as ask for this statement more regularly, then you have to pay for it. The natural reaction is: what happens in the rural areas where the customers may not be net savvy, and go to the branch out of habit?

Just think of a rural customer who wants to know his balance in his savings account. He will have to get to the Internet kiosk and figure out his bank statement. (This is changing, with the RBI making it obligatory for banks to issue a pass book). The customer may be literate to the extent that he can sign his name, but he would definitely not know English or the Internet. It is quite ridiculous to expect such people to actually fall in line.

The beauty of this whole deal is that even as the bank gives you 8% on a deposit, and earns anywhere over 12% on the same, it keeps levying charges on various facilities that should actually be free. This new trait has also permeated the operations of the public sector banks which have also started gradually charging for various services which

were hitherto free. The force of competition has made banks try to squeeze the deposit holder, and not the borrower. You may have noticed that in all debates on interest rates, the Finance Minister exhorts banks to lower the lending rate, but never thinks of protecting the deposit holder. This is because of corporate pressure that is applied on the government, which needs to show good industrial growth numbers to prove that its policies have worked. As far as the end-deposit holder is concerned, interest rates are never a vote losing proposition, though inflation is.

On the credit side, things are even more intriguing. We are all told that banks are intermediaries which are supposed to bridge the information asymmetry which exists in evaluating risk. Therefore, since individuals cannot gauge the risk of the borrower, a bank comes into the picture and earns an intermediation fee which is around 50% of what the deposit holder gets. Therefore, a deposit holder would be within her rights to expect judicious lending from the bank. But, when you look at the way in which credit cards are issued, you would stop and shudder.

As all banks are in the race for telling the world that they have issued the highest number of plastic cards during the year, they necessarily have to increase the card base. For this, they need to get in more people under their fold, and what better way than to catch pedestrians or shoppers at the crossing, super market, airport or railway station. Very often you would have been confronted with a miserable looking salesman with a tie in the sweltering heat of 42 degrees imploring you to sign a form and give your address. You are told that the card will be without a charge for a life-time, and that there is an add-on to be had too. If you still refuse, he would tell you that you could always tear up the card once you receive it. This will help him to meet his target of 1000 cards for the month, for which he gets an incentive of Rs. 2,000. Is this the way to do business?

Let us examine how this system works. The agent is supposed to meet targets to get his bonus. The bank is interested in numbers, and therefore, you can become the proud owner of the card without much ado. This is a far cry from the old days when the foreign banks would

offer the credit card only to the most exclusive customers. Now you do not even have to show a salary certificate at times to get this card! You are accosted outside the airport, where a card can be had by providing your boarding pass as it is assumed that if you could afford to fly, you are a customer worth having. This makes you wonder about the sanctity of banking when banks are so aggressive in increasing numbers, and do not pay too much attention to prudence. Such lending often ends up with bad debts, much like the U. S. financial crisis of 2007 and 2008, where the NINJA loans (no income, jobs, and assets) snowballed into a global cauldron.

Let us see how the customer acquisition plan for credit cards works. The card is given to the customer outside a super market. All the norms of KYC (Know Your Customer) are flouted and there is little due diligence done. The customer is happy to receive a card, as it has a snob value. He starts spending money as he is told that he will have to pay interest of only 2%. It is not mentioned that it is 2% per month which works out to 24% for a year. At the end of the day, he is given a bill where he has to pay a minimum amount. One may just be tempted to pay the minimum amount. But, on the balance, the bank earns 24%. The customer hence ends up adding to the bank's profit.

A common complaint with credit cards is that the bill statement comes to you after the due date. Some of the foreign banks have become infamous

for this ploy where the bill is either not sent, or sent after the due date to ensure that you are in a spot. This holds for customers who are in the habit of paying their dues on time. When this happens, the bank earns the commission from the merchant, and not the customer. This is hence a strategy of the bank to extract the interest component. The way out is to actually call up the call centre and give the person a firing. The service staff on the other end immediately say that they will reverse the charge. But, if you meekly pay the charge, then the bank



If you meekly pay the charge, then the bank benefits while you lose. This is a smart strategy to make the customer pay.

benefits and you lose. This is a smart strategy to make the customer pay, as often one does not even check if the entries in the statement are correct.

Another covert operation of the card dealing bank is to waive the annual fees for the first year. The idea is that once you are used to it, you will not give it up. From the second year onwards, they start levying the fee which you have to pay. In-between, they will also give a card for your spouse so that, at the end, they charge for both the cards. However, of late banks have started giving life-time free cards, which means that you save on the Rs. 500–5,000 that was being charged earlier on these cards. But the waiver of fees is only a verbal commitment as the documents sent to you with the card do not mention anywhere that the card is free; it is simply mentioned that the annual fees are as per the banks' rules. This makes one think that probably earlier these banks were being exploitative, as they still continue to earn a tidy packet on your transactions (1–2%) from the merchandiser, and 24–30% (when the charge is 2–2.5% per month) on your arrears today without this fee. This means that they were actually overcharging in the past.

A more innovative method being used by banks today is even more impersonal. There is a call on your cell phone which explains to you how you are the selected person to be upgraded to a platinum card with vast benefits. Somewhere, the catches are spelt out, but you only need to press the star button on your phone to experience the joy of a platinum card!

Mortgage loans are no better as banks did, at one time, strive to top the list in these loans. To achieve these distinctions interest rates were made more competitive. Then the processes were made easier, and the agent was desperate to meet his target. Therefore, he encouraged you to take a larger size loan as his target was denoted in terms of value, and not number of customers. As a borrower, you are seldom told about the real options that are before you. There is a choice of flexible and fixed interest rates. Flexible interest rates means that you need to take a view about future interest rates. If you opt for this

route, then you are actually charged different rates, depending on the changing scenario. This was popular at a time when interest rates were declining.

The other route is the fixed interest rate where we opt for the rate to be fixed. However, there is always a catch here as there is a fine print which says that the bank has the right to reset the rate after a fixed period. Therefore, a fixed interest contract is not really fixed, with the prerogative lying with the bank. You realize the blow only when the EMIs (equated monthly instalments) get elongated due to the higher interest rate being charged after a point of time.

Banking thus, has become a nasty business for customers as banks are after the individual to charge him for everything. They use psychology to operate. First tempt the individual with freebies, and then push on the burden of the fees which the customer ends up paying.

Customer interaction

There are two other facilities offered by the bank to the customer which have a humorous side, i.e., call centre and internet banking. Call centres are help lines established by banks to address the issues that you have. They recruit English-speaking staff, pay them around Rs. 15,000 a month and train them to irritate you. Let us see how these centres work. When you dial the number, you are given a list of options, and the digit of the phone you are to press to proceed. One cannot be blamed for missing out what 1 or 4 stands for, and you may have to wait for the options to be provided again. When you finally press 9 to talk to a customer service agent, the ordeal begins. The bank music comes on and a pre-recorded voice keeps repeating that your time is important and we value your time, and to be patient and hold on. The bank knows that it is your



After you press 9 to talk to a customer service agent, the bank music comes on and a pre-recorded voice keeps repeating that your time is important; we value your time; and to be patient and hold on.

work, and you will have to wait howsoever long it is. For, if you have the temerity to go to the branch, they will charge you for the same.

Next, a Miss Cynthia or Ms Clara comes on line introducing herself and politely asks if she can help you. While you explain your problem about an incorrect debit, you are asked to identify yourself. You need to give your bank account. Next, you are asked your address, and if you say the words in the wrong manner, or call the road a 'marg', then you are politely refused further conversation. Therefore, you need to keep one of the old bank statements before you while talking on the phone. You could be asked your mother's or father's name, and if you are not cut off before this, then you could re-explain your problem. Next, you are asked to wait for sometime during which time you have to hear the jingle of the bank which you have learnt to detest.

Let us suppose the service agent comes back with a few more queries and you answer them right. More often than not you are told that the server is down and not working all right, or that the bank will get back to you within three working days. The conversation ends with Cynthia asking you if she can help you on anything else, and if not, wants you to have a nice day. The bank will never get back, and you have to begin your tryst all over again. In fact, the person who talks to you will be different, and you have no alternative but to repeat your grievance.

Internet banking is supposedly the cheapest form of banking for the bank. It is said that if a visit to the bank costs Rs. 50 per transaction, the ATM comes next with Rs. 20, followed by the call centre which comes with Rs. 8, and the Internet with Rs. 2. These numbers are illustrative, and good for Board meetings where the bank talks of new strategies to reduce costs. And Boards always lap up numbers which sound good to them, and never question the fact that these are notional profits. This is important because the bank rarely slashes labour or administrative costs to bring down overall costs. It continues to make its staff work longer hours and have the lights on. No one really questions the actual savings made by the bank by getting hapless customers to constantly switch to new modes of transacting business.

For Internet banking, you are provided a user-id and password which needs to be remembered for ever. If you type-in the incorrect password, which is case sensitive, then you lose your password, and have to apply all over again. These passwords have also to be changed often, and you cannot repeat different forms of the same password. This makes the job tougher, and one needs to maintain a diary for the same. On the other hand, Internet banking is useful as it can mean conducting banking on the net from the confines of your home at any time of the day.

You can make enquiries and check your accounts. You can put in requests for cheque books or statements. If there is a query, you can pose the same. However, transacting on the net carries its share of worries. All payment gateways are safe. But once you reveal your card number and security pin, you have a doubt. Can it be leaked? Also, what happens when the purchase transaction does not go through, but your account is debited? While you are agonize over such an occurrence, the only solution before you is to go to the call centre. But then, we all know what happens there.

It is the same problem with the ATM. You want to withdraw money in the night and go to an ATM. What do you do if your card remains stuck inside, or if you get fewer notes than you should? Bankers insist that every transaction is recorded, and that the customer will get it back if he goes to the bank with the complaint. But, if technology can fail on delivering the right number of currency notes, it can just as well make an error while recording the transaction.



But, if technology can fail on delivering the right number of currency notes, it can just as well make an error while recording the transaction.

The point is that while technology does make life easier, it has its share of problems. And since one cannot talk to a web site or an ATM, and will have to go through harrowing times to get through to the call

centre, it is but natural that customers still prefer the more comforting confines of the brick and mortar branch.

The travails of a customer of a technology-driven bank can be best illustrated by a personal experience with a private bank, when I was an employee there. The head office was a swanky tower in one of the prestigious financial centres of the city of Mumbai. The head office had an extension counter which was attached to the Nariman Point Branch. All the employees had an account with the bank, and most with this branch. The extension counter facilitated all such transactions. I needed a cheque book for which I submitted the requisition. The officer told me that the cheque book would be mailed to my residential address after five working days. But I said I wanted to collect it there and then, maybe in the evening. After all, I was working on the fourth floor and the extension counter was on the ground floor. I could not thus, understand this process of mailing it to me. It is so contrary to what happens in a public sector bank, where the book is given to you within 20 minutes!

The issue was that there were efficient processes that were put into place in the private bank. I was gently told that the process laid out could not be changed, and that is how it would go. The cheque book would be sent to the address that was registered when the account was opened. That was my residential address, but my problem was that no one would be at home to receive it during the working hours. The helpless explanation was that this requisition would go to the Regional Processing Cell outside Mumbai, and the cheque book would be sent from there. The courier would visit the house and find the lock and take the book back. The same would be given to another courier agency which would again visit the house three times, and take it as undelivered. Subsequently, the cheque book would go back to the branch where I had an account, i.e., Nariman Point. Once it got there, within a time period of, say 10 days, I could collect it. How did my problem get resolved? I had to use the arrogance displayed by all employees who happen to be associated with the MD and CEO's office, and gently warn them to have the cheque book delivered at the

counter, which was done after 4 days. The alternative was to invoke a change of address, which would take again another 3 working days, and the process to be restarted.

Hence, while the process of banking has become much more sophisticated than it was in the past, the layman still seems at a loss as to how to go about the business. The plethora of products magnify the confusion that exists in the mind. And the stack of cards that one ends up having, makes it difficult to keep track of the payments to be made, or the renewals that are due. The tie-ups of banks with several department stores and supermarkets has added to this number, which further makes monitoring an issue.

What does all this mean? Are we in a better state than we were, say, in 1990? Things are done faster than before, and there are definitely more products that are available. But the loss of the human face, and the quest for profits and records has made banking a wholly impersonal business. There was a time when the branch manager would personally know at least 75% of the account holders, and would have a cup of tea with everyone at least once. The idea was that the manager had to understand the customer and ensure that operations were smooth. For this, personal rapport was necessary. Today, with everything being automated, one cannot speak to technology. There are still queries that customers have, which cannot be answered by the ATM or the Internet site. At the end of the day, the deposit holder will ask the question: why am I being treated like this when the bank's success hinges on several customers like me? The answer given by the ecocynic is: no one cares.

2.2 THE INSURANCE GAME

Prime Minister, would you mind not leaning forward like that? It makes you look as though you're selling insurance. "Yes Prime Minister"

—Anthony Jay and Jonathan Lynnh

Insurance is a curious business because it always gives you a sense of security, albeit, at times, a false one. Insurance is a cover you take

against the eventuality of something going wrong, which can happen with anything, from property to life. Intuitively, one can see that if all people take insurance and have to gain from it, then the company which administers the same cannot remain viable. It is necessary to accept that everyone cannot win and at best, it can be a zero sum game.

Therefore, there has to be a strategic game at work which, *prima*



The insurance company wants to insure more people who will not claim insurance, yet are willing to pay for it to feel more secure. Those more likely to need insurance would be the ones likely to take the same, and are willing to pay as they feel reasonably sure that they would need to exercise these options.

facie, could be simplistically put as follows.

The insurance company wants to insure more people who will not claim insurance, but are yet willing to pay for it to feel more secure. Those more likely to need insur-

ance would be the ones likely to take the same, and are willing to pay as they feel reasonably sure that they would need to exercise these options. These are the ones the insurance companies would ideally like to have in the minority, as it affects their own plans. Hence, the challenge for them is that those who do not really need the insurance have to be brought to the fold to keep the profits ticking, while those who definitely need insurance have to be forced to pay a higher premium with claims being made difficult, either overtly or by subterfuge.

Insurance is thus, a pure business proposition where there are trade-offs for the insured. One needs to take a calculated call on the probability of the calamity befalling the person, and the premium being paid for the same for providing solace. At the same time, everyone wants to feel safe, and hence would take some insurance to protect himself against adversity. Therefore, most of us look at insurance as either a necessary evil, or a sum of money we have to forego to have peace of mind. Insurance companies know this, and hence, work on this psychology to price and market their products. It is no surprise that your insurance agent always sits at the edge of your seat and explains to you the dangers of dying, but is less keen on your health.

He is more interested in his commission which is higher in the former case, and low in the latter. Besides, as an agent, the likelihood of such a client dying is low, and the time spent to service him or her is also low. However, in case of health, he may have to spend disproportionately larger amount of his time to service a client who keeps making claims. This is a waste of time, right?

Insurance is bifurcated into two streams. The first is life insurance, and the other is general insurance. The difference really is that one protects against death, and also gives you a return for living, while general insurance comes into play only in case there is a financial setback on account of the insured product going wrong.

Life insurance

Life insurance is something which everyone ends up taking ostensibly for life cover, though there is an investment tenet hanging in suspension in front of you. The investment option is highlighted when talking to the young and healthy people, while the insurance part is the focus as you grow older. The insurance company basically pools the premium collected and invests in the GSec (government securities) market where the principal amount is relatively safe. The returns are adjusted for the company's expenses and profit, while the balance is to be kept aside for the insured. Hence, there is an implicit return available to the insured, which comes as fixed return as well as a variable return in the form of a bonus at the end of the tenure. All money from life insurance is tax-free, with the premium also being eligible for certain tax benefits when it is paid.

Think of your insurance agent who either tempts you to go in for insurance, or warns you of the repercussions of not going in for insurance. How does it all work? You put in a certain sum of money every month, which is the premium you pay for a policy of a certain denomination. The premium increases with age. Hence, if you are 25 years old you would pay say Rs. 3,000 for an insurance amount of Rs. 100,000, while the same rises to Rs. 3,500 if you are 35, and so on. The basic idea is that you pay this premium for a fixed number of months—usually a long period of time. There are different

ways of payback for the insured. If the person dies during the tenure of the policy, the sum assured comes to the family, or the specific person mentioned in the policy. If a person lives through the insurance period, there is a lump sum payment at the end of the period with accumulated bonus. Generally, all policies give you the option of getting back some money periodically—every four or five years. Hence, these are good investment avenues which give modest, but secure, tax-free returns.

Life insurance is a steady course to pursue for any individual because you go in with your eyes open. The implicit yield is generally in the region of 5–7%, depending on the interest rate regime. More importantly, these returns are free from tax, being given a special status in the category of savings. Intuitively, the return cannot be higher than what the market can offer. That is so because the company invests in certain assets which it is allowed to do based on its own rules and regulations. Hence, it will invest in government bonds in general, and partly in corporate debt. This way the maximum yield is more or less fixed. So are its operational costs. The yield hence is somewhere in-between. At times, the schemes talk of a unit-linked plan, where the returns are not assured if one lives, as the money is invested in stocks. There is evidently more risk involved in this route. You only have the assurance that in case you do die, the survivors will get the sum assured,



Your insurance agent would have exaggerated the yields by computing a return on the fixed sums you receive in your money-back policies.

which is actually what the intention was, to begin with.

Your insurance agent would have exaggerated the yields by even computing a

return on the fixed sums you receive in your money-back policies, but that is more of a marketing gimmick used to lure business. Let us assume the policy gives back Rs. 20,000 every 5 years for 15 years on a policy of Rs. 100,000, and the balance with bonuses at the end of the period. The agent explains that the Rs. 20,000 you receive can be rein-

vested in a government savings certificate which will double or triple in the next 10 or 15 years which, when added to your final returns, looks like a stock market return!

But, how do you go about getting such policies. There is a mandatory health check-up and your agent invariably gets this done without you visiting the pathology laboratory. In India by paying the laboratory, such things are evidently possible. The insurance companies need to be sure that the insured is not really on the verge of dying before taking a policy, or if the insured is suffering from certain diseases, it needs to be made known so that the premium may be raised. The insurance agent invariably does these services for you, and also rewards you for taking such policies. This is so because the agent gets a commission equivalent to 2–4 months premium from the company, and shares a part with you in order to retain your loyalty. Also, there is a commission which the agent gets paid every year on the same policy, which you normally do not get to share with him.

The agent works on a target which is set by the company. He has to get a certain quantum of new policies, and also ensure that the existing ones are being serviced, which makes him offer the service of paying the premium for you every year. Given the targets that are set for the agents, it is not surprising that their range of activity is in the urban cities, and not rural India, where it is probably needed more than in the urban centres. In villages, there is a lot of explaining to do, and the policies that would eventually be taken would be for, say, Rs. 10,000, where it is not worth the trouble for the agent. Therefore, to begin with, there is an inherent bias in favour of the better income classes of people being covered by this product. The big tickets make more sense.

Now, agents are driven by targets, just like any corporate employee. An agent needs to get a total insurance target of, say, Rs. 10 crore a year. For this he needs either to get in more people, or get the same people to take larger policies. To do this, there are lots of techniques used. If you are young, then you are told that the premium is low, and that you would get large lump sum payments periodically. As you

reach middle age, you are told that you need to have cover equivalent to five times your annual salary. The multiple could go up to ten. The idea here is that you need to ensure that if you die, the family can be looked after for a long time while maintaining your standard of living. This is based on adjustments made for inflation along the way. Then, the concern of the agent for your children will pop up, as he tells you that you need to prepare for the education costs of your child when it grows up. As you get older, the agent will tell you that you need to plan your children's education, and for that he tells you there are good plans which can give you an ideal amount. The sum insured will be higher, and the premium to be paid even higher. Suddenly, you realize that the agent is not selling life insurance, but a long-term investment instrument, which is also what you are looking at. Now, logically, when one is looking for such an investment, a stock market or mutual fund should be the destination, but the ex-post-rationalization comes from the comfort of life insurance that is provided in this deal.

Lastly, as you slip into the 'past middle age', then you need to plan for your retirement, and for that you cannot take a 25 year plan as you will not be in service. Therefore, a plan which makes you pay a large premium for a larger assured amount, would give you a pension for the rest of your life.



The business of an insurance company is smooth unless there are too many deaths along the way. Usually death claims are few, which means that the company can get away with giving you a return of 6–7% when you could have got a higher yield from a bank deposit.

This is also the age when one is vulnerable about the future as one reaches retirement. Here, if not properly guided, one could slip into an equity based plan where the risk is high. It may

have been noticed that all insurance policies come in literally small print, and rarely does one go through the details to really know what one is going in for.

From the point of view of the insurance company, the business is smooth unless there are too many deaths along the way. Usually death

claims are few, and this means that the company can get away with giving you a return of 6–7% when you could have got a higher yield from a bank deposit. But, there is the assurance that in case of death, the family would be compensated. In fact, there has been a debate going on whether these funds should be allowed to invest in risky assets to procure higher returns. But, considering that they are to provide assurance to the insured, they cannot be taking high risks in the market, and have to therefore restrict their sphere of activity.

However, there have been complaints that while companies honour the survival benefits easily, they are prone to questioning and procrastinating when it comes to compensating for death. This holds especially if a person has had a disease which was not stated at the time of taking the policy.

The major concern about life insurance is really that it has become more of an investment option than an insurance product. This concern was raised when insurance companies came up with single premium schemes where there was less of life insurance, and more of the investment component. To dissuade them from taking that course, the government decided to tax such returns, thereby making them less attractive. People still take life insurance to get an assured sum of money after a certain number of years. Annuities are calculated generally keeping in mind this target amount, rather than the life insurance aspect. It is therefore, not surprising that the schemes where the premium paid does not result in a pay-back, but covers you all the same for the death event, that too quite handsomely, has never found too much favour with the insured.

General insurance

General insurance is an even more fascinating field in the world of insurance. Two areas where it dominates are automobile and health. Insurance is provided for property and theft as well, but it is the former two which are more popular among the insurers and the insured. The latter two, i.e., property and theft, are more business-oriented where transactions are on large amounts, and the premium is well-priced as claims are normally minimal. However, the automobile and

health covers are different as they concern individuals who are left guessing most of the time. The way in which these business lines are conducted is extremely intriguing, as the games being played by the parties concerned are proactive.

Automobile insurance is mandatory in India for every vehicle that is plying on the road. One really has a choice here between comprehensive insurance and third-party insurance. The latter is a cheaper version where a basic minimum amount has to be paid, which actu-



Rarely does anybody find it worthwhile to go through with the tiresome processes of visiting various offices and police stations to get a decision in your favour.

ally insures the other aggrieved party in case of a mishap, while the person taking the insurance gets no relief. Prima facie, this means that the premium paid

is just for using the road, and there are no liabilities as such for the insurance company. If at all there is a claim made in such a policy, it could be only if all the concerned parties have third party insurance. In such an event, the courts will have to decide as to who is right, and who is responsible for the damage. But, almost all the times, there are few claims made as it becomes very difficult to decide as to which party was on the wrong side. Further, rarely does anybody find it worthwhile to go through with the tiresome processes of visiting various offices and police stations with the hope of getting a decision in your favour.

In case of comprehensive insurance, every part of the vehicle is insured, which includes the music player, the glasses, etc., The third party insurance premium is fixed, but the comprehensive insurance is based on the value of the car. As can be guessed, the value depreciates every year, and the premium comes down progressively if there is no claim made. There is a 'no claim' bonus of 20–25%, which means that there is a benefit for not claiming any reimbursement. Broadly speaking, for a sedan size car, the third party insurance could be Rs. 1,000 per annum, while the comprehensive insurance would be Rs. 20,000 per annum, which will keep falling as mentioned earlier.

While both the options are open for the public, one can see that the insurance companies and agents are not really interested in the third party policies as the amount received is too small. The agents hardly get any cut in the form of a commission, and therefore, they would never get you the policy. You would have to go to the insurance company on your own and handle the red tape there to have such a policy issued to you. Alternatively, on a policy that costs Rs. 1,000, the agent may charge you Rs. 200 as his outside commission to get this policy where Rs. 50 goes to the agent, and Rs. 150 to the Development Officer (who is on the rolls of the insurance company) who then would condescend to issue the policy. The kind of caste system that exists here is pertinent because, in case you have a comprehensive policy, about a month before the policy is due for renewal, you will receive any number of reminders along with the facility of cheque pick-up for the same. In case of third party insurance renewal, it is really up to you to go and make repeated requests.

When you buy a new car, you are advised to take a comprehensive insurance. In case there is a loan being taken from a bank, then it is mandatory, for it actually belongs to the bank until you repay the loan. The dealer would otherwise warn you that the city is crowded, and the traffic is unruly, so you should be taking this insurance. There is always an insurance agent involved, which means that there are commissions to be had, which are shared between the showroom dealer and the agent.

Now, how does the 'claims game' work here? This is a first-hand account of an insurance claim from a showroom belonging to one of the most reputed automobile manufacturing company in Mumbai. A scratch cum dent on the car is shown to the garage. The first question is whether or not you have insurance, i.e., comprehensive insurance. If you do, then the cost would be Rs. 1,500, which is the lump sum that you have to pay as service charge and service tax, irrespective of the actual cost. The work, which includes labour charges and other incidentals, such as repainting, clearing dents, etc., is otherwise free. In case you do not have the insurance, the cost would be Rs. 6,400 which you need to pay. The rationale is that if the owner is paying

the bill, then the actual amount has to be paid. As the owner had the insurance, the lower amount was charged.

However, the final bill talks of a cost of Rs. 16,800, of which only Rs. 1,500 had to be paid by the customer (i.e., me). The customer is not really bothered as the cost to be shared was known beforehand, and hence, the bill amount did not matter. How does all this add up?

The eco-cynic, being what he is, did not stop here and was tempted to make the necessary enquiries. Talking casually to the mechanics in the garage, the broader story unfolded. If the customer had been asked to pay Rs. 6,400, that would have been the real cost of the repair. But, if it was being claimed from the insurance company, the company would be bearing the enhanced cost of Rs. 15,300, from which the insurance agent would claim his share. This commission is divided between the showroom garage staff and the insurance agent. The showroom garage anyway gets more than the cost. The customer pays less than he would have if he had got it done without the insurance. In any case, the insurance premium would have been paid irrespective of there being a claim. Hence, there is some compensation being received here. The agent is happy, as is the garage staff. The insurance company is the loser here. But it is actually not. Because it keeps charging a higher premium than what it should be doing anyway. Also, when you have to pay your premium the next time, you lose your 'no-claim' bonus. Therefore, it is a weird system in which everyone seems to be gaining, which cannot be so. Evidently, there has to be a catch somewhere, and in this case, it is the customer who is actually paying a higher price for the insurance service, to begin with.

In fact, when one keeps taking such an insurance policy every year, the agent would finally recommend that a claim can be made through the official garage for a repair (which can be shown as damages) so that, at the end of the day, you will not be the loser!

The worrisome feature here is that there is implicitly a lot of fraud being committed by the garage and the insurance agent. When the vehicle is left with the garage, the agent is supposed to come and make an examination. He is to take photographs of the vehicle, and the part

that needs to be taken care of. In the normal course, one has to have a police case registered if there is damage through a road accident. This is not done because the agent is to give the report anyway. This appears to be the practice with all motor insurance companies. Ultimately, someone has to pay for the cost, which is actually divided between the customer (insured) and the insurer.

Health insurance

Now, let us turn to health insurance. Health insurance is needed to cover one against the possibility of illness which may need large monetary resources. The principle here is quite straightforward: the risk has to be spread across a vast community of the insured. Therefore, you often end up paying a premium of, say Rs. 5,000 per annum for a cover of Rs. 100,000. Prima facie, if everyone makes this claim every year, the business cannot survive, unless there are more than 20 persons not making a claim. Else, the insurance company would be making losses, and will not be able to sustain its business. Therefore, what emerges is another economic game between the insurer and the insured.

The insurance company has to make a profit at the end of the day and ideally, would not like to settle your claims. Otherwise, it would charge you a premium which would cover the eventual cost



If everyone makes this claim every year, the business cannot survive, unless there are more than 20 persons not making a claim. Else, the insurance company would be making losses, and will not be able to sustain its business.

when you periodically fall ill and need this money. The way they go about it is something like this. All people are technically covered under health insurance, with the age ceiling being between 70 and 80 years, depending on the insurance company. The premium keeps rising with age as it is assumed that as you get older, you are more likely to fall ill and make a claim. Therefore, the company would ideally like

to dissuade such persons; in fact it would have done so, but for the fact that the insurance regulator will not permit it. The premium is hence kept very high.

The company asks for a health check-up and precludes other diseases for the first few years of your policy. Hence, at one stroke, it makes sure that pre-existing diseases are not covered, and certain other diseases cannot be claimed in the beginning. The medical test cannot cover all organs of the body, and there would thus be the temptation for the insured to hide the fact that he or she has a hernia that has to be operated. Therefore, there is a list of diseases that cannot be covered in the first year. In effect, the company makes sure that in the first one or two years, the premium is paid to them with no claims, unless one is afflicted with bad luck or rather, a disease. Also, if one has, say a history of coronary problems, the exclusion comes in automatically. Hence, the insurer would like to make sure that the insured can submit a claim only in case there is an emergency. The insured, on his part, has the temptation not to reveal all, and take measures to ensure that when the mandatory test is done for issue of a policy, all basic reports are clear.

Further, while cashless insurance is provided, the process is made cumbersome so that, unless one knows that he or she is going to be hospitalized, this benefit can never be claimed. This is so because you are required to inform the administrator who has to approve your visit to the hospital to claim this benefit. Most emergency afflictions come without warning, which means that you need to pay the money on your own. While the hospital will check with the TPA (Third Party Administrator), it normally cannot be contacted when needed the most. Or else, you need to pay the amount and then claim it from the company. Hence, the normal complaint is that, at the time of admission to the hospital, the requisite form is sent to the TPA who will never respond in time!

While you may be covered for Rs. 100,000, there are sub-limits that are placed. You can stay in a certain kind of room with a maximum pre-specified charge. For any period of your stay in the hospi-

tal, there are sub-limits. This really means that the Rs. 100,000 cover may actually give you a cover of only 60–70% of the cost. Further, you cannot claim twice for the same disease, which means that you can have a heart bypass only once in your life-time! The medicines have to be recommended by the hospital, as are the tests that have to be carried out.

The elderly are usually excluded even though, on paper, those over 60 years of age can be covered. No company is however willing to do so. Often, this barrier is erected by making the cover available only to an existing customer for a certain period of time. The applications are rejected or kept on

hold until such time that the person seeking cover gives up. There are umpteen numbers of tests that have to be traversed, which will ensure that the person is disqualified. If you still get through, the

premium is raised to as high as Rs. 20,000 for such a cover. At this rate, one would always weigh the probability of falling ill with the cost involved. Unless you feel that you will actually fall ill and need hospitalization, you will skip this policy as the premium is just too high.

Another game played by the insurance company is to allow an elderly person to be covered provided the entire family takes the insurance. Hence, while one may be glad that his parents are being covered, he also ends up paying the premium for three to four younger people who would never probably require such cover.

Now, let us look at the game played by the insured. The insured always has superior knowledge about his or her health. One knows if one is suffering from hypertension or a coronary problem. There is always an incentive to hide this information. So, one would not disclose this information when going for such a cover. Very often, the



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symptoms of such diseases are not detectable when one goes through a medical examination at the time of taking the insurance.

If a person maintains good health, there is no incentive to take insurance as long as he or she is optimistic about not falling ill. If one is not keeping good health, then one would like to conceal the problems. Ultimately, it is a battle of wits. It is similar to taking a loan from a bank where the banker does not know whether you will repay the loan, while you know whether you want to or not. But a bank takes a collateral, whereas the insurance company can only go on the basis of the tests, and hence carries a higher quantum of risk. The insurance company knows this too, and that it is taking a chance when insuring a person, because there is a good chance that the person is a 'lemon'.

It is case similar to that in the second hand car market where the seller of the car knows the true worth of the car, while the buyer does not. Hence, the buyer always settles for the lowest price in the market, and the seller, with a superior model, ends up getting a raw deal and would not like to sell the car. Hence, the second hand car market will end up dealing only with low quality cars.

In the health insurance business, the insurance company will also be led to believe that the majority of those who are seeking cover would be the ones who would end up making claims by possibly hiding information. Hence, the pricing system will be biased in the upper direction.

Therefore, asymmetric information invariably leads to high pricing, and the market becomes inefficient. To compound matters, there are the ubiquitous doctors involved in this business. Have you ever noticed that any hospitalization invariably has a pre-set question: Are you covered by insurance? On the face of it, the hospital wants to know if you have the ability to pay for the cure. However, the eco-cynic will realize that the doctor wants to know if you are paying the amount, or whether there is an insurance company involved. The latter is comforting for the doctor as he has the right to charge you more than he would in case you did not have this cover. The rates move up, and the insurance company ends up paying hefty amounts. It is not surprising that the insurance company is forced to put limits on every hospital procedure.

Curiously, the hospital has different charges for the same procedure, depending on the room you are staying in. It is assumed that if you can afford a high end room with a TV and refrigerator, you can also pay a higher price for medical care. The irony is that when a fracture is being put in place, the same medicines and procedures are used, which means that the cost incurred is the same. Yet, they have a differential pricing policy for the same. This is not what one comes across in holiday resorts where you can stay in a luxury suite or a non a/c room, but yet pay the same fare at the dining table. There is, hence, an anomaly in the hospital business which works on the tenet that the rich can either afford the cost, or are covered by the insurance company. The latter knows this, and therefore keeps charging more to its clients, and excluding the needy to retain its profit.

Thus, the entire insurance industry runs on the basis of imperfect information. There is a constant game being played among the insurance company, the insured, and the middleman (who could be an insurance agent, or a doctor) playing their roles in exacerbating the level of doubt in the minds of all those concerned. This has led to an inefficient system where insurance becomes an expensive proposition. Given these circumstances, health should ideally be within the purview of the government, as private insurance can never lead to social good. This is an inescapable fact.



There is a constant game being played among the insurance company, the insured, and the middleman (insurance agent/doctor) in exacerbating the level of doubt in the minds of the concerned. This renders the system inefficient, making insurance an expensive investment proposition.

But the government is not in a position to provide these facilities, as is evident from the state of the public hospitals, and the environment which, across the country, is sub-optimal and meant only for the destitute. The growth of private medical care is in response to these pathetic conditions of public facilities. The level of corruption

and apathy is large in these hospitals. As services are free, the doctors do not care, and use the patients more as a compulsion (they have to serve some hours here to reap the benefits elsewhere) or guinea pigs for experimentation. A visitor has to pay the watchman to enter the hospital, and the stench and filth around can put one off completely. Therefore, those who can pay prefer the private hospitals, and then seek cover through the insurance firm which, in turn, is encouraged to play its own set of games.

Insurance is a cover taken by all individuals, and while life is virtually all inclusive (provided one has the ability to pay for it), it is not the same with general insurance. The real risk is unknown, and the insurer has to try and ensure that there are not too many claims, or the business would tend to get affected perversely. But, for the insurer to be on secure ground, the insured have to pay the cost, which makes them a bit apprehensive of going in for such cover. For making money, an insurance company has to be settling fewer claims and charging higher premium on this segment. Individuals taking such policies are evidently seeking some protection from adversity, and rarely count the cost as they grow older (health insurance), or buy a new sedan (auto insurance).

Yet, we all end up taking insurance in some form or the other as it gives us the feeling or as the eco-cynic would say, the illusion of being more secure than if we did not have such cover.

2.3 PLAYING THE STOCK MARKET

Wide diversification is only required when investors do not understand what they are doing.

—Warren Buffet

The problem with intermediaries is that one never gets the best deal, as the intermediary has to make a profit on your money for providing the expertise as well as pooling funds and diversifying risk, which an individual cannot do. This is what happens when we are dealing with banks, or insurance companies. They work on the basis of pooling funds and diversifying risk on account of better risk-taking abil-

ity. But, often times one wonders whether it is possible to skip these intermediaries and take on the risk on your own. This way you get the entire benefit but take along the commensurate risk. The thought of dis-intermediation germinates from this idea: why not have direct dealings?

There was a time when the most attractive financial instrument was the bank deposit. And when the deposit rates were a double digit number, they were the most thrilling happening on earth. For those who were more adventurous, a fixed deposit with a company which was rated well by the rating agency was a superior option. But, this is passé today, and it is only the gentry from the older generation who pursue such thoughts. The place to be in is the stock market which gives exciting returns.

The stock market has always been referred to as a casino with the gains being likened to those associated with gambling. But, ironically, there is a lot of respectability attached to this operation, and the entire financial world revolves around this activity. The whole world is observing the movements in the Dow Jones Index, the NASDAQ, the Nikkei, or the FTSE.



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The flow of funds in this direction is an indication of the general level of optimism in the world, and gives an indication of the state of other financial markets, such as the money market, or the bond market. Policies invariably are geared towards reviving stock markets as it reflects the overall health of the country.

What exactly do you do here? You guess the price of a stock and take a position accordingly. How do you guess the price of the stock? This is a moot question because the answer may not be known to all. Basically, you want to make money, and moving with the herd is one option. Typically, you look at the Greek letter called 'beta' which shows

the percentage change in a stock over a period of time vis-à-vis the indicative Index which represents the market as a whole. If the stock has been outperforming the Index, then it must be a good one.

Of course, there are some operators who go against the tide and make money. But, unlike the commodity market, where there are fundamental developments taking place, most of the time nothing happens in a company that is known to the public. But the announcement of an election, or the Republican candidate winning in the USA, or Pakistan making a threat can make stock prices go down for a day, but not more. How does one explain such behaviour? Yet, the prices move quite significantly due to factors that are not known to all. How is this different from the roulette table? This line of thinking is now quite outdated as the whole world cannot be gambling everywhere. So, there is some method here which one needs to understand. The very fact that some of the best minds are operating here is noteworthy, and stands testimony to the sanctity of the working of the market. It is only when the market crashes that all are proved incorrect, and everyone says that the market is irrational.

The wise usually kept away from these markets on the assumption that they were better off with lower and cleaner returns. But, over time, the market has become respectable. We have thousands of analysts applying meaning to every movement in the stock prices, and earnestly telling you that what you are seeing is a price which has taken into account everything that affects the company. Therefore, it is not only right, but also very efficient. That was in the nineties. Now, in the 21st century, playing the market is not only cool, but one where only the intelligent ones tread. The science of prediction has developed to such an extent that it is really possible to guess what is going to happen. This has to be true because a large number of brokerage houses have made money, as have individuals who were able to think right. But, then, how does this all work?

The stock market is supposed to be the most efficient market because the price of any stock moves on the basis of demand and supply. The price is supposed to include all possible information about

the company. Hence, if you sense that the company will pay a hefty dividend, or is coming out with a bonus issue, then the price keeps moving upwards and the market senses this and buttresses the same. In technical terms, this is called the 'efficient market hypotheses'. Essentially, it says that if the market is efficient, then the price, which is determined on the basis of interaction of large numbers of buyers and sellers, takes into account all information about the stock, not just past, but also the future, such that ex-post, it explains both the facets.

Today, with so many analyses being done on a real-time basis, the share price can be affected by a mining strike in Sudan, or an earthquake in Mongolia. A takeover by LN Mittal can provide a boost to all steel companies in India, while an embargo on maize exports can affect the starch producing company. All such connections are valid, thanks to the spread of knowledge and information, and the thorough job being done by analysts which involves finding connections in all related events, however distant they may be. The turn to biofuels could send the price of the petrol refining companies downwards. But, this news has a limited impact on one particular day, or at most, a couple of sessions. After this information is absorbed, it is business as usual, and this shock is supposed to have been buffered in.

"Successful investing is anticipating the anticipations of others" said Keynes. If you ask yourself as to when would you typically enter the market as an investor, the usual answer is, when the market is moving up. This is the so-called bull phase where we buy shares hoping that the price will go up soon and make a killing in the process. There would of course be the other type of investor who sells first, and buys back at a lower price, making a profit. But the normal investor is bullish in spirit. It is not surprising that a bull phase is considered to be good, while a bear phase is bad for the markets though, assuredly, someone must be making money in the bear phase!

The question is, how do you know when you should enter the market? As a layman, you will never know what is the right time for entering the market. For this, you need guidance, and the right people to give guidance are the experts who can be seen in the print and visual media. There is a view that every business TV channel, as well as

newspaper, actually have experts tell you which are the stocks likely to do well. Now, just think of how this can affect mass psychology. If an expert on a business channel tells you that the stock of company X



As you are a layman, you will never know the right time for entering the market. For this, you need guidance, and there are experts from the print and visual media to give you the required advice.

looks hot and is a good buy then, as a viewer, you can take a position in the stock. If the expert is credible, (and it takes a lot of time to become one), there can be mass purchase

by several investors of that stock. George Soros moved markets, as does Jim Rogers in the commodity space. In India, the name Rakesh Jhunjhunwala is synonymous with making the right moves. The result is that the price moves up, and the initial prediction made by the expert turns out to be correct. The next time he recommends the same, you will follow the advice without a second thought.

There was an interesting observation made by *The Economist* on this subject. It is always easy to make a name as a securities analyst. For example, ten years back one could take a technology stock, think of a number, double it, and then announce that as your price target. Time it right, and your call would be a self-fulfilling prophecy, as investors worldwide would regard your views as a buy signal. Nowadays, curiously however, one can establish one as being as gloomy as possible.

Then, there is a plethora of company reports brought out by various investment banks and stock broking companies. There are some real big names, and they give balanced views on the market. They provide this information for their clients so as to guide them. And are meant for circulation among their clients. Therefore, if you hold a trading account with them, you are entitled to such reports. But, it is generally well known that these reports spread across the country, because that could very well be the purpose! Regulation does not permit such widespread circulation, and therefore, the company plays safe with

a disclaimer that it is meant for limited circulation. But, invariably, these reports are transmitted via e-mail to thousands of potential investors which, in the true sense, is not legal, but cannot be prevented. This ensures that the audience is large. As a lay investor, you tend to give more weight to a large brokerage house and follow the advice. It could be some kind of clinching advice.

How does the induction process work?

The process of inducting you into the fold is simple. This is where the eco-cynic takes over. You turn on the TV and see some really smart anchors who are talking about the leading stocks. They drop feelers about what is likely to happen to the company. Then, they turn over to an expert from a firm who gives his or her views on the stock. At times he goes on to say that you should buy at a certain price, or sell at another. Another way to go about it is in the question and answer session where someone dials in and asks whether to buy or sell a stock. The panel of experts is there to advise what should be done. The message is clear. The person may say that you should hold on for a month or a week. You take the cue, and probably follow the advice. The expert giving advice would be transparent with you, and actually state that he or she actually holds on to the stock that is being analysed. But, in effect, you are made to do what they want you to do.

This really leads to the ethical issue of how much should one be allowed to influence such purchase decisions. It is not uncommon to have the expert hail from an investment house who actually gives tips on what should be the route to making money. The scrips mentioned would invariably be the ones to which the investment house has an exposure, which is also revealed to you as part of the code of conduct that has been imposed. So, the story works well when the rest of the investors flock to the stock, thus pushing up the price. The investment house is thus, able to sell the same and make its profit. The route therefore becomes self-fulfilling, which is one of the core features in the subject of economics.

SEBI (Securities Exchange Board of India, the regulator of capital markets) has laid down a number of guidelines about what is fair, and what is not. However, every expert has a view, and is only expressing what he is doing and is not actually exhorting you directly to buy the stock. There is the ubiquitous disclaimer which tells you to be careful and that the recommendations being made are not really recommendations! This comes as a fine print as you, as an investor, are warned to do your own due diligence before venturing into the market. But, to be fair to the advisor and the investor, how else can one take informed decisions? You need to get the information through the analyst who provides the options for you to choose from. If a journal or a newspaper can provide such advice, why not a TV channel?

The business is not as murky as it is made out to be. There is something called fundamental analysis and technical analysis which is used to guide such decisions. Therefore, you see charts of various stocks which have been falling and therefore, have to rise based on technicals. The fundamentals are always there for all to see, and the analyst merely puts everything together for you.

The issue is whether everyone is telling you what to buy with the same voice? Not really, because everyone has his or her own view. It is more like what the 'stars foretell' experts have to say in the newspapers. Every expert has a different view of the prospects of a Libra or a Capricorn person for the week. You have to choose who to believe. It is the same with the analyst.

How about mutual funds?

The more conservative route taken by lay people when they do not understand the subtle nuances here is to invest through mutual funds. The mutual fund industry is inundated with myriads of players with a multiple number of schemes. There are new fund offers (NFOs) and existing schemes, and one never knows where to begin. If one wants to be confused and amused, one needs to contact an agent. Intuitively, one can see the different layers of intermediation here. There is the mutual fund which is using your money which, in turn, has a number

of brokers. The brokers have their own agents who are the people who get in touch with you to invest your funds. The agent works for a broker, and his job is to meet targets every month. For this, he is paid a commission. These commissions vary, and the ones that are recommended are invariably the ones that give the best commissions. New fund offers are preferred because they yield the highest commission. The agents indulge in considerable equivocation when selling these products. Keeping this limitation in mind SEBI has now done away with the concept of commissions for the agents, which used to be paid by the Fund to them. Instead, the agent is to charge the investor directly on pre-decided terms. This rule has come into effect from the latter part of 2009. Let us see how this game has been played so far.

Intuitively one knows that when he invests in a mutual fund, he can never lose over a period of time. This is the unwritten rule which can never be proved incorrect by anyone. Why? Of course, the period of time cannot be defined; it could vary from one to 15 years. Existing schemes have old investments procured at a lower cost, and the earnings get back into the scheme in the form of dividends that could be ploughed back to increase the net asset value (NAV) of the scheme. The Sensex serves as the benchmark. When the Index is down, you should buy, and when it increases, sell. The agent always tells you to wait for the right time to sell, which can go on for years.



Intuitively one knows that when one invests in a mutual fund, one can never lose over a period of time. This is the unwritten rule which can never be proved incorrect by anyone because the period of time cannot be defined.

Hence, a more circumspect person would go through a mutual fund which also publicizes its success. All funds appear to beat the Sensex as their advertisement will say that while the Sensex rose by say 20%, the NAV of their particular scheme increased by 45%, or alternatively, in case the Sensex fell by 10%, that scheme one would have registered

an increase of 15%. Another common selling point is to show that the Mutual Fund Scheme registered a cumulative return of 100% in the last 5 years, and so on. These are the temptations that are dangled before potential investors who, at times, are confused as all schemes seem to beat the Sensex, and also offer such cumulative returns. And finally, the name of a Gupta or Aggarwal or Shah is dangled before you, to assure you that the fund manager is the best in the industry, and that the name is synonymous with success. The agent would tie the loose ends for you and get you to sign the forms.

Mutual funds always have a load factor as there is a deduction made when you either buy or sell them. The basic idea is that the scheme gets a commission on this transaction, and it is the cost of entry or exit. This amount could be high, and not evident to begin with. While this is the best mode for playing the market to begin with, the principles would be the same as those for individuals playing the stock market. Entering when the market is on the rise gives the best immediate returns, with the converse also holding true. Either way, it is the same direction as there are a fixed number of widely traded stocks whose movements are being tracked. The only difference is that the so-called experts are doing it for you, which may make a difference.

Mutual funds today perform the critical role of bridging the information asymmetry that could exist in the markets and over time, have built trust with their customers. The schemes launched may have given differing returns, and all claim to have excelled in some way or the other. The truth however is that there is a lot of risk and uncertainty involved when evaluating these schemes, compared with a bank deposit. The fact that the government has been biased in providing tax benefits is significant because this kind of support has helped to make the returns look more attractive. But, given the long list of schemes that are existing today, the mutual funds guide in the business newspaper is fast catching up with the length of the guide on the stocks on the business page.

The world of investment for the individual is hence, not as straight as it appears on first sight. The fact, that one is dealing with intermediaries means that it cannot be a win-win situation, and somebody has

to gain at the expense of the other. The fact that an individual is not in a position to personally look after the use of funds, gives the intermediary an advantage. Further, when the intermediary does well, it rewards the employee more than the customer. This holds definitely for banking where the deposit holder gets a fixed return on his or her savings. But, when it comes to the insurance companies or the mutual funds, the returns tend to be skewed. Often, the high establishment costs in the form of salaries, wages and perquisites are part of the operating costs, which may denude to a large extent the higher NAV or bonuses paid by the mutual fund or life insurance company. While banking, life insurance and mutual funds are relatively straighter, general insurance involves a battle of wits with both the parties striving to get the better of the other. In general, the institution wins on the whole, for this is the basis of their survival.

2.4 WHY NOT INVEST IN NEWSPAPERS?

“To invent, you need a good imagination and a pile of junk”.

—Thomas Edison

After evaluating the relative strengths and attractiveness of various savings options, the question that can be posed is that if you are a resident of Mumbai, and are looking for high investment returns, where would you be putting your money? The answer is that the risk profile of the person matters when deciding the investment avenues. Typically, one has a choice between physical assets or financial assets. Physical assets could be in the form of jewellery or real estate, while for others it could also be in the form of durable goods. Financial investments on the other hand could go into different areas, which are of interest here.

For the more risk loving investors, the stock market clearly is the area to look at, where the returns are high, as are the accompanying risks. Therefore, based on the risk profile, one invests either in the so-called higher rate scrips where capital appreciation is lower, or the low rate (Z-rated) ones where the risk is commensurate with the returns. With the growth in the derivative market, there are more

options for the investor who can pitch for futures or options in either individual stocks or indices as a whole. Trading in the indices provides an opportunity to get a broader view of things. However, if the market is still not easy to understand, one pitches for the mutual funds where the choice is between equity and debt schemes (or a blend of the two) based on one's risk appetite. Here the fund manager, or the past history of the NAV provides clues to investment. Any which way, if you are into stocks you are never sure when the market would crash—the level of irrational exuberance can never be gauged.

The risk-averse investor turns to the traditional bank deposits, PPFs (Public Provident Funds) or savings certificates where the returns are relatively lower but more certain. One cannot beat the laws of economics here. As reiterated earlier, any intermediary invariably takes a slice of the returns for the service provided and the ultimate risk assumed. But, there is still a certain degree of risk in these investments. Even banks are fairly whimsical when it comes to interest rates, and the government can make your savings certificates or PPFs more taxable, thus increasing your risk and net returns.

But, for the more clairvoyant, the answer would be in your neighbourhood's old newspaper or *raddi* market. This is one place where you as an individual is a seller, and could have the upper hand. And



But, for the more clairvoyant, the answer would be in your neighbourhood's old newspaper market. This is one place where you as an individual is a seller, and could have the upper hand, without the fear of risk.

what is more important is that there is no risk. You know the price in the market, and the general size of the newspaper. This is more than adequate. Usually, when you make an investment in

any instrument, especially in one which is guided by the market, the concept of volatility comes in where daily price variations can cause swings in your returns. In this case, there is no such issue as the re-

turns are more or less fixed, and changes only once or twice a year. The rate increases when the school exams are over in summer, and comes down subsequently. Therefore, there is little difference between the nominal and the risk-adjusted return on old newspapers. Wondering how this is possible? Then just read on.

In Mumbai, there is the ultimate manifestation of competition in its truest form in the print media, with more new entrants in the market. Competition means that more newspapers need to catch the largest number of eyeballs. Every new publisher knows that people are reading a certain newspaper every day in the morning. There are, hence, two objectives. The first is to make the paper look different and more comprehensive so that a migration takes place from one paper to the other. The other objective is that if the former cannot be achieved, i.e., migration of customers, then it is essential to make this person go in for a second newspaper. This is significant since a lot many of us are addicted to a newspaper for historical reasons. We read the *Times of India*, the *Indian Express* or *Hindustan Times* simply because we have grown up on one or two of them as our fathers and forefathers did. If one cannot migrate, then one has to have the power to add one more dosage of the same, and this is where the challenge lies for any new publication.

To begin with, if this were to be done, the price becomes an issue because, when one is habituated to a paper and is not willing to budge, a second paper makes sense provided the cost is low. The price becomes important here because, in the ordinary circumstances, one has a fixed number of minutes that is devoted to reading a newspaper. This is not because the paper is bland, but because one has limited time in the morning. Hence, to bring about an increment in the perceived time spent on reading a paper, there has to be some incentive, which can be provided by the cost. Once established in the hands of the reader, the publisher can raise the price gradually, and the reader may not even realize it. This can be done through a smart pricing system which knowingly goes in for a price which does not yield a profit to begin with, but later on helps them to break-even.

More newspapers invariably mean offers at low costs, also euphemistically called 'invitation price'. This also brings out the best of the competitive spirit in the well-established newspapers which have followed suit with comparable offers. The same was witnessed in Delhi over a decade back when a war was fought between the *Times of India* and the *Hindustan Times*. There were photos showing vendors actually taking truckloads of the newspaper directly to the second-hand paper dealer and offering them for sale. Today, the concept of a subscription has caught on, where one can take an annual subscription for a predetermined price. This is a sure way of increasing circulation. In fact, what actually started off as an 'invitation offer' has been revised over the years, but the system still prevails. Newspapers that were new brought out a series of supplements to attract the readers, and when it started hurting, they reduced the number of pages, or made the supplements available at a separate cost. But, that is a different story.

Now let us look at the prices of these publications at a certain point of time to gauge the business to be construed. *Hindustan Times*, which was launched in Mumbai in 2005, went for an annual cost of Rs. 175, while DNA (*Daily News and Analysis*) went at Rs. 199 a year—if you were lucky, it would come for even Rs. 99 at times. *Mint*, the new business daily which entered the market in 2007, came at Rs. 299 a year, while the *Times of India/Economic Times* combo offer comes at Rs. 850 a year. For the uninitiated, when you buy *Times of India*, you have a choice between the *Economic Times* and *Mumbai Mirror* as a free supplement. This is an improvement over the Rs. 2 offer that *Economic Times* had for several years. These rates obviously vary over different time periods, and are hence only representative of a certain phase in the print-war history.

With these investments, you can reap a large assured return with zero risk if the same are transported to the *raddi* shop. To know how this can be done, one needs to know the weight of the average newspaper that is published every day. Second-hand newspapers, as we all know, sell by weight and hence, the weight matters. HT and DNA weigh an average of 220 gm a day, which works out to 80 kg a year.

Mint would get you around 35 kg at 110 gm a day (there is no Sunday edition here), while the TOI combo gets you 186 kg at just over 500 gm a day.

The price of our good old *raddi* varies throughout the year. For the sake of argument, let us choose the peak rate that existed for around 3 months in Mumbai, which was Rs. 8 per kg, going up to Rs. 9, if you were lucky. For the sake of a conservative discussion, let us assume that the rate is just Rs. 8 per kg, which is what anyone can get at the shop. (This rate actually could vary between Rs. 6 to Rs. 9 per kg depending on the location and season. But, more importantly, this rate is known all over, by everyone).

The returns now are amazing. For HT you get a return of 265%, while DNA fetches a 220% return. The TOI combo has a more moderate return of just over 75%. *Mint* is not a good bet as the return does not cover the cost.

These returns are obviously not to be taken literally, and have been presented in a lighter spirit. In fact, these returns have come down over time as competition has played its role, and the newspapers have started reducing the number of pages and supplements to cut costs. This is the normal practice when an entry is made into any market.

What does the buyer do with the papers? The *raddi* buyer has his own disposal chain, and earns anywhere between 10–30% on the Rs. 8 that he pays to the end-consumer. The papers are stacked and sent to other states like Gujarat or Rajasthan where the paper is recycled to be reused as newsprint for regular printing. Talking to these dealers, it was revealed that the English papers are recycled primarily for the high-end Indian language papers, while the Indian language ones are also recycled (at a lower cost) for the low-end Indian language papers. Therefore, there was a firm disposal chain set up for this purpose. Some of the low-cost newspapers also resorted to these recycled papers for the inner pages. Therefore, when the front page is white, and the other pages are in various shades of yellow, the recycled pages become evident. The other use of such paper is for making packets of different sizes for use in the retail stores where the quality is

low, and the price reasonable. But, this practice is gradually going out of fashion as shops tend to provide the sold goods in polythene bags which are durable, and can be reused (even though they add to clogging of drains and increased pollution of the environment).

Now, things are getting clearer. For an initial investment of a multiple of these annual costs, you can reap a very exciting return with zero risk. These returns are also tax-free and could really become popular when the competition is on. The eco-cynic would be really pleased with this outcome as it shows how good this option is in the entire menu of financial offerings! Nothing can sound better than such an option. But, such business is really cyclical in nature as the entry of new players is not a regular phenomenon. With further liberalization expected in the media (relating to foreign media), there could be more competition in the market, which can be leveraged by the players, and maybe by investors as well. The entry of a new newspaper invariably brings out this virtuous cycle where the size of the daily publication expands, and the price comes down.



3. Economics and Mind Games All the Way

Nothing defines humans better than their willingness to do irrational things in the pursuit of phenomenally unlikely payoffs. This is the principle behind lotteries, dating, and religion.

—Scott Adams

Economics is called a behavioural science since we are all the time assuming that people respond in a particular fashion, based on certain assumptions. In particular, all our assumptions on demand and supply functions come with certain preconceived notions of how agents respond. In general, we need certain incentives to respond positively, and the provider of the goods or services provides the same, using different routes. So, when we speak of the price, which is the main factor in rudimentary textbooks, we are assuming that all of us respond to a price in a certain manner. Therefore, we implicitly assume that we are rational. If there are two products which are identical in all respects, and are accessible in front of us, we would go in for the one which is cheaper. So far so good. But, in such a case, there should be only singular products in every field, and all of us should be using that particular product. But, things do not work this way.

To begin with, to say that we are rational is debatable, and one can get into hours of discussion on what is rationality. If I were to buy the same product at a higher price because it is being sold by a retailer with whom I have a long-term relation, then it may be irrational for the beholder, but rational for me. This holds for the same product. And the moment we deviate from the single product scenario, producers

differentiate their products to draw our attention. Hence, things like packaging, quality, size, shape, advertising, etc., can help make us take decisions which may appear to be irrational at times. Children will switch over to drinking Bournvita instead of Horlicks merely because a sports star is shown drinking the same. Here, the model serves the purpose of differentiation.

Also, often we do not plan our purchases. Normally economists simplify life, probably as simplification allows for diagrammatic exposition, as well as equations with defined variables. But, very often, we do not plan all our economic actions, and are impulsive in nature. Once we are impulsive, then rationality in the textbook sense fails, because an impulsive action by itself is actually rational, and should be appreciated. Hence, when I want to sell a product, I could work on impulse buying, and that is where the whole idea of a mall comes in. The challenge is to convert planned action with unplanned manoeuvres. This is how they do business. As an extension, the concept of a 'sale' is also based on such impromptu purchases, and there is a lot of strategy that goes behind such actions.

Very often we see that we take a wrong decision because we are not well-informed, or the cost of the information is high. This is what is referred to in textbooks as information asymmetry, which is one of the founding blocks of economics. However, there are several occasions when, even if we know that the product or service is available at a lower price elsewhere, we may not really go for it due to the costs involved. This is fair enough. But, further, at times, even if the cost is known or does not exist, we still take a seemingly irrational decision. Why should this be so?

These are some of the issues that need to be discussed if you are an eco-cynic, who talks of the conflict of rationality with irrational decisions, or may be this is not the case even so.

3.1 THE MALL PSYCHE

A person buying ordinary products in a supermarket is in touch with his deepest emotions.

J.K. Galbraith

All of us consider ourselves to be rational human beings. In fact, the basic assumption made in economics is that all economic agents are rational. This means that any decision taken is based on sound rationale, and that we are fully aware of what it is that we want. Further, as rational human beings, we are keen to be seen as rational and would not typically be swayed by emotion. Therefore, the entire subject of economics is based on this assumption, and all theories work on this underlying thought. The elementary law of demand says that other things being equal, we demand more at lower prices as we are rational human beings. But this demand is based on the 'want', which means that we want a certain thing, and then fix a price we would be willing to pay. As a corollary, if we do not want something, we will not demand the product even if the price is low as we will not be willing to part with the money, which is the final part of the definition of demand. There is, however, an escape clause which is covered under the *ceteris paribus* assumption. If this is so, then how do we often end up doing things that we would in retrospect never have thought of doing?

How often have you told your friend or family member that you had visited the mall to buy a few vegetables, but ended up spending a couple of thousand rupees? These thousands spent are not on vegetables, but on other products which were not intended to be bought, to begin with. This happens to everyone, and the reason is simple: psychology working in economics. There are serious psychology games being played by the potential sellers who are aided substantially by the advertising agencies, and the consumer is the player caught in this web. The basic approach is to play on human psychology and appeal to our weaknesses, and ensure that we do exactly what they want us to do, i.e., spend money to buy their goods so that their



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sales and profits go up, which probably finally translates to high bonuses for the management. That is what corporate strategy is all about, ultimately. This would go against the basic tenet of economics where man is considered to be rational. Or rather, if we were rational and strong, and not weak. Then it would be difficult to get us to do these things.

It all starts from the way the mall is physically structured. The large building with exquisite marble and glass is an attraction. Gigantic escalators are there to provide an incentive to the children as well as the middle class, who have rarely been exposed to such giant toys. However, the challenge is to get in more people. To begin with, when the mall owners in Mumbai tried to make them exclusive by filtering entry based on a criterion (you needed to have a car, or a mobile handset, or a credit card), then the mall flopped. Charging an exorbitant rate for parking vehicles is not self-defeating, but stopping those without credit cards could be damaging. These models did not really deliver as the mall business needs entry volumes as the starting point.



The layout of every mall is actually standardized. There is entertainment along with a variety of eatery joints. You

either start from this point, or promise your kids to stop over while going out.

Malls can continue to exist only if there are large numbers of footfalls which get translated into a certain amount of per capita expense. Mere footfalls will not help

as people can troop in for the ambience, and not spend money. As charging for entry is self-defeating, the customers must be tempted into spending money, which can be done by some crafty positioning of the stores and products. By making a mall, a department-like store where everything is available, even though they are sold by different outlets, the job is really half done. This is where psychology plays an important part, but it has to be used effectively to make people spend money.

The layout of every mall is actually standardized. You are greeted with entertainments for the children, and a variety of eatery joints on

the fringe. You either start from this point, or promise your kids to stop over while going out. Kids never forget, and the typical parent would never like to let them down. Actually, there are two approaches to the placement of the food courts. Normally, they keep the restaurants on the top, so that, if you are going there for dining, then you see various other attractions before you actually sit down to dine. In this way, there is a good chance of your halting on the way. Dining outlets are typically fast food ones, though the fine dining outlets also have a place, depending on the location of the mall. The other is to have them on the ground floor itself so that you look up while you are eating, and then think of a visit which can translate into a healthy spend.

The supermarket as the nucleus

There is a supermarket along the way which is placed strategically so that you cannot miss it. The major offers advertised on the billboards outside catch your attention. Once you enter, there are various goods displayed along with the usual offers. This is always a rule, as the shelf designers have assumed that what appeals to a layman is the thought of having actually 'got a deal'. There is a sense of triumph when we feel that we paid less than the original price, just like we get sheepish when we realize that we have paid a higher price. This is a normal human reaction. The law of demand is in operation where the seller knows that the rules of economics holds good, and people will buy more if the price is low. The big discounts are to lure you to buy things that you may never have thought of. But, the subject of economics would say that this is okay, as the *ceteris paribus* assumption takes care of these emotions. The low price becomes the clinching factor which overrides the 'want' as long as there is the ability to part with the money to get those goods.

There are double packs of deodorants with a discount, or a soap attached to a washing powder packet, or even a biscuit packet attached to a toothpaste tube. The basic idea is that, in case you have not come here to buy either the toothpaste or the biscuit packet, you buy both as together, both look attractive in the form of a combination. In fact, very often you buy the product for the sake of the free gift. In-be-

tween, there are the bargain deals which again appeal to the discount seeker. A one-on-one pack is a steal, or so you think. You are very likely to pick up these packs.

Next, you go through the high value products which are well displayed, with the lighting adding the leading ‘temptation edge’. Here, you see expensive crockery or kitchenware, or some exquisite perfume bottles. After being taken in by the discounted goods and combination offers, they could then become luxuries that you would like to indulge in. The shopkeepers hence make these items worth buying for customers who would not normally shop for them in that supermarket. The trial perfumes are there to be used, and after trying four of them, you feel guilty about not picking up at least one.

As you move through the attractively laid racks, you see a variety of ketchups, jams, cereal foods, mouthwashes, etc., The products which meet your eye level are the ones they would prefer you to choose. Therefore, the expensive ones, or their own brands of pickles or jams, will be the ones that meet your eye. The lower priced brands, or heavily discounted items are there for your picking, but would be kept on the lower racks. Hence, typically, the discount on the ketchups will keep increasing as you look down. The top one has Rs. 10 off; the middle gives you a small bottle with a big one, while the lowest rack will give you one free bottle on the purchase of the other. The expectation here is that you may choose the higher priced brand because of the discount that is being offered. Sometimes, the “Rs. 10 off” offer may be a company’s offer, but not the supermarket’s. But, in the moments of assumed conquest, you may miss the point that the same is available at your local grocery at the same price. At any rate, the objective is to ensure that you pick up some bottle of ketchup, even if it is the cheapest one, when you actually never intended to buy one. The fact that you saw four products and chose the cheapest gives you a sense of victory, which is well enough for the supermarket. On other occasions, you take the product without any significant discount with the feeling that you may just as well pick it up now that you are there.

Also, the attractive large packets which appeal to kids are kept at

the eye level because it is well known that parents can never refuse anything to a child for too long in the supermarket. One has one's status to think of, as kids loudly ask for various goodies ranging from Kellogg to chocolates to exotic biscuits and juices. You would be reluctant to say no to every demand of your



Also, the attractive large packets which appeal to kids are kept at their eye level because everyone knows that parents can never refuse their children anything for too long in the supermarket.

child every time because, at some point of time you think that others are observing you, which they aren't. Finally, you relent to the pleas of your children and end up buying a Kellogg packet of cornflakes which costs Rs. 100, while the domestic brand of Champion's was there for the taking at Rs. 50. The trick has worked as the purpose of such lavish arrangements is to ensure that the goods move fast. The kid products are the real revenue earners for the supermarket as they are high priced and attractive and as they assume that the family treats this visit as an outing in an airconditioned ambience, the parents would never be too reluctant to appease their young ones. The fad today is for stocking foreign goods which are more expensive and striking, especially for the children. Children too look for change, and a greater variety of products, and are never apprehensive of experimenting provided the packaging is attractive.

Further movement leads to the other household goods that you don't need, but now require as the products and discounts are bundled together. There are four pairs of socks bundled for the price of three. Now, you do not need them at present, but think that you will require them later, and the same offer will not be there. So, you may as well decide to pick up one set. There are non-stick pans being sold for Rs. 99 with a label price of Rs. 300. It is only when you take the pan home that you realize that the topping gets eroded with a few uses. The list is endless, and the bill keeps mounting as you fill the trolley moving towards your initial destination. Finally, you reach the fruit and vegetable stall which is at the far end, just after the grains and

edible oils counter.

These essential items are always stacked at the end so that you fall prey to all the other goodies as you move along. The margins on fruits and vegetables are not as high as those on other products, as there is always the risk of wastage where such stocks cannot be kept for too long. The market knows it, but has to stock them as this is a good way to get in the shoppers who end up buying other stuff too.

The prices of fruits are always higher than those in the market, while those of vegetables are comparable, though they are of lower quality. Rarely would you come across someone who says that they get A-grade vegetables in these supermarkets. But, still, we go back there again and again as, somewhere inside us, we would like to buy the other things along the way. Another interesting feature here is that these places invariably have major offers of potatoes, onions and tomatoes periodically, which is always on a Sunday when there are no fresh arrivals in the market. As can be guessed, these are the surplus stocks which are bought on Saturdays in the *mandis*, when prices come down. The unsold stuff is disposed off this way.

There are also some schemes which work miracles here. The store announces that there is an offer of a bag full of vegetables for purchases of over Rs. 1,000. This is a sure shot way of getting in the customer who buys things that she does not want, and finally gets a small plastic bag which can be filled with vegetables of her choice. But, wait. There is a separate section of vegetables which can be chosen, which are different from the ones that have the rate card attached. A closer inspection reveals that they are the vegetables which are a few stages away from being called rotten. You realize that the size of the bag is much smaller than the disproportionately large bag you saw in the leaflet that came with your morning newspaper, and that the vegetables are the ones you would never have picked up. The better quality ones are invariably the cheaper vegetables of the season. Your net free gift is worth, at the most 1 kg, which is probably worth Rs. 10 for stuff which would have gone to feed the cattle in the backyard!

The ultimate assault on one's rationality is the offer made by one

of the supermarkets where old paper is purchased at a high cost, provided you are taking a billing of Rs. 1,500. The redemption amount has to be spent only on specific goods,

which are not the grocery products but their other wares which you would never have given a glance. Here again you get trapped into the scheme and end up buying things that are not required in the house.



The ultimate assault on one's rationality is the offer made by one of the supermarkets where old paper is purchased at a high cost, provided you are taking a billing of Rs. 1,500.

How do the supermarkets manage these prices?

The question which arises is: how do these retail chains manage such low prices? There are two techniques which are used. The first is where these chains buy in bulk, and hence, reduce the cost of purchase. There are savings in the logistics and handling charges which help them to lower the overall costs. The supply chains are firm and strong, and run with precision, which ensures timely deliveries. Further, the basis of sale is large volumes. The margins may be lower than those earned by the local retailer, but they make up the same on volumes. Therefore, their entire psychology-based arrangements of products is anchored on the premise that a person who comes in to buy a certain set of goods at a lower price, also buys other goods with discounts which would not have been ordinarily purchased by him.

The other way of keeping costs down is by squeezing the producers. Wal-Mart has been accused of doing this where they force producers to sell at minimal margins to them. One cannot refuse because of the sheer size of Wal-Mart. At times, they have their own backward integration chains which go right to the farm gate where arrangements are made with the farmers. They have their own transportation and cold-chains which ensure timely passage of goods and minimal intermediate losses.

An interesting fact about the shopping malls in Mumbai, that of-

for these services, is that their location depends on the class of people living in the area. The rise of the supermarket is more pronounced in the suburbs where there is a large set of nouveau riche class (one that has moved from the middle class to the rich class), and also a growing middle class. These are the people who would typically look out for discounts as the middle class mentality prevails.

The same does not hold in south Mumbai where the affluent reside, and would not really bother about getting 500 gm of free ketchup with a kilo of the same. In these high end stores, customers normally go for the branded products even if they cost more—health foods are preferred, as are organic fruits and vegetables, where quality matters more than the price. The malls in this region would be more at the upper end where the classy designer clothing, or home decorations make an impact. The parking charges for vehicles also vary in these malls, from south Mumbai to the suburbs. Charges are reimbursable or parking is free in the suburbs, while the rate does not matter in south Mumbai as most of the cars are chauffeur-driven.

Therefore, the strategies adopted for marketing any product are the same, where they work on the assumption that human beings are rational beings who are irrational when it comes to taking purchase decisions. This is the same approach taken by banks when they sell products to individuals. A simple deposit account with a bank gets translated into a much bigger relationship in the form of loans, cards, third-party sale of investments, and so on. Customer retention is the objective, and customer loyalty the route used to ensure that a larger share of your wallet is allocated to the bank or store.

Call it psychology or leveraging of human frailty (both are acceptable to the eco-cynic) which leads to such irrational decisions being taken by individuals in these malls.

There is another story related to this one which works most of the time for all the people, where showrooms of branded products have their own enticements in the form of a SALE.

3.2 ECONOMICS OF SALES

Therefore trust to thy heart, and to what the world calls illusions.

—Henry Wadsworth Longfellow

A ‘Sale’ in any garment outlet (it could be a supermarket too) is another way of working on your irrational behaviour. Here it works on both men and women alike. Usually, (though a ‘male chauvinistic’ statement) women tend to spend more on clothing, and are the prime targets for manufacturers. But, a ‘Sale’ ensures that men too keep aside large sums of money for the same purpose. It basically proves that while men may be from Mars, and women from Venus, both fall a prey to these enticements. Let us see how these ‘Sales’ work.

The usual fliers are: “Up to 75% off, Up to 50% off on select items” (in small print), “Buy 4 get 1 free” (value of the lowest purchase would be free), “End of Season Sale, 10% additional discount on HSBC credit card/debit card!” These are some of the more common fliers seen in newspapers, magazines, and visual media. All these companies/establishments work on the premise that people are irrational and are tempted by lower prices. To draw you into the net, they have to ensure that you want to buy something which is cheaper than what it is. And once you are sure that it is coming cheap, you would want to buy these goods even if you do not require them.

It has also been proved that men tend to be more cost-conscious than women, and hence, by offering goods on SALE, you get in another class of customers. If the goods are branded, it is even better for the manufacturer as they move faster. The emergence of the metrosexual has made things easier for the retailers, as the same techniques used to tempt lady shoppers can be used for the men folk. The theory is quite simple. Build a brand of exclusivity for the regular clothing with the label, and advertise it widely to signify class. The identification is through a film star or a sports person. This being established, the job is almost done as the targeted class, the working executive, would do anything to acquire this label. If the full price is prohibitive, the discount always works. Hence, with the regular price, the shop draws in the snob class and the general aspirants, who troop in when the SALE is on.

When you go for these sales, there are several catches, which you may never realize as the brand names are what are entwined in your mind. You are getting an Allen Solley shirt or pair of trousers for Rs. 1,000 instead of Rs. 2,000—therefore, it must be a great deal. Often you are told that 10 shirts which cost Rs. 3,500 are now coming for



in your mind.

When you go shopping, there are several catches, which you may never realize as the brand names are what are engraved

just Rs. 999! However, if you carefully look around, there are some evident reasons for getting them cheap. Here is an illustrative list.

The goods could be seconds, meaning thereby that there are defects in print or style which are not noticeable. It could be an incorrect stitch somewhere, or a slightly duller colour elsewhere. In case of electronic items, there could be a slight manufacturing defect at the edge which will not be noticeable.

Secondly, the styles could be outdated. There is an unwritten rule that when it comes to garments, any stock held for more than 180 days becomes outdated and needs to be pushed out of the shops. This holds for ethnic garments, or even certain electronic goods, like TV models which are no longer produced. Besides, the designers are on their job inventing new ones, and would be jobless if all the people stuck with old fashions. Therefore, the turnover has to be swift to justify their business and profession. In case of electronic goods, you will realize this when you go for a repair, a couple of years later, when you are told that the original spares are no longer produced.

The third could be a case of surplus stocks which have been dumped here because a “bulk order”—normally an export order, which either did not leave the shore, or was returned—a bad delivery. Therefore, the advertisement talks of export surplus stocks. These are goods which may have gone and come back, or have not left the shores because the party did not make the payment. Either which way, these are surpluses which have come to the port and now have to be dis-

posed off, with the SALE being the best route.

Next, the discount is never really that great. It is true that the flier said up to 50% off, but the ones which qualify for the 50% are few. The ones that you like are going with 5% discount, which actually is not much. But, now that you are there, you might as well pick up the goods. In fact, often the footwear sales have the good ones under 'fresh stock' which do not have any discount. After seeing the contrast, you are willing to pay more for the better ones. At times, there are never goods which go with a 50% discount, and you are politely told that they were all sold out in the first hour!

Having gone for music sales hosted by popular outlets, one will realize that the latest music is never on sale. It is almost always the lesser known artists who come cheap. You rarely get a Pink Floyd collection, or one of Beatles for a song. If the artist is known, but the music is cheap, then either the cover is damaged or the album was a flop when it was released. The attractions of 3 for Rs. 100 would never have a single one which you would take even free of cost. Mozart and Chopin could come cheap, but the orchestras conducting the same are the lesser known ones. and finally, there is the ubiquitous CD that has the latest music coming at a low price, but they are remakes of the original! Under normal circumstances, you would not touch them, but now that they come bundled, you do not notice these niceties and put them in your shopping basket. Then, as the discounts get fewer, you get the singers that you want, but, the discount offered is just 5 or 10%. After having spent hours going through tables of these CDs, you would feel let down, and not in a mood to go home without any music. The 10% deal may then appear not bad after all.

In fact, there was a phase when the music shops offered large discounts on music cassettes where even the new albums came cheap. The reason was quite straight forward. Companies had stopped manufacturing cassettes and players. Therefore, they realized there would be no market for them. Also, the music players in vogue were the ones which did not have cassette players. Therefore, when such cassettes became anachronistic, they sold cheap, as music shops did not want

to waste their space with such outdated stuff. This was the best way out.

Another place where you are made to lose your reason is a book sale. There are some very popular book sales in Mumbai which are a major event where there are literally thousands of titles on display. Almost every area of publication is available, and the sale goes on with up to 70% discount. This is a very good teaser as there are lots of book lovers who flock to this sale. The collection is vast but, on closer inspection, they would not typically be the books that you would be buying if you did not have the SALE on. There are lots of the classics that are available, which are not really that popular today. Thomas Hardy, Dickens, Tennyson, Yeats, and so on. These nice hard bound books come quite cheap, may be Rs. 100. The appeal is to the older generation as no one really reads poetry today except in school. But, this generation is used



There are collections of various authors which again go cheap. But, if you are looking out for, say, Graham Greene or Somerset Maugham, you still pay something like Rs. 300 for an original price of Rs. 450.

to buying books at Rs. 5 and Rs. 10 and would normally find them expensive! There are collections of various authors which again go cheap. But, if you are looking out for, say,

Graham Greene or Somerset Maugham, you still pay something like Rs. 300 for an original price of Rs. 450. This does not look that cheap any longer.

The interesting thing is that the recent best sellers in fiction, sports, economics or management are seldom on display here. There are biographies and the like that are available and could be got cheap. Typically, very few actually keep going to a book shop to buy books on, say gardening. But, now that you are here, you see a plethora of books and choose some. The SALE hence gets in those customers who are interested, but would not under normal conditions actually be shopping for such books. The interesting thing about these book sales is that even if you go to the shop hosting them, you normally get 10–20%

off. Therefore, the incremental discount is not as exciting on second thoughts as at first sight.

But, how do some of these book shops manage such discounts in an age when the cost of paper, printing and distribution is so high. One view is that they normally go shopping to Frankfurt for a bulk purchase, where books are sold by their weight. The shipping is by the cheapest mode, and arrives after a month or so. Being books of knowledge they escape customs duty and are hence made available at a low cost. These books cannot be stored for long and so, even a margin of 5–10% is excellent. They need to be disposed off immediately and very often, the unsold stock is actually sold in the *raddi* market. The cost of holding on to them would be exorbitant, and not worth the effort.

With such strategies working on the psyche, you have to ensure that you think fast, or else you will miss the bus. Therefore, you need to take quick decisions, and also ensure that you pick the garment up before someone else does. Very often there are conditions attached. You are not allowed to try them on, and alterations are out of the question. This means that you are taking a chance. The second condition is not to permit exchange, which is generally the norm in most outlets. This way, once you buy the stuff, it is sold for good. The receipts issued are rarely original.

The curious thing about sales and human psychology is it that it works everywhere, and with all kinds of people. Where it does not appeal is the snob class, which would never venture into such shops, and would prefer to pay the full price because it is a status symbol. They would never like to get the same thing at a lower price because of the ‘snob effect’. Therefore, all over the world, the festival time is the season of discounted sales. It could be Christmas in the west, or Diwali in India, but this is the time when people spend the most because of the occasion. The question that can be posed is that, if all of us buy goods because of the word ‘discount’ prefixed to the price, why is it that the same strategy can’t be used throughout the year to ensure that goods move swiftly?

In fact, there are quite a few seconds' outlets, especially of luggage, which do have these signboards outside which talk of the customary 'up to 50% off'. But, there is never any customer in these shops. Quite clearly, when we are told that there is sale on for the entire year, then we assume that it is not a sale, and there would be no achievement



The 'sale' tag is important as the value of discount keeps rising with the model of a car. But these discounts appeal to those who planning to buy a car.

in going for such a purchase. Invariably, the rush for a sale is greater when it is for a shorter period. The interest is inversely proportional to the length of the sale. Therefore,

all sales are for limited periods, and restricted to certain time points: a festival, or something more exotic as the 'end of the season sale'.

Does this hold even when we are talking of automobiles? The 'sale' tag is important as the value of discount keeps rising with the model of a car. These discounts however appeal to those who are already thinking of buying a car. Rarely does a discount of Rs. 30,000, or accessories worth Rs. 20,000 be the reason for changing a car. There is the capital cost to think of. Hence, when the value is not high, impulse buying led by discounts can swing the purchase. The same would thus not hold in case of a high value item like a car where one really sits down to think of the pros and cons before taking a decision. In fact, the catch normally here is that you get the discount or bag of goodies, provided you are taking it through a finance company. This means you need to take a loan of say Rs. 400,000, on which the interest cost could be around Rs. 60,000, of which a part is being returned to you. Instead of lowering the interest rate for the first year, you are tempted with the free insurance or registration.

So, the general conclusions that can be drawn are the following: All of us like discounts, and there is a feeling of conquest when we buy a ketchup bottle for Rs. 70 instead of Rs 85. We are always on the look out for cheap stuff. As we move to higher value products, like

garments or books, we will buy even if we do not need them, because there is a good brand coming for less. This is sheer impulse buying. When it comes to say, consumer durable goods, we think before buying, but the discounts being spoken of cause us to find something amiss in our existing TV set which calls for a review of options. However, in all cases, if the sale is on for a long period of time, we assume that it cannot be a sale, and that the price it is being sold at is after all the original price. Lastly, when it is a high value product like a car, we can be swayed to buy one where some freebies are offered, and we could end up with a neat pile of debt.

In all cases, the decisions are rational, taken after they appeal to us in an irrational manner. “It is human frailty”, the eco-cynic would say. An advertisement can tease the prospective customer into venturing into these outlets, which then uses these psychology tools to extract a part of the wallet. The threat needs to be mentioned too, wherein the reader is told that this offer is on for just three days! They need to hurry to the store, or else lose out on the goodies. You do not realize that the same sale is rotated to another centre, or that the goods are disposed off to the roadside vendors who then sell them at a fraction of the price you may have paid at the sale!

3.3 RATIONALLY CHALLENGED

There is nothing so disastrous as a rational investment policy in an irrational world.

—J.M. Keynes

Market theory always says that pricing should be on the basis of demand and supply, and all human beings are rational. Yet, price differentiation takes place all the time, and very often, the human being does it consciously. The person is not irrational, nor is there any absence of information, and neither is there existence of ‘asymmetrical information’, as the economist would say.

Price differentiation can be seen as the driving force in all markets, as sellers compete with one another to have a larger claim on the wal-

let. Where it does not exist, the same is achieved through product differentiation. Prices of financial instruments, for example, have to equalize over time—in fact almost instantaneously, as price differentiation creates opportunities for arbitrage, where you buy cheap and sell dear until such time that the differential disappears and equilibrium is reached. But, in physical markets, when prices vary, they continue to do so, and there are marketing techniques to ensure that such differences remain. These hold for both, services and goods.

Can we then have two or more prices for an identical product or service with perfect knowledge of the same percolating to all consumers? A classic case of price differentiation is a simple hair cut. When the parent cuts the hair of a child at home, it is free. When you go



Can we have two or more prices for an identical product or service with perfect knowledge of the same percolating to all consumers? A classic case of price differentiation is a simple hair cut.

to a saloon, then the price games begin. Have you ever considered why a haircut in a gents saloon costs Rs. 25 when the room is non-airconditioned, and goes up to Rs. 40

for an airconditioned surrounding? Further, as we move over to a ladies beauty parlour, the same price moves up from Rs. 150 to Rs. 1,000 and above, depending on the ambience provided. And mind you, women may only get a few snips of their hair cut for this price. The task on hand is the same, though the terminology will differ as concepts of styling come in. The service calls for the same skill sets, or may be not. These days, there are exclusive parlours for men where the same haircut of Rs. 25 spirals up to Rs. 500. A certain part of the price differential can be explained by the ambience: air-conditioned, clean floors, channel music, some ancient copies of Vogue or Marie Claire and English speaking stylists (that is what they would be called here). But, the same style could also be had in a normal saloon where experienced barbers will give you the cut of any celebrity that you choose.

These stylists are actually not very different from the local barber.

Yes, the stylist will advise, but so will the barber if you ask him. There are anyway standard hair styles which exist, which are a copy of that of a famous movie star, singer, or sportsperson. But the actual distinguishing factor is the snob value associated with such saloons.

One theory which fits in goes this way. When you have money to spend, you would like to do every thing differently from what common people do. Therefore, you would rather go to an exclusive place and pay 20 times the fare for the same service. You feel good that you are doing well, just like going to a star hotel for a meal, relative to, say a fast food joint, which is plain plebian. This is the cost of exclusivity, and also explains the preference of men folk to go in for the high end place. This also fits in with the so-called metro- sexual man who is particular about his looks, and would like to be seen visiting these high end parlours rather than having a trim in the local barber's saloon. This is the same reason for choosing a five star hotel restaurant to an ordinary one on the street.

The story of men becoming choosy is relatively new. But the second theory which fits well with the ladies' saloon charging more is more interesting. Traditional Indian women would rarely cut their hair as it was not considered the right thing to do in a conservative set-up. Now, when women start cutting their hair, it is considered to be a sign of liberation from old dogmas. The women concerned would invariably be independent minded, and more likely to belong to the upper echelons of society. Therefore, a new set of hair-cutting saloons emerged, which began by charging twice what a male saloon charged.

But, as time went by and more women got into this mould, there was this process of economic 'sanskritization' taking place, with women moving to the higher end saloons. Also, with this class increasing in numbers, more women went in for this profession and upped their services and their charges further for the same. After spending a couple of lakh to do a course in hair styling, one would not really like to end up charging Rs. 50 or Rs. 100 for a hair cut. More so if the customer was willing to pay more. Hence, just like the tailor has graduated to a 'fashion designer', the same holds in this profession too.

In fact, one differentiating factor is that, very often, these services

are bundled together, like a hair cut and a shampoo. This way, for a marginal effort and cost, one can make the service look different and charge accordingly. This is also the technique followed by the coffee shop, be it Barista or Café Coffee Day, where the basic drink starts escalating in price as you take the extras which may not cost much, but make the product seem more exotic. So, a hazel nut extract of a few drops adds another Rs. 15 to the cup of cappuccino.

If one goes back to theory, there is an explanation for such seemingly irrational consumer actions. This was what Veblen had described as the 'snob effect' where one is willing to pay more to look better than the other people around him. In economics, Veblen goods are a theoretical group of commodities for which people's preference for buying them increases as a direct function of their price, instead of decreasing



Some types of high-status goods, such as diamonds or luxury cars, are Veblen goods.

If prices of these goods are reduced then it will bring down people's preference for them because they will then be longer perceived as high-status products.

ing according to the theory of supply and demand. It is claimed that some types of high-status goods, such as diamonds or luxury cars, are Veblen goods, as decreasing their prices decreases people's preference

for them because they are no longer perceived as exclusive, or high-status products. Similarly, a price increase may raise that high status and perception of exclusivity, thereby making the product even more preferable.

The second place where we often see price variations is the vegetable and fruits market. It is one thing to have different prices prevailing at different points on the roadside, for which one can find an explanation as being either absence of knowledge, or plain inertia. But, in a vegetable market, different vendors have different products that are sold at different prices. The obvious differentiator would be the qual-

ity of the produce. Hence, cabbage could sell at Rs. 12 per kg as well as Rs. 20 per kg, and the basic assumption would be that even if the customer did not know that the prices were different, the sellers would know. But, the fact that they sell at different prices means that they are sure of the quality difference. In fact, going one step further, the price becomes a quality differentiator, rather than the other way round.

A more glaring sight is a mango dealer who deals with only mangoes and sells them at Rs. 30 per kg. By the side of this vendor, there is another who deals with apples, pears, peaches, plums and mangoes. The mangoes are priced at Rs. 40 per kg. Is this a rational thing to do considering that the cheaper mangoes are being marketed quite vocally by the other vendor, and the product and quality are the same. But this vendor will not reduce the price. This is a common sight in every market. Both of them do good business and at the end of the day, are able to sell their produce. How does this work?

Notice that the man who is selling mangoes at Rs. 40 per kg is also selling apples which are a seasonal fruit. Further, plums and peaches are high end fruits which rarely sell at a modest price. The fact that he stacks all the fruits, non-seasonal and seasonal, with the upmarket fruit means that he does manage to sell his fruit, which he must be doing or else he would not be stacking them all up. Now, if this is happening, evidently he is looking at a different set of customers for his wares, which is the high end customer with a larger wallet to spend on fruits. Therefore, a lady who comes along to buy apples for Rs. 120 per kg, or peaches for Rs. 80 per kg would also automatically pick up the mangoes for Rs. 40 from the same vendor. In fact, given the size of the purchase, the vendor may very well reduce the price to Rs. 35 too.

Once again, it can be seen that the income of a person creates a snob value which is exploited by the seller of a product or service. And the seller very often is an illiterate person who has not been to a business school.

Rational again

Let us now come to rationality. Are we really rational when it comes to buying goods, especially when prices are known to be different? While we would like to buy at a low price, we end up buying at a higher price mainly due to inertia. Let us see how this happens. In Mumbai, in every area there are wholesale shops for various detergents and powders. Typically, a household of 4 persons uses the following: 2 tubes of toothpaste, 6 detergent soaps, 2 kg of detergent powder, 2 talcum powder cans, 8 toilet soaps, a liquid cleaner, brooms, dish washers, shaving blades, and so on. These wholesale shops actually sell each of these items at a discount of 50 paise to Rs. 5.

Expense	Cost	Savings
2 toothpaste tubes (200 gms)	50	8
1 kg detergent powder	100	8
8 bathing soaps	120	8
4 dish washing soaps	60	8
2 bottles of floor washers	60	10
4 detergent soaps	40	4
Liquid cleaner	60	5
Toilet cleaner 1 bottle	50	5
Blades 1 set	40	6
Talcum Powder 2 bottles	50	10
Tooth brushes 4	60	4

If you add up the total cost it would come to Rs. 700 a month, and the savings move up to Rs. 76 or around 10%. If everyone were to go to this shop, the total savings would be enormous for society as whole. Yet, every retailer continues to sell at the MRP (Maximum Retail Price) for all the products, and people still buy them. The local retailer evidently knows that he can sell at the MRP, notwithstanding competition from the neighbouring shops. Why should this be so?

The first reason would, of course, information and knowledge. All may not be aware that such a shop exists and that they can accumulate these savings with this money. The second is that people prefer convenience, and buy whenever they need any of these items. Hence, while we plan holidays or a visit to the mall for shopping for garments, the same does not happen when it comes to necessities. The third is that

we are actually not price-sensitive, and hence, not really rational because, if we knew that we could save Rs. 100 every month, we would be planning this visit and saving this amount. Lastly, because we are suffering from a 'monetary illusion' where a saving of, say, Rs. 1 or Rs. 2 for an item does not make sense vis-à-vis the convenience. Hence, when we see an advertisement of a TV set going for a discount of Rs. 2,000, we would rush in, while a discount on 20 items, each for Rs. 1 a piece, does not sound as interesting. This is the so-called laziness of the consumer, the shopper's frailty that is exploited by the small retailer who continues to charge the MRP, and not bring the price down to the competitor's level.

An extension of this irrationality can be seen in the area of finance when we allocate our funds for savings or investment in the good old traditional bank. Here again, even with the availability of correct information, the decisions taken by the individual may seem to be odd, if we assume that all of us are rational.

Correct information, yet irrational

At the cost of repetition, it may be reiterated that man is considered to be a rational economic agent. This is the basis of all economic theories. It has been shown earlier that this may not always hold true. It is also true that when information is not available equally to all people, then incorrect decisions may be taken, thereby breaking down the rudimentary laws of demand and supply. The law of demand says that we demand more of anything when the price is lower. Yet, at times when we have correct information about the prices prevailing in the market, after balancing the so-called *ceteris paribus* conditions, we still end up taking sub-optimal decisions. Why should this be so?

An area where we display such sub-optimal proclivities is when it comes to holding a term deposit with a bank. Banks are financial institutions that are out to make money through the process of intermediation. They borrow money from the public in the form of deposits, and lend the same to those who need funds, and thereby earn an income. This is called a spread. The rates of interest dealt with by banks are semi-transparent. On the lending side, they men-

tion their Prime Lending Rate (PLR), but are free to charge more depending on considerations, such as the credit worthiness of the borrower. Banks could also charge lower rates, a practice which may sound like an anomaly; such rates are called sub-prime rates. But one never knows what are the rates actually charged as such information is privy to banks, and they are not obliged to reveal the same. They do however mention the range of interest rates in the form of a band. But rates charged on other products, like housing loans, consumer loans, personal loans, or credit cards vary across the spectrum. Hence, one cannot have full transparency here.

When it comes to deposits however, banks have to pay everyone the same interest rate, and cannot distinguish between customers. They can differentiate based on the size of the deposit, and are allowed to only make one exception—between a retail and a wholesale deposit. The retail deposits are of a denomination of less than Rs. 15 lakhs, while the wholesale is above this figure. Banks are allowed to offer differential rates on such amounts, though they cannot discriminate within the particular category of borrowers. Some exceptions are permitted, like in the case of senior citizens, or their own employees. But, for the rest of the public, it is one rule for all.

In the retail segment, banks have to pay the same rate for a Rs. 100 deposit and a Rs. 14 lakh deposit for the same tenure, even though the administrative costs would be higher. Hence, the rates are transparent and available for everyone. These rates can be procured from the branch of the bank, or can be seen on their web sites. The table on next page gives the array of interest rates for retail deposits of certain randomly selected banks in India for different tenures, on a particular day. The day has been chosen at random, and one can fill in these boxes for any other day based on what is available on the web sites. To simplify the numbers, there has been clubbing together of tenures for the private sector banks which have several such buckets.

When information asymmetry does not exist, as is the case today, everyone has access to such information. It can be seen in newspapers where banks talk of enhanced rates through advertisements. They can also be seen on bill boards, or on the web sites of banks. Several fi-

Bucket (years)	ICICI	HDFC	AXIS	Canara	ABN Amro	YES	Oriental Bank of Commerce	SBI	Corporation	Standard Chartered
< 1	6.0	5.75	6.0	5.5	4.0	6.5	5.5	5.75	6.0	4.75
1-2	6.25	6.0	6.5	6.25	5.25	7.1	6.5	6.25	6.5	5.75
2-3	7.0	6.0	7.1	6.75	6.0	7.1	6.75	6.75	6.75	6.25
3-5	7.5	6.0	7.0	7.0	6.5	7.0	7.0	7.0	7.0	6.50
5 +	7.75	6.0	7.0	7.0	6.75	7.0	7.0	7.25	7.0	7.0

Source: Web sites of banks as on January 1, 2010.

nance magazines regularly give you a comparative picture of interest rates of different banks so that you can make a choice.

There are two interesting questions that pop up now. The first is, why should anyone ever keep a deposit in a bank that offers a lower rate? Further, why should banks give different interest rates when people can move them from one bank to another at will? They would keep shuttling between banks until such time that the rates are equalized, as every differential offers scope for arbitrage for individuals as they shift from one bank to another. This is actually the law of arbitrage where rates should equal, as any difference between them leads to a demand and supply response which gravitates towards equilibrium. For example, in the stock markets, the price of a stock on NSE (National Stock Exchange) and BSE (Bombay Stock Exchange) cannot re-



The market for deposits is not efficient, even though all the prerequisites for the existence of an efficient market are actually there.

main different for too long for, if it were so, one would buy in the cheaper market and sell in the dearer one, thereby equalizing the price. The market for deposits is evidently

not such an efficient one, even though all the prerequisites for the existence of an efficient market are actually there.

The interests of both the bank and the depositors need to be seen in the right perspective. From the point of view of a depositor like you for instance, you may not always be well-informed as you need to look at the different rates which, though easily available, may still not be accessible to you. Secondly, there could be pure inertia wherein you know the differences in the rates, but still do not move funds because you are just lazy. Thirdly, while you may be aware of the rate, you do not shift because the other bank does not have a branch in your vicinity. After all, banks cannot be everywhere. Hence, banks are working on the consumer psychology of being distance-bound, and therefore not too keen to keep moving their funds. This may not be a rational decision because, for a term deposit, one would be visiting the branch

probably only once or twice a month to fill up the form and collect the receipt (some banks courier the same to you).

Fourthly, banks make it difficult to switch deposits, because there is paperwork involved. You need to go in for premature withdrawal, which entails a penalty, and a couple of visits to the bank to get a cheque for the amount which, in turn, needs to be deposited in the bank of your choice. You then need to wait for the money to come into your account before you can open a fixed deposit. Also, at times, the new bank will insist that you open a savings bank account, for which you need proof—which could be your PAN (Permanent Account Number) card, ration card or telephone bill, and so on, or an introduction from a depositor. This means a few more trips to open one account before you cancel the term deposit and transfer the funds. Hence, the cumbersome processes thwart your enthusiasm.

Fifthly, at times there is an attachment, or rather a sense of loyalty to a bank, which often holds for those who have a regional feeling. Thus, a person from Tamil Nadu would prefer Indian Bank or Indian Overseas Bank, even if the rates are lower because of a comfort factor when dealing with the bank. Sixthly, there is a cost of shifting the deposit to another bank. The penal interest rate is actually calculated on the basis of a lower tenure, and a cost-benefit analysis could very well deter a swap.

Lastly, one could be deterred by the nature of the bank. For example, people are still shy of entering foreign banks as they feel intimidated. In fact, this is a sense that is propagated by such banks as they do not want too many low net worth people to swarm their offices. They prefer high net worth wealthy individuals as customers. Hence, they put conditions like charging you for entering their branch when dealing with their savings bank account, which is a must for opening a fixed deposit. These conditions act as filters for these banks, and hence even higher rates deter the common man from entering them. There is a big difference between public sector banks, private Indian banks, and foreign banks. The public sector banks are banks for the masses, while the foreign banks are for the high class. The private Indian banks started off as being meant for the masses to reach a criti-

cal mass, but now would rather keep these customers away through aggressive costing structures.

Therefore, customers may tend to deviate from rationality when choosing the banks for a fixed deposit. Knowing this behaviour well, the banks resort to offering differential rates to customers. Hence, it is not surprising that there could be an SBI (State Bank of India) branch,



Customers may tend to deviate from rationality when choosing banks for a fixed deposit.

Knowing this behaviour well, the banks resort to offering differential rates to customers.

an Indian Overseas Bank branch, and a PNB (Punjab National Bank) branch in the same building—each bank offering a different interest rate, with their funds too rarely

being swapped from one to the other. At the same time, all the three banks, in the same building, with the same ownership, offering the same facilities, can still get fresh deposits by offering variable interest rates!

In fact, in very few cases do people cancel and rebook their deposits when rates move up. Logically, if a bank raises its interest rates on, say, January 1, 2010, it would make sense if all deposit holders go to their branches, make premature withdrawal of their deposits, and have them placed afresh at the new enhanced rate. But, they do not do so even if the cost of shifting is covered by the new interest rate structure. This is where irrationality caused largely by lethargy comes in.

If customers started behaving like treasurers, then banks would always face a problem in case rates went up, as they would have to re-price their deposits continuously, and thereby run the risk of making losses. Banks could actually devise a scheme to allow people to swap their funds automatically in case interest rates move up—a sort of flexible rate structure where one opts for such a scheme so that, whenever rates rise, the deposit will be benchmarked with the new rate. But, this kind of scheme would not work to the bank's advantage as, by doing so, it would be raising its cost of deposits. Banks do this

on their assets side, but never on their liabilities side.

Now let us look at the banks' perspective. Why should they be accepting deposits at different rates, especially since every road in an urban township has at least half a dozen banks which offer deposit facilities? They cannot all be assuming that the customers are lazy, laid back, or irrational to persist with deposits in their bank if their rates are lower than those of others. There are two possibilities here.



Why should they accept deposits at different rates, when every road in an urban township has at least half a dozen banks offering deposit facilities?

The first is that all banks maintain a balance between their assets and liabilities called Asset Liability Management (ALM). This means that, typically, the maturities of their assets should match those of their liabilities in fixed proportions; the gaps which exist being known. This becomes critical, especially at the lower end of the maturity spectrum where a sudden withdrawal of, say Rs. 100 crore which is in, say, a 14-days bucket, has to be met by liquidating an asset with a similar maturity, or as the tenure of some deposits is seen to be coming to an end, i.e., nearing maturity, they need to be replenished with similar maturity deposits. Then the bank would tend to offer a higher rate than other banks because it needs the money for that tenure. Similarly, if the bank sees a large demand for mortgage loans in the coming period, then it would like to lock in deposits of a longer maturity at a fixed rate, for which it offers more than what other banks offer. The same holds for infrastructure projects. If a bank has a series of infrastructure projects to finance, it would need to plan out its funds accordingly and based on its own view of future interest rates, decide on its interest rate structure.

The other reason is that banks often have their own expectations of interest rate movements. Banks have to be forward-looking and as their own profits are based on interest rate movements, have to be

necessarily looking at future scenarios. Based on those scenarios, they prepare their interest rate charts on both the lending and deposits side, which are finally related to the ALM exercise. Besides, they also have their projections for flow of funds in future, based on their business conjectures, and accordingly price their deposits so that the fund flow is smooth.

Thus, while irrationality does come into the picture from the point of view of customers (who at times may not be following strict economic principles), banks do have a strategy behind their interest rate structures.

In all these cases, it is evident that the banks work on the premise that individuals are not rational (in the textbook sense), and can be swayed to do things in a different way. The trick really is in getting to know what affects them, and to work on this part of their psyche to keep their business ticking. The fact that there is a demonstration effect is important. People are constantly trying to improve their standard of living, and like to keep up with the Jones'. Also, there is a heavy price paid for convenience, and the borderline with lethargy is quite indistinct. Most of the new research into retailing and banking is directed at this aspect of psychology, as the seller of the goods or services works relentlessly to exploit these traits.



4. Corporate Quirks

The Dilbert Principle: People are idiots.

—Scott Adams

The corporate sector is the one which dominates the headlines of all newspapers and journals, and occupies a large time span of the visual media too. CEOs have become celebrities; they are seen everywhere, and the public has been told about their habits and sources of inspiration. It is one sector that is organized, and answerable to everyone, often called the stakeholders. Everything is transparent, thanks to the regulator—the Securities Exchange Board of India (SEBI). There is a lot of discipline in the market as the regulator has ensured that all is well, and that there is standardization in all practices followed in this segment. Or so it seems, until such time that something goes amiss which leads to a round of inspection, review and correction.

Ownership and governance are two issues which have been spoken of at various forums. We tend to associate companies with a certain group or family and as a corollary, accept that the baton can be passed on to the children of the owners. But, have we stopped to question this practice, considering that the word ‘majority’ is not clear. Besides, the system of selecting a heir is complex. And even if the majority do not want it that way, the controlling groups or families still do manage to have their way for the simple reason that the diverse population of

shareholders cannot really get together to oppose the move. This is where the conundrum lies.

All corporate wars across companies (and battles within) actually show that all may not be well. Succession in owner-driven business is considered to be straight forward. But then, who is the owner of the company? We normally associate a company with a group, which finally gets linked to a name. But, is it fair for one to believe that such an owner's son has the right to take over the mantle?

There is also this new term called 'corporate governance', which actually talks a lot of ethics that have been put in place by the creators of this code. Corporate governance talks of best practices more from the point of view of ethics, and hence, is supposed to complement the regulatory compulsions imposed by the regulator. In the last few years, most companies have devoted a chapter in their annual reports on the progress made in following the best practices of corporate governance. Therefore, if followed in the true spirit, the corporate sector should really shine and set an example to be pursued by others. Already, comparisons are being made in the global context on the basis of this criterion as to which country could take pride in having a corporate sector best adhering to these norms of governance.

While all this is okay, some of the biggest stories of bad governance have come to light in the last two decades or so across the world. All this has happened in some of the apparently best-run companies, and involved some of the most respected executives. The eco-cynic would



How do Boards function is an important question as management governance ultimately lies with the Board

which should be asking the questions and getting the answers.

naturally find this relishing, and would seek to probe a little more into what goes on behind such corporate doors.

Once we raise this question, the cynic

looks at the procedures that are followed in coming to such decisions. There is this big issue of corporate governance surrounding the con-

cept of a 'Board of Directors'. How do these Boards function? This is important because, ultimately, governance of the management lies with the Board which should be asking the questions and getting the answers. But, does it ask the questions that need to be asked? What has been probed is what applies to companies where there are anomalies, but it does not hold true for the well run good companies. How do we identify a good company? As we all know, instances of the biggest mischief have been observed in some of the most reputed corporates. We thus get to know that a company is not-so-good only when something suspicious comes out after the event. Hence, one needs to actually examine and decide whether internally the company's Board is actually delivering or not. The broader question here is whether or not the Directors actually have the time to devote to these companies. As there are reasons from both the sides to have them on board, when the chips are down, pertinent questions are raised. Therefore, it would be interesting to revisit some of these related issues.

Further, when we talk of existence of transparency due to standardization of the presentation of information, is this really true? While all annual reports have standard formats, and strict audit is done for each and every company, why should there be failures. Companies do not collapse overnight, and there is reason to believe that either out of oversight, or connivance, the audit processes are not clean. Even if they are explained, they come in the fine print which one never bothers to read. Globally, there have been instances where rogue traders have brought down institutions. The governance issue is: why were such acts not detected earlier? When investment banks failed, why did no one notice the onset of decline, given that audit standards have become stringent of late? Evidently, there are ways of saying things in silence in the annual report, which is quite fascinating when one observes the techniques used by firms to hide such inconveniences. These are unanswered questions. More importantly, they open avenues for the eco-critic to look at the darker aspects of corporate behaviour.

4.1 WHOSE MAJORITY IS IT ANYWAY?

Individual rights are not subject to a public vote; a majority has no right to vote away the rights of a minority; the political function of rights is precisely to protect minorities from oppression by majorities (and the smallest minority on earth is the individual).

—Ayn Rand

The majority rule has been one which is used in almost every aspect of in life. Right from the time that we are children, when it is the majority's wish of 'which game to play' that is accepted, to the selection of our representatives to Parliament, and finally the government, it is the rule of the majority. This is the basic principle of democracy where the majority view has to prevail, and hence, one is obsessed with numbers everywhere, in terms of percentage support. In this game of majority, different concepts have been used. The simple majority game is where over 50% of the total is for a certain motion. This really means that there are always more people supporting the motion, against those who are not for it to be passed. Other versions of majority include a two-thirds majority, where 67% of the total number of people should support the motion under discussion. This can go up to three-quarter (75%), depending on the importance of the issue. However, in general, a simple majority is defined as the 51% rule that is needed to prove the superiority of a view.

There are other variants wherein the majority could be taken of those present and voting. In this situation, it would not necessarily be the case of 51% supporting the motion. In the corporate world too, it is mandatory to have a majority ruling in all important decisions. You may have observed that whenever any decision or ruling has to be made or passed in the Annual General Meeting (AGM) of a company, they take the head count and look at the majority, or 51% of those present and voting. At other times, when there is need of a majority of the shareholders, proxies are used. Therefore, depending on the resolution under discussion, the concept of majority can get redefined.

We do usually talk of companies belonging to a certain group, or a certain person. That way, we have the Ambani group, the Tata group,

or the Bajaj or Birla Group. The implication is that that particular entity owns the majority of the shares of a company, and hence has distinct ownership rights over it. Thus, this status is different from that of an individual shareholder of a company who may own, say 100 shares, and is therefore also an owner, but a very insignificant one, to the point of being non-existent. The affairs of the company are looked after by a management which is normally selected by the owner who, one presumes, has the implicit right to do so. In case there is no recognizable owner, a professional team runs the show. This is the accepted general principle when we are referring to listed companies since, in the case of unlisted ones, it is the proprietor who controls the company in every possible way.

The corporate world is quite strange because all powers to take major decisions relating to the company are bestowed on the management. The management is selected by the owner (if it is an owner-backed company), which then gets in a Board of Directors to oversee the operations. More often than not, the owners would have their own prog-



The corporate world is quite strange because all powers to take major decisions relating to the company are bestowed on the management. The management is selected by the owner which then brings in a Board of Directors to oversee the operations.

eny as part of the management, though the fashion today is to claim to have professional managers who are quite different from the owner group.

The question really is whether the system is as transparent as it is made out to be, in terms of branding a company as belonging to a particular group. If we look at any owner-driven company, we do wonder at times whether the owners really have 51% of its shares to legitimately say that they own the company and can run its affairs. As the table below shows, a large number of companies do not have this majority, but the owners may still manage to have their way. This may be okay when we talk of industrial stalwarts who would have, on their

own, laid claim to such positions. But, when it comes to succession, which is critical in Indian society, the debate begins, as some critics opine, that this would not be a proper thing to do. Succession planning in these companies is typically such that the owner's children are made automatic successors by virtue of being a part of the family. In fact, several corporate empires have split precisely because brothers or sisters cannot get along with one another. While such a tussle is okay, the question raised is whether or not these people actually have the majority to move into the top position, or is it just that the circumstance is such that even a minority means a majority because of institutional reasons. Is this the right way of going about successor planning?

In fact, even with 51% majority, there is a view that the owner should not have the right to nominate his progeny as the successor. This is debatable because, once there is a simple majority, technically speaking, that many votes could turn the scales on any issue. But, very often, even the 51% norm is not adhered to, which, in turn, raises a major issue in corporate governance. The fact that an AGM or Extraordinary General Meeting (EGM) needs a majority vote is good. But, since all the shareholders can never really attend these meetings, the proxy vote has been permitted. Another observed tendency is for the institutional shareholders to support such resolutions, as it is assumed by them that it really makes no difference. At times, companies do send in the forms a bit too late for the reply to come in on time, especially when the issue is sticky, such as, say, the matter of a resolution on a merger or acquisition.

The table on next page gives the share of the promoter in the total equity of the company. The purpose is to look at the concept of a majority holding, and not extend it to issues which have been raised earlier. This is so because there are times when the existence of a family member in the line of succession may be justified by other factors. Therefore, the idea here is simply to clear the picture that when we talk of a group company, the name associated with the group not necessarily belongs to the one which controls 51% of the equity.

Company	Promoter's share	Company	Promoter's share
Bombay Dyeing	39.9	Essar	87.1
Kinetic Engineering	49.7	Hindalco	36.1
Zee Telefilms	41.5	Godrej Consumer	69.7
Raymonds	38.4	East India Hotels	46.4
Arvind Mills	35.3	Bharti Airtel	67.2
Reliance Infocom	67.3	Reliance Petroleum	75.4
Tata Tea	35.4	Sterlite	61.2
Ranbaxy Labs	64.0	Bajaj Hindustan	46.4
Tata Steel	33.9	India Cement	28.0
Tata Power	33.4	Reliance Capital	53.2
Tata Motors	41.7	Kotak Bank	52.5
Bajaj Auto	49.6	Reliance Industries	49.0
GE Shipping	30.2	Mahindra & Mahindra	29.2
Gujarat Ambuja	46.5	Infosys	16.4
Grasim Industries	25.2	Dr Reddy's	26.4

Source: CMIE Prowess database as at May 2009.

(This information has been taken from CMIE's database and is relative to a point of time; it can therefore change. The list is only illustrative, and should not be taken as being exhaustive. The companies mentioned are more familiar to the readers who can thus easily relate to them. The views expressed on the majority ruling may or may not apply to these companies, as that would require detailed studies, which have not been done, and which is also not the purpose here. Hence, none of the theories explored could generally relate to these groups which are considered to be well-governed.)

One theory here is that promoters have been able to leverage their lineage to maintain control over their companies. In fact, there is a pattern when it comes to owner-driven companies. They start off as sole promoters and gradually divest their share by going in for Initial Public Offers (IPOs). Today, every capital issue means a premium which can be extracted by the company, which actually goes to the owner. By publicly stating that they are broad-basing the ownership so that the regulator is pleased, they can actually disperse the ownership across the country such that it becomes impossible for the shareholders to ever collude to defeat resolutions which the owners would like to pass. At the same time, they earn a lot of money through the divestment, and still continue to hold power, thereby really ending up with the best of both worlds. Add to this the factors mentioned in the beginning, and what we see is that the promoter continues to call the shots even with a low share of capital. This is an effective way of controlling the company as well as making money through divestiture. The counter argument to this situation is that this approach, in a way, could be justified as being the reward to the entrepreneurs for building institutions and then selling them partly through the divestiture route. This argument can go on to hold that retaining control is a reward for the effort put in by the owners in starting and building the company.

This feature dominates the corporate world across the globe, and is not confined to the companies mentioned here, or Indian companies in general. Public ownership does not mean that the promoter has diluted any power as such, and to that extent is an illusory concept. Concepts like shareholder rights and privileges are actually a mirage, because individuals just get swept away in the larger scheme of things. Promoters use two alternatives to retain control. The first is to disinvest large parts of their capital to the public. This conveys the impression to the public that good governance is in place, that the company is widely held, and hence is professional in its working. The other way is to bring in financial institutions as shareholders. This is another way of getting their tacit support when it comes to tricky situations. These institutions are nominal shareholders, and are not really interested in

the functioning of the company as long as things are fine and profits are delivered. Their nominees on the Board are thus more of titular figures.

You may have often noticed in AGMs that whenever there is a crucial decision to be taken by a vote of majority, the Chairman of the Board starts off by showing the proxies obtained from the institutions. This is a ploy used not just by owner-driven companies, but also professionally run ones where the shareholders are actually told that they have no choice as such, as the majority has given its approval. Often, the concurrence of the institutions, especially if they have a large stake, is taken before a decision is arrived at, at the Board level. Usually, institutional holdings are more as investments, in which case they may not be too much interested in the decision per se as long as shareholder value is enhanced. and as we all know, almost all such critical decisions, especially of mergers, divestitures, management changes, diversifications, etc., are always justified as enhancing shareholder value. Alternatively, the promoter may be just too large in stature and thus have his way with the institutions.

What would the eco-critic say on this point under these circumstances? The individual shareholders do not really matter in this entire picture of



Individual shareholders do not really matter in this entire picture of the corporate sector, as it is impossible for them to actually get together and speak with one voice. The fact that shareholders are well dispersed across the country ensures that they can never unite, even if they feel the same way about a decision taken at the top.

the corporate sector, as it is impossible for them to actually get together and speak with one voice. The fact that shareholders are well dispersed across the country ensures that they can never unite, even if they feel the same way about a decision taken at the top. The owner can continue to remain the owner even as the share comes down, and the best way to do it would be to have his progeny take over. This adds more to the legitimacy of the decision, which is ratified by the Board.

The Board is a strange entity which does not have a clearly defined role that can be put in words. There are certain responsibilities and duties, as well as rules in terms of ethics which have to be adhered to. But, the way a number of Boards behave tempts certain questions, especially when there is a conflict of interest between the owners and the Board, or the management and the Board. In the case of a conflict of interest between the management and the Board, even if there is no clearly identifiable owner, the Board may still behave in a manner differing from that desired by the management. (*Why does the average Board of Directors behave this way?*)

4.2 THE QUEER WORLD OF THE BOARD OF DIRECTORS

Capitalism is the astounding belief that the most wickedest of men will do the most wickedest of things for the greatest good of everyone.

—John Maynard Keynes

The Enron story is now almost legendary. The Board of Directors was singularly held responsible for the collapse of Enron. It was charged for fiduciary failure, permitting undue risk, conflict of interest, encouraging too much of ‘off-the-books’ activity, excessive management compensation, and so on. The story is now narrated too often because Enron was considered to be too big to fail. Misdemeanors on the part of smaller companies are well-known and expected, but when a company had the stature of Enron, this was the last thing that anyone expected. Enron has actually set the tone for apprehensions to set in every time a big company becomes bigger.

Anderson Consulting came down, and CFOs became a scorned entity, and managements everywhere began to be viewed with suspicion. In fact, the last point holds true even today, after the sub-prime crisis, and executive compensation has become a topic of debate. The executives get their bonuses and pay rise when they show impressive business numbers with a glow of innovativeness, but are seldom penalized when the company’s fortunes decline or plunge. Very often

it has been left to the new management to clean up the mess created by its predecessors. In Enron's case, essentially it was a failure of the Board of Directors which probably had something to gain through the so-called wrong doings of the management.

More recently in India, the fiasco in an Indian IT company has brought to the forefront the role of Directors, and the relevance of the Board. When something goes wrong, the natural question to be asked is: what was the Board doing? But, the Board is not employed to monitor day-to-day activities, and cannot be cognizant of all that is going on, considering that they actually interact with the management for only a few hours in a year. In that case, is the Board an irrelevant structure? What then are the limits for intervention by the Board? Frankly, there are no simple straightforward answers here.

These kinds of incidents have brought back focus on corporate governance where companies try their best to be transparent in their dealings, and the Board acts as an overseer who has certain responsibilities, besides signing on the dotted lines. There have been several such reports, starting with the Cadbury Report, the Kumar Mangalam Birla Report, etc., The basic idea is to bring into force a set of ethics in governance which companies have to follow. Therefore, corporate governance has become a chapter in most annual reports of companies where the management assures shareholders that the best principles of governance have been adopted.

This issue has become more pertinent in the Indian context, given that some serious irregularities were detected towards the end of 2008 in one of the leading IT firms in the country. As is normally the case, the buck finally stopped at the firm's Board level, and while one was busy questioning its role, several Directors on the Boards of several companies gave in their resignations. There was sudden realization that they were not quite sure what they were doing on the Boards of companies. Such introspection among the citizens as well as Directors has called for a serious evaluation of the role of the Board of Directors, though it is still not clear how the system should be reworked.

The story so far

While well-run companies do conduct their Board operations in the manner it should be, there are some which have followed patterns which would be of interest to the eco-cynic. Usually, all companies would like to have a Who's Who list of Board of Directors. The names



While well-run companies do conduct their Board operations in the manner it should be, there are some which have followed patterns which would be of interest to the eco-cynic.

of the Directors are always reassuring to the shareholders who feel convinced that the company is in safe hands. Names like Tata, Birla, or Narayana Murthy carry a lot of brand value which

can be leveraged by the companies concerned. This holds true, especially when a company goes to the public for an IPO, or even tries to get through an important deal for, say, a takeover, or a disinvestment. If there are global dealings, the best way to impress the other party is to share the names of the Directors who are associated with the company. The inclusion of such names in a decision taken would add a lot of value to the deal.

The Board of Directors is finally responsible to the shareholders, and is actually the second arm of reassurance for them, the first being the management. The Directors do not oversee the day-to-day operations of the company, but keep reviewing management performance periodically to ensure that everything is in order, or so it should be. All important decisions, such as financial statements, stock splits, fresh issuance of equity, mergers, compensation, audit, etc., are under its purview, and there are several special committees set up which look specifically into these aspects. Therefore, it is important that they be independent-minded people with good reputation. Their integrity must be unquestionable, and they must have a track record of performance. They also need to be accountable, both in letter and spirit, besides being financially literate. More importantly, they need to ask tough questions.

Conundrums for the Directors

Typically, a Board meets at least four times a year. It comprises both executive and non-executive members, with the distribution being fair across them. Every meeting has at least 30 Board Notes in great detail, with little summaries for perusal. The Board Notes vary from sanctions and disbursements for, say, a bank, to setting up fresh capacities, or new sales and marketing strategies for a manufacturing concern, besides administrative policies and Human Resource (HR) issues. In fact, the last issue is quite critical because, today, a major part of the compensation package for any employee is through stock options which have to perforce be routed through the Board for approval.

Each Board Note goes on for a minimum of 10 pages as it has to provide all details of the issue, as well as a series of backs-ups in the form of annexures and appendices which could run into another 10 pages. Therefore, a set of papers for the Directors would run into something like 500–600 pages. All these pages need to be read thoroughly by the Directors to make meaningful comments when the meeting takes place. In addition, they have the summaries of the notes which would probably be placed in the agenda folder.

The Board papers have to be circulated well in advance to the Directors so that they have enough time to go through them and make necessary recommendations. The number of days could be three to seven, though every company has its own time limits. In fact, very often, issues come up in the last minute which cannot be deferred, and have to be rushed through. This is true for all dynamic organizations where there is always a hurry to see things through.

If the Directors have to read 500 pages of matter, it is just not possible to do so in a couple of days' time if they have to do justice to their position. In fact, in our working careers, we would be taking a week's time to read an interesting novel through. Therefore, the time given for response from the Directors is not really much. More often than not, the Directors prefer the summaries and comments on the critical documents or issues which require their attention. Smart manage-

ments invariably push in the sticky details in the interiors of these notes where there is the least likelihood of them being read.

This trail really leads to the question of how much time do these Directors have really for such meetings. As a corollary, one can ask, are they overstretching themselves by being on too many Boards.

The table below has information taken from the annual reports for 2007–08 of different companies. As a practice of good corporate governance, most companies give the names of their Directors, and also mention the number of other companies of which they are a part. The list is not exhaustive or reflective of the individual capabilities of anyone covered here. The idea is to give an idea of the challenges before the person who is part of several Boards, especially if he has a full time job in his own firm.

Director in leading company	Number of Directorships
Private bank -1	17
Steel, automobiles, etc., (diversified)	13
Insurance	12
Housing Finance -1	13
Metals, and diversified	12
Steel -1	13
Housing Finance-2	11
Diversified	8
Steel -2	8
Private bank -2	8
Sugar	7

Source: Annual Reports of relevant companies for 2007–08.

The table is interesting for more than one reason. The question is whether they are able to actually play the role that is assigned to them. In fact, all these Directors carry a lot of experience with them, and are able to put their fingers on a questionable point, howsoever may be the attempt to camouflage the truth. But, what about others who may

not be in a position to do so? The number of directorships by itself is all right, because the rules relating to the committees that they may serve on, and the number of directorships that a person can take are being adhered to.

The questions that have been raised by the eco-critic

All corporate governance reports invariably talk of greater involvement of the Directors, and even speak of providing a high remuneration. There needs to be some level of involvement of the Directors in the performance of the company to actually make a difference. Otherwise, their level of commitment to the companies concerned would not be the same.

Some of the critic's questions in this respect are:

1. If a person is a member of so many Boards, does he actually get time to read all the papers that are offered?
2. Can the Directors be experts in all the fields with which the companies are concerned, to actually provide sound advice? Can a banker add value on the Board of a manufacturing company? Can Information Technology personnel actually provide guidance to the banking sector on non-technology related issues?
3. If a Director is committed to, say 10 Boards, he needs to spend 40 working days attending their meetings. Does he have the time for doing so?
4. If the Directors are attending meetings of all the Boards and participating in them with sound knowledge, they would need to do a lot of studying of notes. This would mean at least another 40 days of homework. How many of them actually do so? While it is accepted that they have the expertise to have a fair overview of things, are they able to focus on the micro issues?
5. If they spend 80 days dutifully doing their homework and attending the meetings of the Boards of all the companies they are on, and also providing pertinent advice to them, they will have with them only 150–160 working days to attend to their own companies. Can they really do justice to both?

If an immediate affirmative response to any of these questions is not possible, then, clearly, there is something amiss somewhere.

Since, there are no ready answers to these questions, it may be assumed that more often than not, the reasons for a company to have a high profile Board are:

1. Add a lot of respectability to the company.
2. Have their experience and obtain overall guidance.
3. Actually advise the management on issues very critical from the point of view of, say shareholders, but keep them away from the company's day-to-day functioning. Hence, if profits are coming in, the Board need not worry about the details of the expenses, or the minor risks that are on the books.
4. As a matter of formality, to keep the Board informed about the general well-being of the company.

This being the case, the Directors actually walk the tight rope of either not being able to do justice to what is expected (which is understandable, considering the time taken for making a meaningful contribution to the operations), and being present only superficially, which could degenerate to merely passing management resolutions. Enron and WorldCom are extreme examples where the Boards were actually accused of colluding in a perverse fashion.

Based on experiences of organizations that have gotten into trouble due to the apparent callousness of the Boards, there are some patterns that have been witnessed in them. When Boards are not alert, the what ultimately happens is that managements quite easily have many resolutions passed, as their Boards would not really have the time to go through the details. Rarely do the Directors actually go through the details. If they did, then, say, in the banking sector, loans would never be given so easily to a number of non-investment grade firms. The fact that loans go bad is reflective, at times, of the indifference of participants to details in these meetings where such resolutions are passed. The financial sector is a curious one because, if members of the industry are on board, there is an evident conflict of interest which

needs to be addressed. If the MD of, say, a manufacturing firm A, is on the Board of Bank B, will Bank B be obliged to lend to A, notwithstanding the vested interest angle? Will B be more lenient when dealing with the liabilities of A? The question is really as to where the buck stops? The Directors are seldom held responsible for management failure, unless it is really outrageous.

Another curious issue regarding the composition of Boards is the age factor. It has been argued by critics that very often Boards comprise people with a lot of experience which goes with age, which necessarily means that a number of respected names are over 75 years of age. The question raised is: if people are supposed to retire at the age of 58 or 60 on grounds of their mental faculties slowing down, can we really have people over 75 actually overseeing the operations of companies and reading all the papers that are sent to them? Are they really aware of the myriad changes taking place in the industry, and the new techniques being used by companies in the manufacturing or the services sectors? This is the usual conflict of age versus capability, in any discussion on the composition of Boards. There have been cases, for example, where the Directors above a certain age were not conversant with computers, and were still turning to the stenotypist to have the notes typed out. While this example may not hold true in all cases, there could be several instances of Directors of repute not knowing what exactly they were doing. In fact, several top directors over the age of 75 have added considerable value for their companies, and have been able to guide them astutely.

Given these issues, which do not really have a firm answer, it may be said that there is the curious possibility of the relationship between the Board and the Management developing in a certain direction in some of the less well-run companies. This is serious, and also funny, going by the experiences of a large number of medium-size companies, as well as those of failed entities. The larger companies (with respected Directors) evidently function in a different manner than the smaller and badly managed ones. The issue is that one gets to know of bad management only when there is a failure, when the trail goes

right up to the Board. That happened in the case of the classic global failures. These are some of the observations of corporate behaviour in the typical company where the scope for failure is higher.

The Director's perspective, from the eco-cynic's viewpoint

The Directors take pride in being on the Boards of as many companies as possible because it enhances their CVs. There could be good remuneration too; getting up to Rs. 20,000 for a sitting is not a bad deal even if one were to sleep through it. Then there could be the Employee Stock Options Scheme (ESOPs) and the commissions which can amount to a tidy sum. There are lots of perquisites attached to these jobs, such as complimentary air fares (for spouses at times), lodging in 5- or 7-star hotels (very attractive for those in the public sector who would otherwise have to stay in the company guest house), a car at



There are lots of perquisites attached—complimentary air fares, lodging in 5- or 7-star hotels, a car at their disposal,

holiday expenses taken care of, and the customary gifts for all occasions.

their disposal (for more than the single day of the meeting), holidays expenses taken care of, and the customary gifts for all occasions (India has several festivals which call for such largesse). In fact,

there was an elderly Director of a company in which one had worked with, who always insisted on staying in the Oberoi Hotel in Mumbai in a sea-facing suite!

If the company is large and reputed, the Director takes pride in being a part of the Board, and is often too eager to agree to all issues which are internal to the company as long as he does not get the flack at a later time. After all, the management is competent, and would surely have looked at the nitty-gritty's. Often, there is a personal equation between the two sets of personnel which ensures that there is never serious difference of opinion. Has one ever heard of a Director resigning from the Board of a company due to strong difference of opinion

with the management? And the last defence for the management is of course the prerogative of changing Directors. If one makes a nuisance of oneself and comes in the way of most of the operations of the company, his term is not renewed, and the customary farewell speech and gift are provided. In fact, at times, the attendance record of some of the Directors (who work elsewhere, and are not retired) is poor for the simple reason that they do not have the time to be present at the Board's meetings. Yet, they do not, or cannot refuse the directorship, nor can they nominate others.

The Management's perspective, from the eco-critic's viewpoint

For the management, a weighty Board is necessary to impress shareholders. They lend a lot of credibility to the decisions that are taken by the company and above all, can be used as the final source of approval in times of a crisis or sticky situation. This is in line with what Casca says on having Brutus on their side for the assassination of Caesar in Shakespeare's 'Julius Caesar': "Oh, he sits high in all the people's hearts, And that which would appear offence in us, His countenance, like richest alchemy, Will change to virtue and to worthiness". The expenses incurred by the company in return for the presence of such worthies are too small to matter, and get into the P&L account with considerable ease.

On the positive side, a strong Board would provide a wealth of experience and advice to the company. This holds more so if the Director is from the same or related business field. At times, Boards include academicians, the company's intention being that there could be an unbiased opinion emanating from such persons who have no interest otherwise in such decisions. In fact, this has become quite popular these days with a larger number of such experts being inducted on Boards. Further, at times, the experience of senior people who could well be over 75 years, can prove handy as their views would be valuable and practical.

The issue is that, as long as things go smoothly, none of this matter really—which is the case most of the time. Often, most reputed

persons who serve as independent Directors on companies have had a very good record on company Boards. It is only when there is a crisis that an issue of governance is raised. Failed companies invariably follow this trail largely, though there are several others which display these symptoms. Mostly, one carries on with the assurance that the managements are doing a good job. The background of Directors, and their level of involvement becomes important only when there is a failure.

How about the regulators?

In this context, a question raised is: what should be the composition of the Board of a regulatory body? This is important because the regulator oversees the entire sector, and therefore should be above any pecuniary dealings with the sector's constituents through policies. What has been discussed so far relates to the private sector where there is, by definition, the right to choose one's own Directors with the assumed consent of the shareholders. But, how does it look for a regulator?

Let us take the case of the RBI. The RBI is the monetary authority, and is in charge of monetary policy. It virtually controls a major arm of the economic policy machinery. The decisions taken are to be independent, based on its own assessment and perspective of the state of affairs. What should be the ideal composition of the Board of Directors of the RBI?

Given that the RBI controls a major part of policy which influences, to a large extent, the working of the private sector, one would ideally like to see an independent Board which should not have private representation. On the other hand, there is a counter-argument that unless there is participation of the private sector, how can their interests be taken into account when policies are formulated? Such a view would be myopic as it would tend towards the textbook, and become rigid.

But then, policies are formulated by one set of personnel which may be independent, while the Board is to simply oversee the general working of the RBI. The counter view here is that if it is to only over-

see its working, then it should not matter as to who governs the RBI, and the private sector's presence is not needed.

Looking at the 2008–09 annual report of the RBI, the Board appears quite heavy. But, there is good representation from the private sector, with the heads of the following organizations being on it:

1. Wipro Limited
2. Aditya Birla Group
3. First Source
4. GACL limited
5. Lakshmi Machine Works
6. Asahi Glass India

A question raised in some quarters is whether Directors with such a diverse background can actually add value to the monetary authority. The participation of the private sector does make some sense, as it will always ensure that its point of view is taken into account when required. But then, the issue is, whether or not the private sector's view is needed when the policy is framed. Besides, the personnel who are involved in the policy-making process are from the relevant field, and are experts in their own way who are supposed to take an independent view of the state of affairs. If we are talking of, say, the RBI's monetary policy, then it should theoretically be free from external influences and must be seen as being balanced by all players in the market. If we are talking of banking practices, the issue is whether the Directors have any expertise to really add value. At another level, critics have said that governments operate independently, and do not have private sector personnel on their advisory boards. In such a case, why should the same not hold for the monetary authority? On the other hand, every committee of the government has members from the private sector, though the decision-making is still in the hands of the bureaucrats. These are some questions raised often by critics, and the discussions just carry on.

If one looks at, say, the U.S. Federal Reserve, the members are not holding dual positions, and while they may have worked with a bank,

are no longer serving those entities, and hence, may be seen as being independent members. However, in case of the Bank of England, the Court of Directors has persons from the industry, such as Vodafone, Merrill Lynch, Lloyd's, TSB Finance, etc. For the ECB, since it is the getting together of the Euro countries, the Governing Council consists of Governors of individual Central banks. The Policy Board of the Bank of Japan, on the other hand, has dedicated officials internally who could be from a banking background.



The important thing is that there is a serious need to redefine the role of directors, and also to allocate responsibilities to make these positions meaningful.

Therefore, there may not be a unique model to follow as such in these cases. The important thing is that there is a serious need to redefine the role of Directors, and also to allocate re-

sponsibilities to make these positions meaningful. Their background may be immaterial; in fact, at times it is possible to argue that not having the relevant experience could be a virtue as they could look at the company's affairs in a balanced manner. There would be need to provide good remuneration for their services to retain their commitment. Otherwise, they could tend to become mere agents of the management who endorse the latter's decisions, and exculpate themselves from the incorrect decisions taken when the chips are down.

4.3 THE 'NON-TRANSPARENT' TRANSPARENT ANNUAL REPORT

If there is one thing that our role models have taught us, it's that omitting important information is completely different from lying.

—Scott Adams

One of the principles of corporate governance is transparency. By transparency it is implied that information on almost all facets of the operations of a company needs to be made available to the shareholder,

who is part-owner of the company. The logic is that if you, as a shareholder, are investing in a share of a company, you would be keen to see it perform well, and hence, should have access to the knowledge of its operations. Therefore, all companies have to keep shareholders informed about developments, which is done through publication of its financials in newspapers and magazines, as well as through individual mailers. Today, the company web site provides all such details. Also, important decisions pertaining to the company have to be communicated to such owners who would have to exercise their vote if need be. In this entire system of communication, the Annual Report plays an important role. It is actually a detailed report of all that has happened in the company which can be placed in front of all the shareholders.

The Annual Report is a document which provides all details of the performance of the company. There are several parts to it. There is a Message from the Chairman or the Managing Director, and other executives in some cases. There is a summary table of the performance of the company, and other details, such as the composition of the Board, Committees, or even the senior management. There is a Director's Report which gives some specifics as has been mandated by the regulatory bodies. You get to know how the share price has moved, and how many Directors attended how many Board meetings. Of late, there is a Management Discussion Analysis which gives the environment, backdrop, as well as the progress of different facets of the organization. Various business activities are discussed, which leads to the financials—the balance sheet, and profit and loss account. There are schedules for each and every item in the summary accounts, which can be looked at. There are other disclosures, which the regulators mandate, which will vary for banking and manufacturing companies. But, typically, the reader knows where the information



Annual Reports follow a standard format but, as the eco-cynic would say, companies find it convenient at times to camouflage information. This becomes necessary when companies are not doing well, or have some things to hide.

can be found. This is the theoretical part of the story. What happens in practice?

There are two parts to the implementation of the policy of transparency in operation. The first relates to the content of the Annual Report, while the other to the accessibility of the same to the shareholders. Annual Reports follow a standard format but, as the ecocynic would say, companies find it convenient at times to camouflage information. This becomes necessary when companies are not doing well, or have some things to hide. Some observations made in the presentation of the performance are given here.

The opening remarks give you an idea of whether the company has done well or not. The background environment which pertains to the economy as well as the policy stance is what one has to juxtapose with the performance of the company. If it has done well notwithstanding the odds, it is clearly exemplified here itself, or else, the tough circumstances are elaborated, and you are told that the company's performance has to be viewed against this background. This would be more of an explanation for sub-optimal performance of the company where the external environment provides the veil. This is a pattern which one can see across all annual reports.

Concepts like Economic Value Added (EVA) or ranking, would always be there when things are going well. There is need to say that the company is ahead on competition as well as other performance parameters. When the chips are down, these facts are not highlighted. The same holds for awards won by the company during the year. There are several awards given for the best bank, banker, CEO or manager, or innovator. There are several such trophies to be won as there are a large number of organizations—from industry associations to newspapers and journals—which give these awards. However, when such awards are not won, there would not be any mention of the same.

There is a lot of self-eulogy in case certain important decisions, such as an IPO, are being planned in the coming year. This is to ensure that there is a good response to the issue. The company has to portray the right image of being larger and better than it is. Therefore,

new schemes are discussed in the Management Discussion and Analysis (MDA) or the Directors' Report. There will be the smell of freshness and innovativeness here. While a company normally builds the spirit for such an issuance, it is done by highlighting the numbers and features which potential subscribers to the issue would be screening, such as return on net worth, dividend rate, yields, etc., Fresh investments and new products would be pertinent in case of a manufacturing unit, while it will be quality of assets, capital adequacy, and Bank of International Settlements (BIS) compliance in case it is a bank. There was a time when a listing on the New York Stock Exchange (NYSE) added to the stature of the company, which had to be highlighted, and there would be a series of photographs to showcase the same. Essentially, the self-glorification is cloaked with flowery language where terms like value, synergies, leveraging, globalization, stakeholder value, leader, etc., are used.

However, if the company is planning a buyback, they create the aura of mediocrity so that the shareholders would willingly sell back to the promoter when the move is made. The talk would be centred on the hard times ahead, and the need to compete in adverse circumstances. Invariably, this is to build up a feeling of scepticism in the minds of the shareholders and induce them to sell when the time is right.

The currency denomination used is significant. If the company is going in for an Initial Public Offering (IPO), or a Global Depositary Receipt (GDR) / American Depositary Receipt (ADR) issue, and would like to show size when it does not exist, the numbers are given in Rs. thousands. The numbers are longer this way. Alternatively, they are put in millions. Ideally, the Indian recognition is in Rs. lakh or crore. But, by elongating the numbers, the company looks big. The notes to the accounts, and



Graphs always are impressive, especially when things look good—they are made to look even better by changing the scale on the Y-axis, an increase by 0.5% looks bigger when the scale is based on a 0.1% marks scale.

the fine print become relevant when there is a lot to hide. Therefore, if there are court cases, bad debts, loss of man-days due to labour unrest, etc., they are reported in fine print. As far as the company is concerned, all disclosures are made, but it would only be a perspicuous shareholder, or a chartered accountant who is in this business, who can catch on to these shortcomings. Graphs always are impressive, especially when things look good—they are made to look better by changing the scale on the Y-axis, an increase by 0.5% looks bigger when the scale is based on 0.1% marks scale.

While the format of the profit and loss account is fixed, the MDA can talk about the concept which suits the management, and the time. Therefore, gross profits, net profit, or operating profit are used to describe the performance of the company. At times, if the company is a high borrower, and has had correspondingly high interest costs, it would prefer to use profits before depreciation, interest and taxes (EBDIT). This part would be highlighted by the firm. If all is fine, then it would go in for the net profit concept, which is after taxes. Further, the charts would trace the history of profits, and the historical concept would be one which shows the best line in the upward direction. At times, it is a decadal picture, or could reduce to 5 years if it so demands. Alternatively, if this year's performance is better than last year's which showed a steep fall from the past, then the earlier years are ducked.

On the balance sheet side, if the company wants to show that size matters, there could be revaluation of assets, which increases the number for the assets and liabilities correspondingly. The revaluation reserve would be explained in one of the schedules which the casual shareholder is unlikely to visit or analyse. Banks, for example, would claim leadership position in deposits or loans, and at times take the incremental route to make their performance look impressive.

Another way to distract attention is to have a high dividend payout ratio, which can be done either by announcing a higher dividend rate, or giving the same rate from a lower net profit. Either which way, the shareholder is happy with the company, which is what matters finally.

More so in case the company wants to have some critical resolutions passed in the AGM.

These are some illustrations of what goes into the Annual Report to convey what the company wants to project. Distractions in the form of photographs of CEOs and the environment, and lofty catch lines and write-ups are effective tools to win confidence. The egotistic MDs and CEOs (there are lots many in this category) would have huge cut-outs with a friendly demeanor to go with their quotes in this Report. Curiously, the year when the Report is flashy, it would like the pattern to be retained in one's mind. The same is naturally not repeated in subsequent years for obvious reasons. Today, there is considerable importance paid to corporate social responsibility (CSR), and all companies talk eloquently on the conditions of the poor, and whatever little they may be doing towards establishing hospitals or schools. These initiatives make the company look good, while also helping it to get shortlisted for an award—there are several of these announced every year.

Try getting the annual report

The annual report has to be sent to each and every shareholder, and it goes by the portfolios held. The information is to reach each of them through it. However, companies may not wish this to happen, and the eco-cynic has a view here.

The technique used by companies is to ensure that you do not receive the annual report. There are two ways to go about it. Companies print an abridged annual report (which is permitted), to be sent to all shareholders. In case you want the detailed one, then you could ask for it. Here again, they assume that the normal shareholder is not too keen on the full report. The typical shareholder wants to know if the company is making a profit, and whether the dividend to be paid is higher or lower than that of last year. The rest does not honestly matter to him. The company could cut down on costs by sending a thin issue which has just the abridged accounts. In reality, this works, as most shareholders do not even keep track of the annual report, and would not bother to ask for the detailed one.

Alternatively, companies do not send the annual report, and in case questioned by the shareholder, would say that there was a mix-up with the service agency which was given charge for dispatch of the report. This can never be checked anyway. These companies wait for you to ask for the annual report, and then send the copy if you are persistent.



These companies wait for you to ask for the annual report, and then send the copy if you are persistent. The question is: why should they do such a thing?

The question is: why should they be doing such a thing?

Companies do have a problem here. For example, there was a time when Reliance Industries had a total

of 30 lakh shareholders. If a regular annual report has to be sent to each and every shareholder, at a cost of even Rs. 25 per report, to which one had to add the postal cost of another Rs. 5. The total cost would be Rs. 9 crore. While Reliance can afford such an expense, the same may not be possible for a large number of companies, especially since most of these reports go into the garbage bin, or the paper market. Therefore, it makes good sense to avoid sending the report, and even when sending, going in for an abridged report of, say eight pages, instead of the regular report with over 100 pages. The investor actually has access to the web site which houses the entire report, which can be read in some detail.

Seeking approval the democratic way

The last stage for queries to be raised by the shareholder is the AGM. This is a meeting which has to be held every year by each and every listed company where the shareholders meet the entire Board of Directors and the management team, and can pose queries to them. All decisions relating to the company which will have an effect on its working, and hence the share price and ownership rights, have to go through this meeting with the shareholders.

The shareholders are dispersed across the country, and hence cannot physically attend the meeting. Keeping these factors in mind,

all companies use a variety of well-established techniques to ensure that there are no bottlenecks along the way. By claiming to have a majority support, the company legitimately gets the sanction from the

shareholders, where they dominate the latter. These gatherings follow fixed formats where every attempt is made to ensure that no awkward questions are ever raised.

To begin with, the meeting is held where the registered office is located, which by itself ensures that very few can turn up for it. The 'location technique' is fairly effective. This is useful because, when the issues are sticky, it becomes easier to pass them without too much noise. If shareholders want to attend the meeting, they have to do so at their own cost, and as most believe that they will not be heard, would not take the trouble of doing so. The same holds true for general elections at the political level where people do not vote because they are generally cynical of the outcome to the extent that they feel that they do not matter. And this is what the political parties want! Here too, the companies want the individual shareholder to individually feel that they cannot affect anything anyway.

The 'metro effect' is used if they are held in metro cities. This gets in a local audience, while the outstation shareholders are automatically excluded. The AGM is held mostly in overcrowded and dimly-lit halls, many times during monsoon time, which is legally okay as the year ends in March, and logically the AGM should follow in 5–6 months time. The monsoon rains keep another bunch of shareholders away. The third method used is the 'snack effect', where it works on the premise that shareholders actually don't care for the performance if they are fed well. Companies provide elaborate snacks or gifts to the shareholders, which is the easiest way to assuage them.



The shareholders are dispersed across the country, and hence cannot physically attend the meeting. Keeping these factors in mind, all companies use a variety of well-established techniques to ensure that there are no bottlenecks along the way.

The tactic is basically to keep them busy with distractions, while the proceedings go according to the wishes of the management. Further, on arriving at the meeting, snacks and cold drinks can take the fire out of those who have come to spew venom. This policy, also called the 'tetra-pack strategy' always works, as such minor distractions, like a soft drink, can actually work wonders. Attendance slips often can be exchanged for a soft drink, and one can actually get the shareholders arriving in chauffeur-driven cars line up and haggle to get the tetra pack of fruit juice to take home—some hold a number of folios which can be a nuisance in case they focus on the company's resolutions, rather than the tetra pack.

The meeting begins with the Chairman making a long speech, which talks of all the good things, and cautions against the pitfalls. These are written by speechwriters with the intention of boring the audience. At times there would be humour, and there would always be concern shown for the shareholders and their interests. There would be the touch of the dramatic if the dividend rate to be announced is higher than in the previous year, or if it would be retained as is 'even in trying circumstances', as the management has fought for the same.

And when finally the question hour begins, there would be some pre-designated people supporting the motions to be passed, who would be given a chance to speak first. The questions posed are long and irrelevant, which will invite smirks from the audience. There would be some paid people to even talk eloquently on the youth and looks of the CEO, while the issue to be discussed would be a merger. Those who want to raise awkward questions may never get a chance, and are often asked to give their questions in writing which would be addressed personally. And then the resolutions are passed. The proxy forms are held up to state that the majority shareholders have agreed, while the hand count shows up a majority voting for the proposal, which is passed. Invariably, the Chairman runs out of time when answering questions, and promises to individually reply personally to all the other queries that were raised, in a stipulated time period. But, who cares after this point of time?

Therefore, governance, transparency, best practices, etc., remain words to be used, but not always followed. Issues, such as executive compensation have become important after the collapse of Enron and WorldCom, and more recently with Bear Sterns. Executive packages are enhanced when projects are undertaken on a large scale where their innovativeness is rewarded. However, when companies start failing, one can at most stop the bonuses, but cannot withdraw the past benefits which are given in large sums in the form of Employee Stock options.

Therefore, true corporate governance may actually be a myth which we want to talk about and pursue, but find difficult to attain, however much we try. While the unwritten rules are clear when it is an owner-driven company, the so-called professional companies too fall into the same syndrome where retention of power is the objective, and the same official routes are taken to ensure that this objective is achieved.



5. The Human Craving to be Known: It's All about Publicity

One thing in the world worse than being talked about and that is, not being talked about.

—Oscar Wilde

It is human tendency to crave for attention. As an individual you would like to be known to all, and as a businessman you would want your product to be viewed by all. The result is that there is a hunger for publicity. At one time it was on a low key with the communication process being one-sided, where products had to be advertised. But today, with a plethora of products available, and marketing strategies vying for the consumers' wallet, it is but natural that all are trying to catch attention through the media.

Therefore, advertising is a must today, and companies have to spend progressively more on this aspect of marketing to ensure that their ledgers tick. When the advertising boom really started in India in the eighties, there was a mutually reinforcing virtuous circle which was started with the media. The print media took off as companies targeted the audience with colourful advertisements. The introduction of colour TV after the Asian Games led to another revolution where a number of jingles that were heard on radio became visible. The splash of consumer goods added to this chain as the media was used effectively, and innovation was the order of the day. Every agency and product had to get ahead of the others, and the creative juices started flowing regularly.

But, with proliferation in this sector, there is a feeling that we may just be going overboard. We all click our mouths when there are 14 minutes of advertisements in an half-an-hour programme on the TV. In fact, one recollects that just at the time that a critical scene in the TV serial Mahabharat had to be shown, there would be a commercial break, or a replay on our TV set would be interrupted to accommodate the advertisement. While we frowned, there was somebody paying big money to have us see this live action. When we go to the newspaper or magazine, it is the same story. There are just too many colourful advertisements which, at times give us a feeling that something is amiss somewhere. We always end up saying that there is nothing much to read in the journal which is so full of advertisements. The eco-cynic would like to see what goes on behind all these strategies, and whether they can be eschewed or curtailed.

With growing competition, we have seen more newspapers, journals and TV channels coming to the fore, and while the *raddi* economy principle explained earlier works at times, all would like to have big names associated with them so as to lend credibility to the media. But, in this tryst, there could be a tendency to go overboard as things turn out to be getting more trivial. We have tended to move from advertising products, which is what the consumer finally sees, to the company. This was a brand building exercise as companies wanted to be known to the consumers, especially when the stock market boom took place. We all knew of a packet of Surf detergent powder, or a Lifebouy bathing soap, but how many knew that this product belonged to Hindustan Levers? While these companies wanted to get a better valuation in the market, they had to also make sure that the investors knew what they were all about. The focus of advertising then shifted from the product to the company.

As companies became well known, there was a tendency next to identify persons with the success, and the CEO, or the owner invariably took centre stage. The brand came to be associated with the person, and this was to be leveraged effectively by the company as well as the personality. There were several classes of people who rose from their desk to be front runners on business journals. CFOs and CEOs

were two such gentry, and this was followed by Treasurers, Fund Managers, Executive Directors and Economists to the extent that, at times, the person became synonymous with the com-

pany. The problems however came when the person left the company, and joined a competitor. Then the public would respond with a lag.

This has also been associated with the current phase where various channels are competing with one another. Every TV channel wants to be the first one to be there, and every print publication wants an exclusive clip or interview with the RBI Governor or the Finance Minister. This has created a strong symbiotic relationship between the media and the public figures concerned, which works very well as both the sides stand to gain from such a relationship. Therefore, there surely cannot be anything wrong in a free society.



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5.1 ADVERTISING: IS IT A CON GAME?

Few people at the beginning of the nineteenth century needed an adman to tell them what they wanted.

—J.K. Galbraith

In a socialist economy, it would be felt that when there are large levels of inequities in the country, there should not be wastage of scarce resources. As a corollary, the logic could be stretched to say that advertising and other promotional costs are quite unnecessary, or at the extreme, a waste. On the other hand, in a capitalist economy, advertising is an important activity; it is the best way to reach out to the people, both in terms of making them aware of the existence of a product, and also changing their tastes to make the product desirable. Very often, advertising is a market maker and driver where tastes are moulded by the brand. Further, when there is competition, then there is a pressing

necessity to keep talking about oneself so as to bring in differentiation. There is merit in both the arguments which need to be examined.

If one were to start with the negative view of advertising being a waste, the fact remains that the main purpose is to create awareness. Therefore, if there is a product which has to be sold, there is need to spend money to spread awareness of it. This is an unnecessary expense and therefore, expendable. In fact, in a set-up where prices are fixed and there is little to distinguish between products, there is really no need to claim that one is better than the other, as the products are standardized. This is similar to the situation that existed prior to reforms in the country when interest rates in the banking sector were regulated by the RBI. Deposit rates were fixed, as were lending rates. The customer did not have to distinguish between two banks on the basis of quality of services or products and therefore, advertising per se made no sense. It would have been necessary to let the people know of a bank's existence if there was real competition. Therefore, the old private banks would advertise in their non-home-regions to let the customers know of their presence. The same was not needed by, say, SBI or Indian Bank.

In fact, in those days it was not surprising that even in the consumer segment, there were few advertisements that had to be put up by, say, Premier Automobiles (makers of FIAT car in India then), or Hindustan Motors (Ambassador), as the people had no choice. Indeed, there was always a waiting list! The same held for two-wheelers too, where there were just a couple of companies in the segment producing similar products for years. The only deciding factor for the consumer was the waiting period. In such a scenario, it probably made sense to have such a restrictive policy on advertising as it could have been an unnecessary expense. Therefore, it may be said that in a socialist set-up, where there was absence of competition and existence of near monopolies, it did not really matter whether one advertised or not.

But the moment the gates were opened for competition, conditions changed dramatically. There was scope for more players in every segment, and the relative ease of entry of foreign players into almost every customer stream made advertising a mandatory expense for all

companies. For all companies, there is today a pressing need to be known and remembered in the mind space of the customer. To begin with, the product name or brand has to be known to all the people, which is a difficult task, given the expanse of the country. In a capitalist setup, the Schumpeterian theory of invention, innovation and imitation held all the time. One had to invent to start a process, like we



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advertising has to carry the message that the product came from a certain company which has to remain high in the mind of the consumer.

witnessed, right from the traditional Sunlight soap to the detergent called Rin. Then, there was the need to face competition when innovation came from Nirma which, in turn, spurred a number of imitations which, in turn, called for a fresh series of inventions and innovations. Hence, the entire process is continuous and evolutionary. The only way one can score brownie points with the consumer is through the medium of advertising. And advertising has to carry the message that the product came from a certain company which has to remain high in the mind of the consumer.

At the same time, the producers have to remain ahead of competition and have to prove the product's superiority. Therefore, advertising is needed to remain in the fray. This is done through competitive scoring where the superiority of the product is highlighted. and as competition is a continuous process, with every player matching the other's actions, it becomes essential to invest in such campaigns.

Further, with inroads being made into various market segments, more money has to be spent to increase the coverage which, in turn, adds to the spiral. Earlier, products were meant for the metro, and the larger urban markets. But, once the mantra changed to the fortune at the bottom of the pyramid, products were geared towards this consumer class, and it required repeated education through the media by way of advertising. Here, the focus is more on educating people about, say the

medicinal properties of a cosmetic which, by mere display on the shelf, will not really deliver results. It cannot be the same campaign everywhere, and the entire spread across the nation takes on different tones, depending on the customer segment, and the background. Further, with every step taken on the product front to diversify, an equal amount of money has to be allocated for marketing the product. Therefore, the Schumpeterian theory of every invention giving way to imitation, leading to the pressing need for innovation, meant that advertising had to be commensurate with every step in any of these areas.

Finally, with the proliferation of the media—which was initially newspapers(extended to magazines and journals)—the expense went up as companies searched for new markets in the interiors. In fact, today the focus is on the ‘bottom of the pyramid’. Add to this the sudden burst of the electronic media, and companies have to be seen everywhere—first, the English channels, and then the regional ones. This has led to large-scale sponsorship of programmes on TV channels. At the next stage, companies are spending on large-scale sponsorship of programmes which has made ‘event sponsorship’ a major business proposition in the country.

But, the issue here is that in case advertising is needed by the company or industry to promote its own sales, is there any economic value really being added by this activity? If one looks at the balance sheet of an advertising firm, the main income is from the services that are provided to the customer, while the expense is on staff and other administrative expenses. Intuitively, it may be seen that there is a great deal of value addition here in terms of income being generated. Besides the labour costs, there are other costs incurred on allied services, such as printing, artwork, etc., (all income-generating) which finally enter the GDP of the country. Therefore, there is value addition at every stage of the advertising activity. It may be recollected that the GDP of any country is calculated by summing the incomes across all individuals or entities, which means that we are really adding the income generated at every level of these services.

The interesting part of these expenses is that they have to be incurred throughout the life-cycle of the company. When conditions are

good, companies keep spending more as they would like to leverage on the good times. When conditions are tough, while there would be some amount of economies effected, they would still have to spend to remain in the consumer's mind. Hence, either way, they have backward linkages with the rest of the economy.

The issue that arises here is, how significant are these advertising costs, and whether there could be any limits set for the industry. As every company decides on its own budget, there are really no limits that can be set, even in case, it is agreed that this activity is a waste. More likely, it would depend on the nature of the industry. A consumer goods industry is more likely to have higher allocations to reach out to a wider canvas, compared with, say an engineering unit which would be dealing with probably just a couple of thousand customers.

The table below gives an illustration of the costs incurred by various industries for creating awareness (which includes marketing and distribution) for the year 2008–09, based on annual reports data. The expenditure under both these headings could be the total cost involved for reaching out to the consumer .

	Marketing	Selling
Paints and varnishes	11.7	15.5
Cosmetics, toiletries, soaps and detergents	10.1	14.6
Recreational services	9.0	9.9
Beer and alcohol	7.7	9.0
Communication services	7.4	7.4
Domestic electrical appliances	6.6	8.6
Air-conditioners and refrigerators	6.2	8.0
Drugs and pharmaceuticals	5.9	7.6
Hotels and tourism	5.8	5.9
Construction equipment	4.4	5.0
Dry cells	4.3	8.3
Electronics	4.2	5.3
Dairy products	4.1	7.7
Transport services	3.9	3.9
Tyres and tubes	3.7	6.3

Tobacco products	3.6	5.6
Tea	3.6	6.8
Commercial vehicles	3.4	4.7
Retail trading	3.2	3.4

Source: Company Annual Reports.

As can be seen here, it is the industries which are retail in nature that have a higher ratio of selling-to-total expenses. In fact, for paints and cosmetics etc, around 15% of the total cost is the selling expenses component, of which around 10% is going for marketing. This also means that every time one picks up, say, a shampoo bottle for Rs. 100, around Rs. 15 has gone in for bringing it to you.

Advertising is thus, an integral part of the production process by which a company is able to reach out to the consumer. An interesting thought that comes to mind is, how do companies actually reach out to the consumer? While, for a large section of goods, it is a case of talking of the superiority of the product over others in the same domain, of late issues like pricing have come to the fore. Invariably one is tempted with lower prices for a better product, and a lot of jargon is thrown in to show the superiority. A washing machine is sold on the strength of the number of revolutions that is made, or the percentage of drying that takes place. Often, the running costs like power consumption come into play, which are cleverly put forward as the cost per piece of clothing that is washed. On other occasions, you are told that the consumption of washing powder is lower as the washing processes are superior and use some fancy technology from Denmark. Therefore, there is a lot of psychology that goes into play when advertising a product.

The model also counts a lot. So, we see Sachin Tendulkar, who never grows up, and even at the age of 37 is playing with five-year olds and breaking windows. The target audience is children naturally. Hence, while cream biscuits are normally for children, we have a middle-aged man chewing the same. Rahul Dravid, associated with stability, is a good man to pose for a bank, while the more effervescent M.S. Dhoni stands well with the common man asking one not to take

things lying down, but take on challenges, the way he takes on fast bowlers and bouncers.

So far, so good, but at times the focus of advertising changes quite drastically. There was a time when women had to be slim and fair. Therefore, models turned anorexic and dieted with zero calorie colas and salads. But, once the garment manufacturers saw a huge market in oversized women's clothing, the 'big' size has dominated the scene, and large is no longer something to be ashamed of, and there is the comparable western-wear for the larger women of India. While the Indian psyche has attached a lot of importance to fair complexion, which is seen in all matrimonial advertisements, there have been two routes chosen here. Initially, there were cosmetics which helped to camouflage one's looks, which was big business. But now there are fair and lovely creams which change your complexion. This works because, at times, advertisements make you first feel inferior, and then offer a solution. While such advertisements are not ethical, as said in the beginning, if they work, and are part of the freedom package, there cannot be anything amiss.

The last point is significant because it is once again psychology being used to market a product. The approach is two-pronged, wherein you first make the person feel inferior so that he or she aspires to become someone who

he or she is not. To be more precise, the advertiser actually brings to the forefront a generally held view that being dark skinned is not as good as having a

fair skin, or being fat is not stately. The product then offers a way out which, in turn, actually pushes through that particular producer's perception of what is considered 'undesirable' in human beings by way of complexion, size, age, financial or class distinction, etc.

In fact, it could be said that advertising has been the main reason for the creation and proliferation of the beauty and care industry.



The approach is two-pronged, wherein you first make the person feel inferior so that s/he aspires to become someone who s/he is not.

Technopak has estimated this entire industry to be valued at \$ 5.7 bn, which is around Rs. 30,000 crore. The bath and shower segment is valued at Rs. 8,000 crore while the hair care segment is around Rs. 6,000 crore. Close to the Rs. 5,000 crore mark are the skincare and oral segments. No one could have dreamt that these segments would grow the way they have done, and the contributing factor has been advertising, which is hence a major value-adder in this setting. A salon treatment costs Rs. 1,500 per sitting, while fitness could touch Rs. 24,000 per annum. Skincare expenses could be in the range of Rs. 2,000 per month for some consumers.

In fact, economic research has shown that there is a strong relationship between expenses on advertisement for consumer products and economic growth. Economic growth is high when consumerism is high. Consumerism is largely driven by the female force, as they take most of the decisions on shopping, and hence advertisements are targeted at women in general, though children have a strong influence too. There is a theory which states that in countries where women do not spend much on cosmetics, overall growth also is stagnant. In fact, the growth of the so-called yuppie class is also associated with such tendencies. Thus, the more one sees women with lipsticks and the works, the more prosperous is the nation. In the same way, it is also averred that growth in most of the conservative Islamic states is stifled because women tend to spend less on cosmetics as there are taboos which are observed in these nations. There could be an element of truth here if we look at the wealth of the non-oil contributors to these economies.

Therefore, the point is that advertising has really created a major growth opportunity for the beauty and wellness industry in the last decade, which is quite remarkable as it brings in a value chain along. The eco-cynic may say that some of the techniques used may not be the right ones, especially when they exploit the notion of inferiority. But, to be fair to the subject of advertising, they are actually only using an existing prop to leverage opportunity which, on second thoughts, is fair enough in the modern capitalist world.

5.2 DO YOU GET YOUR MONEY'S WORTH?

The advertisements are the most truthful part of a newspaper.

—Thomas Jefferson

All of us read magazines. One of the most distinguishing factors of a magazine is its appearance. The cover page and design can be a clinching factor most of the time, especially if the publication is new. The gloss is attractive at times, while the content in others. All publications strive to make their pages look appealing so that the reader buys them. What are these distinguishing features in a magazine that needs to be signalled to potential buyers?

The first is the content. It needs to be made clear that the magazine is largely a political, sports, humour and gossip, movies, music, business, or any specialized subject-based one targeted at specific audiences. The next is to get in the right kind of writers, and hence the editorial composition is paramount. Therefore, often we have publicity being given to the editor of the magazine, or the team, for that matter. This counts because there is a sense of credibility attached to the names of top people in the respective fields. The third is the guest writers who are invariably experts in the field. Very often, CEOs of companies are invited to write for



Very often, CEOs of companies are invited to write for magazines, and they go beyond their business and talk of finer living or their private vocations. People like to read about these celebrities, even though we know very well that all their articles are written by ghost writers.

magazines, and they go beyond their business and talk of finer living or their private avocations. People like to read about these celebrities, even though we know very well that all their articles are ghost-written. Also, we like to read about the restaurants frequented by a CEO just like we read about a film star or a cricketer.

Then there are certain standard features which need to be carried, depending on the nature of the publication. If it is a business journal,

there has to be a diary of events, company results, market performance, and so on. If it is a film magazine, then there is the usual gossip of who is moving around with whom, and who had a fight with whom. A sports magazine will have to provide nice glossy photographs of the star performer in the sport which is in progress, where there would be reader interest. Today, cricketers or any Olympics winner are also popular in the Page 3 circuit and given their participation in TV shows, feature in areas that go beyond their domain. Political magazines must have interviews with a politician, cover some global news, maybe on George Bush, and maybe some bits of news on states and districts.

Now, to cover all these subjects there is need to have a strong team of reporters who would be on the payroll. The celebrity journalists would have to be paid large salaries. Add to this the sub-editors and the other staff who actually put the written words to print. Then, there are the office spaces to be rented out across the country, as well as arrangements with printers to make sure that the copies are printed on time. To further increase the marketing effort, separate teams are required, and connections with distributors established so that the entire selling chain is in order. Finally, one needs to reach out to the masses to let them know that a magazine exists. It starts out with bill boards to begin with, plus sponsorships of events so that the publication is in the limelight at all times. Therefore, publicity expense cannot be eschewed. This has to be an on-going process because one can never sit back and relax as competition is bound to come up.

There was a time in the seventies when Sports Week was the only sports magazine in the country. Then came along Sports World and Sports Star, and soon the first two disappeared and we are left with just one of them now. Business India had a kind of a monopoly position, but now it has to compete with Business Today, Business World, Outlook Money and Outlook Business. Dalal Street had Capital Market to compete with in the beginning, but now there is also Outlook Profit. Therefore, to maintain a leading edge, there is need to keep innovating all the time, besides advertising, so that circulation is maintained and enhanced. India Today, for example, was a fortnightly, and

had to turn weekly to compete with *Week* and *Outlook*, which were relatively later entrants.

The cost of running a publication is enormous. It is just not the paper and printing cost. The magazine which is delivered to us at, say, a price of Rs. 20 could actually be costing around Rs. 50–100 to produce, depending on the circulation and the quality of paper being used. A part of the cost of the magazine has to be paid as distribution charges, which could be around 25%. This means that the publication could be earning just Rs. 15 on a cost of say Rs. 75. How could this business proposition ever break even? The answer lies in the power of advertisements.

Publications survive on advertisements which are the main sources of revenue. The same holds for newspapers where the actual cost of printing could run up to Rs. 5–10 per copy while the realization is just Rs. 2–3, which falls further to a rupee when one takes a subscription for the year. Therefore, ironically, the most critical area for a publication is advertising, as the basic profit comes from there. The cover price rarely covers the printing cost, and if the overheads are added, they would be in the red.

The situation is even more glaring if one goes to the electronic media where there is hardly any revenue coming in from the viewers per se. The charges that are levied on the cable operators are minimal, and never complete as an audit trail is difficult to trace. Therefore, a TV channel can never be making money in a way that covers all costs, especially those incurred on staff and technology. The only way out is through the ubiquitous advertising route, which is why we see so many of them on all channels.

The power of advertisements

To have an idea of the importance of advertisements, the table on next page provides some information on the coverage of advertisements at random points of time, in some randomly selected publications that are available in the country. The idea is to provide a flavour of the number of pages of advertisements in any magazine, and indicate the actual worth for a reader of the same.

Publication	Date in 2009/2010	Pages	Advertisement pages	Cover Price (Rs)	Reading pages as % of total	Price paid per page of non-advertisement matter (paise)
Forbes India	22/1/2010	130	23	100	82.3	93
Business India	27/12/2009	148	38	20	74.4	18
Newsweek	18/1/2010	52	14	75	73.1	197
India Today	11/1/2010	96	31	25	67.7	38
Outlook	28/12/2009	90	33	25	63.4	44
Business Today	27/12/2010	156	62	25	60.3	27
Cosmopolitan	Jan 2010	202	100	100	50.5	98
Economist	16/1/2010	90	29	200	67.8	327
Femina	13/1/2010	252	92	50	63.5	31

Source: The magazines mentioned.

The table reveals that, on an average, when we buy a magazine, we get actual reading material of around 60–80% of the total number of pages. The rest are devoted to advertisements which are the main sources of revenue for the publisher. The advertisement rates naturally vary across magazines, and could range from Rs. 2–5 lakh per page, depending on the position chosen. The front cover, back of front cover, and the back cover pages command the highest rates, which come down as we move through the pages.

The other conclusion that can be drawn is that the cost to the purchaser per reading page is roughly around 30 paise per page for Indian magazines, which goes up substantially when we look at the international publications, such as *Economist* or *Newsweek*. There is substantial difference here too, with the *Economist* being the most expensive magazine to read as every page costs above Rs. 3 for the reader.

Publications today have to rely heavily on advertisements due to competition from the Internet. Almost all of them have online editions (some carrying ads in the form of pop-ups, and otherwise), where they find it difficult to charge the reader. Some of the more exclusive ones do charge a subscription but, very often, the reader only goes through the free pages. The quest here is again for getting some sponsors, which is a real challenge as there is still a preference for the printed form against the electronic one. Besides, advertisers will have to be more specific when it comes to the web site as it appeals to a certain cross-section of the readership of the publication.



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According to the Ministry of Information and Broadcasting, in 2005–06 (the latest year for which information is available), around 30% of the publications had advertising income account for over 50% of their revenue. For another 40%, it was between 25–20%, while, for the balance, it was between 10–25%. This gives an idea of the importance of the advertising pages for any publication.

There is hence a symbiotic relationship between the media and the advertiser, just as it exists between the advertising agency and the company. The publication, channel or programme needs to be very popular to get the attention of the advertising company, which will have to justify the same to the client company. Therefore, the media channel has to ensure that it does well, and is a hit to attract the advertisers which, in turn, would mean that the consumer may get a raw deal. He will continue to scowl when he watches a cricket match on TV, or turn the pages in disgust when there are a series of advertisements. There is every possibility that he may not, if the pages are attractive, which is the job of the agency—to catch the reader's eyeball.

The individual who purchases a paper or magazine is a microcosm of this setup and may feel short-changed. But, who cares?

5.3 ECONOMICS OF MEDIA

Self portraits are not always the best art.

—Morris West, “Daughter of Silence”

The World Boxing Championship was allegedly known to be rigged. The WWF titles are pre-decided. There is talk that even cricket matches are rigged and for that matter, some allege that the IPL cricket tournament held in 2008 (the 20–20 overs tournament held in India) was rigged, or else the Jaipur team could not have won. Although it sounds farfetched, the fact that cricket matches were rigged in the past does not make anybody rule out such a possibility. At a different level, it has been shown that a lot many tennis tournaments have been decided by a third party. It is not that the matches are set up to ensure that the favoured wins, but also that the losers are paid handsomely to lose. Reality shows have pre-decided winners, and no one ever knows if movies really get in the big money that they are supposed to be making, as per the trade magazines which create the numbers and the aura of success. Very often the cinema halls are empty, and yet there is news of rollicking business being done. Do we really believe such tall talk? Especially as all reports on successes or failures emanate from the media. There could be different versions in different sections, just as are to be seen in the reviews. Even objective findings on monetary collections have a subjective view.

No one is sure how true these stories could be, as the story of such happenings itself could be a story! The important point here is basically that there is a long value chain of interested parties who are all a part of this entire game of publicity. The end-user makes use of the advertising channel to reach out to a wider audience for a specific purpose, and also makes use of the media for this purpose. There is value addition at every level, and everyone ends up being dependent on everyone else. Why must this be so?

When it comes to winning, there is a lot at stake, and the boom in advertising has added the fizz. The hype is created, and there is a lot of money which goes into promoting an event, with the results being similar to that of a conjurer who gives you exactly what you want. The media in particular has a great role to play here as this is one big economy that generates interest and money. The media runs on advertisements, and those who want to be seen are willing to pay for it.



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Extolling the power of the media

A curious thought which comes to mind is that, with the media racing for better Target/Television Rating Point (TRPs), which goes with viewership and is commensurate with advertisement money, a lot of news and views which did not matter earlier is made to sound big today. For example, we have had wars fought in the past in which millions of people were killed in Vietnam, Cambodia and Africa. But the media was small in scope then and therefore we never got to know of the horrors, as the western media blocked out these stories selectively so as to crowd out the communist elements. In fact, in those days there was limited television availability, and the western media came before us in the form of the British Broadcasting Corporation (BBC), Voice of America (VOA), or the Time and Newsweek. The same horrors of the Nazis are remembered even today, thanks to the same elements. But the Gulf war is made to sound more important today for the simple reason that the media is trying to get the viewer's attention space by providing successive doses of the same to them. CNN came to the global forefront with its live coverage of the annexation of Kuwait, and the war in Iraq, and the other channels simply followed.

Let us look at a specific instance of a riot. You have an anchor standing in front of a Muslim house which is aflame in Godhra, and then

showing you a part of the truth, which is made to look communal. The same anchor could have stood elsewhere and shown a Hindu dwelling afire. But, that never happens, and the image presented to us is that it is a one-sided game. On other occasions, there is an image of a battered low caste person. The image is singular, and could be an outlier, but by focusing on the same, the audience could be told what the person wants to say. It is a truth, but only a half one. The choice is that of the anchor because she can show you what she wants you to see so that you form your opinion based on a 'reality' that is presented to you. Has it ever occurred to you that the same is never seen in, say, Kashmir, where there are ghastly incidents taking place all the time to say, the Hindus, and it would be useful to showcase these atrocities. By showing what the channel wants you to see, there is an opinion that is being created, even though it is one-sided.

In fact, several anchors have become well-known names in the media for sensationalizing a riot. We have had several such riots in the country since Independence where more lives were lost on both sides. But, the media chooses the news it would like to project and get in the viewership. People now feel inclined to watch the news channel associated with a particular anchor who, in turn, will have to provide the sensation that is expected from him. The advertisements then flow as a 20-seconds spot could go for as high as Rs. 20 lakh, depending on the occasion.

Leveraging the same

As human beings we all crave for attention. We all would like to be well-known, and get the recognition that we seek continuously. This



As human beings, we all crave for attention. We all would like to be well-known, and get the recognition that we seek continuously. This is the problem with human beings.

is the problem with human beings. We are constantly striving for recognition while as a rule self-appreciation is scorned upon. This trait has become useful even in business activ-

ity, as will be seen later. But, in the present context, we can look at our effort to get the attention of the media at a personal level.

The corporate world has a big role to play in keeping this game going. The advertising budgets are large and as the need is to reach out to consumers, newspapers, journals and TV programmes are targeted as they catch maximum attention in one stroke. An extension could be sponsorship of various conferences and seminars where the *crème de la crème* is present. They are purely commercial issues which make sense for the companies at large and also help in lobbying which is necessary in today's world. However, of late, a lot of this has got personalized, and the individual has come to symbolize the company and over time, become a persona on his own. The names are important because they carry weight, which is needed to get an audience. Associations like the CII, FICCI, BCCI, ASSOCHAM and IMC hold several seminars which are either self-financing, or earn profits. The basic idea is to get hold of good speakers who people are willing to pay to hear. Hence, specialists are called for all seminars, with the delegate fees starting from around Rs. 1,000 and going upwards to Rs. 10,000. But, the big bucks come from sponsorships, and the series of such options are mind-blowing. Sponsorships are main, primary, secondary, platinum, gold, silver, associate, partner, knowledge-partner, and so on. Each slot comes with a price tag which helps the organization to do the rest. But, how does one become a name to be respected?

The individual's perspective: getting to be known

The route that is chosen is the business of awards and prizes. Maybe a decade back, we never had these awards being announced by every newspaper or TV channel. But, today, there are dozens of them announced every year. The purpose is quite straightforward, and there is a symbiotic relationship between the giver and the receiver.

Awards are big business as it helps in the advertising effort. The company gains as it advertises in the media in a big way. In return, there is a reward in an award. The individual gradually becomes more important, and this image spreads across the high business spectrum having CEOs, CFOs, IT professionals, HR professionals, and the

like. There are ratings and rankings which are followed by awards sponsored by a whole gamut of companies. One may realize soon that the persons who win the awards are almost always the same. In fact, the eco-cynic would observe that the winners always have their company names as sponsors for other related awards. While this will not hold for the more prestigious awards, given the large number of such awards around the corner, you will not be able to distinguish between them. And to look impartial, company A could sponsor a HR ranking, but have its CEO get the award for the best CEO! This way, there is cross-selling of awards, of which there are plenty being distributed, both global and domestic. The next time you read about awards, just look at the sponsor's names, and things will be self-evident. Also for the statistically minded person, there is a high degree of correlation between advertising spends and awards won by company personnel.

The media perspective: getting in the big names

Economics is a very dry subject. We always had an economic survey, a budget and a credit policy. The RBI Governor, or the Finance Minister made their statements, and we saw them in the papers the next day. A couple of experts came on air or TV to give their views. But, today, all the TV channels are competing for the same space as are the newspapers and journals. There is a new hype getting created a week before the budget is announced. The advertisement rates shoot up, with a minute's exposure costing up to Rs. 5 lakh. The newspaper pages are booked in advance as there are curtain raisers for the event. We get to read or hear about every possible proposal. Therefore, a budget curtain raiser would have expert views. The eco-cynic would point out



A budget curtain raiser would have expert views. The eco-cynic would point out that, there would be a situation

where all possible views are covered by almost every individual medium.

that, given the number of people from different backgrounds that are interviewed for a whole month or so before the event, and their diverse views, there would be a situ-

ation where all possible views are covered by almost every individual medium.

Some of the views would be like this:

1. Income tax rates will be raised, or will not be raised.
2. Corporate tax rate will be raised, or will not be raised.
3. Duties will be rationalized (this could mean anything).
4. Service tax will be raised, and more services brought under the tax fold.
5. Depreciation allowance to be increased, not changed.
6. Capital markets to get a boost.
7. More expenditure outlays on agriculture, health, infrastructure, etc.
8. Fiscal deficit ratio to be anywhere from 3–5%.
9. Main challenges are controlling fiscal deficit, revenue deficit...
10. Should tax agriculture as black money be diverted here.
11. Small scale sector to be energized, large scale to be given incentives.
12. More FDI or less FDI.

Some of the sardonic questions raised will be:

1. Can the Finance Minister (FM) take bold decisions? (or, more likely), Will he bite the bullet?
2. Can the FM tax agriculture?
3. Will Politics blend with Economics?
4. Will he offer anything new?
5. Can he bring down the fiscal deficit without window dressing?

If you look at the same publication's previews in the previous years, they would probably be the same. The only difference would be with the ghost writer who may be different. In fact, within organizations, often, when the views and comments have to be given, it is the same cut and paste job that is persevered with.

The budget thus, becomes a big event which will invariably be finally passed, with asides, such as being 'lacklustre' and 'cowardly'

from the opposition. Then there will be loads of views on the budget from almost anyone that could matter. The CEOs' and CFOs' views dominate the pages, along with those of the 'Economists'. There are the ubiquitous interviews with the FM, where he is asked some of the most ridiculous questions, such as whether or not the budget targets would be met. Surely, no Minister would ever announce proposals and say that they would not be met. No CEO would ever say that the next year's performance would be below this year's, right? But the media is after the FM to get an exclusive interview, which we finally realize has been given to 22 TV channels and 30 newspapers. All this means good advertising money, as the programme is sold in advance where the sponsor gets the name attached to the exclusive interview with the FM.

The media is battling for the eyeballs and needs to make its own channel, whether it is the visual or print, more relevant for the viewer or reader. Therefore, they would like to get more of such views and forecasts, and feature some of the bigger industrialists. The CEOs' role, on the other hand, has changed, as they need to make statements not just on behalf of their company or sector, but also the national economy. Therefore, they need to provide numbers for GDP growth, and have a ready answer, even though they would not really know how it is calculated. More importantly, they need to sound intelligent and talk of growth being 7.2% instead of 7.4% (this is good for the clan of economists, who now find getting jobs which report to the CEO a little easier than before). Similarly, the transmission mechanism of money supply to inflation through the various components of M3, may not be known, but common sense says that more money creates more inflation—which is enough for making a statement.

This leads to the classic case of space hunting by the media when there is an important event. Some of the observations that can be made are the following, just after the budget:

1. All major CEOs have to appear in the media after the budget.
2. All their views are ghost-written. It is assumed that the gull-

ible reader does not know that the CEO was not consulted, but the ghost writer wrote it based on what should be the CEO's view. Very often, the CEO could be on the beaches of Hawaii when his views are being read in India.

3. All CEOs want the tax rates to come down. but, import duties should be lowered for their inputs, and increased for their output in the name of level playing field.
4. No CEO will ever say that the budget is bad, and that the FM does not understand economics—that would be politically incorrect. They could be “disappointed” at the ‘lacklustre’ proposals, and always ‘hope’ for bold measures to reduce subsidies. Subsidizing industry through lower taxes is okay, but subsidizing the poor is incorrect.
5. All of them are hopeful of high growth.
6. Any new tax is vehemently opposed, because they never want to pay tax. Further, if you are in the IT industry, the impression given is quite egotistic as this sector feels that the country owes it a lot for putting it on the global map. Therefore, tax holidays must stay as they are getting the dollars. What if everyone felt the same?
7. Whenever interest rates are increased (in the monetary policy), then the banking sector is disappointed. That is so because it means lower profits, and lower bonuses. They never really bother about higher interest rates actually rewarding the person who puts his/her savings in the bank.
8. All CEOs want faster pace of reforms where it benefits them, and competition hurts others. This holds, especially for



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foreign investment, where it is argued in favour of all sectors except one's own.

9. All CEOs are bullish about the economy because they have to be. Rarely does any CEO say that his sector does not have a good chance, especially if he is addressing the AGM.

Hence, there is this symbiotic relationship that has been built up between the media and the CEO. It works well as it gives the necessary publicity and exposure to the latter, while the media gets the best names to say something. The reader or viewer is probably a bit confused, but still reassured when the CEO has provided the balm, which matters a lot finally.

Carrying this forward, the press has made the RBI Governor a celluloid personality, as there is a lot of pomp that goes into covering a credit policy. A CRR hike is actually a small affair but is blown out of proportion, with 24 hours of discussion. Imagine a credit policy which does nothing except hiking the CRR a bit, leading to such lengthy discussions. In fact, even if nothing is announced, there are an equal number of hours spent in discussing why he should have done what he did not do.

Media hype has also focused a lot on weekly inflation numbers. No economist, especially a good one (if there exists one), looks at a single-point inflation number, as there is a lot of information that is not captured while arriving at it. But still making an ado about an inflation rate movement from 8.12% to 8.14% is really carrying it too far. The hype starts early when the projections are made, or a consensus is taken, and discussed for hours together before the announcement of the 2 basis points increase is made. More so because there is a lot of time space allotted to the airing of views before such a number is announced. While it is understood that the market reacts to such information, the expectations that are created can turn the market more volatile than is warranted.

Indeed, the quest to grab the reader's or viewer's attention could prompt some channels to even get some Bollywood personalities to

comment on the budget. Mahesh Bhatt's intellect can surely be picked for films, but not for the budget. But, the glamour quotient is added by getting Bollywood stars to comment on the FM!

On a serious note, the media has been used also to guide investment. This holds more for the electronic media where experts are called in to give their views on the markets. There are recommendations made for which the channel does not take responsibility. But, the basic idea is to guide people to taking certain decisions which could be self-fulfilling. Suppose the expert asks you to buy shares of, say, ABC Industries, and all follow suit. This act by itself would create the demand and push up the price, thereby justifying the advice given. The expert could be associated with the broker firm that is sponsoring the programme. Therefore, everyone gains in this process.



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Hence, this chain is self-sustaining as every element hinges on the other, and requires the other to attain independent goals. The only disquieting thing is that the common man could get carried away by the media. One never knows until one sees or hears, and the media is the one that provides the voices and the sights. The media really needs to have a sense of responsibility for it can otherwise brainwash the public into doing itself a lot of harm as it otherwise has limited exposure to other options. This is where the eco-cynic would pass the baton to the moralist for further discussion on the subject.



6. The Importance of Knowing the Price

Some of the most serious fallacies of traditional economics have been due to confusion between optimum and equilibrium conditions.

—John Hicks

The most critical factor in economics is the price. All theories work on the aspects of price determination. When we refer to price, we could mean the price of labour, a product, capital, or currency. Everyone interacts with another on the basis of the price, and the process of price determination is complex, just as the techniques used are varied. While price-sensitivity matters, it may not always be critical as, at times, the producers confront the consumer through other mechanisms, such as product differentiation, or hype the product through advertisements where psychology comes into play.

Price-discovery is hence, inherent in any economic theory as we move away from a socialist setup where the government decides on the price and the distribution. But this system is not efficient and sustainable in the long run. Further, as we are away from the barter system, and every transaction is monetized, the rate of exchange of the product for money becomes critical. Under normal circumstances where the price mechanism is active, the price is determined by the interaction of buyers and sellers. It could be anonymous in most cases, or by design based on cost plus formula. However, what could be of interest are special cases where the price is fixed, and the product delivered in a manner where profits are maximized.

While profit, or net income, is the final goal of every seller, it is obtained ultimately through the price mechanism. In this context, fixing of price becomes interesting, especially when there are other considerations for attaining this objective. Different scenarios can be looked at, such as the airline industry where constant innovation has been seen in the last decade, or so as the sector has become competitive. The fixed charge has become a variable one, and there is a lot of economics going into this kind of pricing. The same holds true for rail ticket pricing in India where there are unexplained questions when one realizes that a higher price could have been charged, but has not been done.

The scenario becomes even more interesting when one looks at the pricing of a show where one does not know how much to charge, as the cost of operation will not be covered by the ticket charges alone. Very often, the ticket charges are extra money as the sponsorships take care of the basic costs and profits. At the same time, one can never be sure of the final outcome in terms of the audience. Under this circumstance, the price system never looks perfect, with the nagging thought of, "I could have charged some more, perhaps".

The pricing theory has evolved over time with different strategies being used, depending on the circumstances. The approach cannot be singular, and has to be flexible to take in the changes around us. The growth of competition, and the uncertainty of consumer behaviour make the issue more complex, and of greater interest to the eco-cynic as anomalies unfold along the way.

6.1 PRICING BEYOND THEORY

What is a cynic? A man who knows the price of everything, and the value of nothing.

—Oscar Wilde

The pricing of a service or product is a tricky exercise, especially so when the price is not to cover the cost, or rather, when it can never, on its own, cover the cost. This is akin to the magazine or newspaper where the cover price cannot cover the cost of production. This will

not be a conundrum in case we know the total cost of production and have to defray it over the expected volume of sales, in which case an average price can be determined. There are the traditional av-

erage-cost pricing or marginal-cost pricing models that are used to fix the price. Also, one can use the wisdom of looking at comparable products of the same genre that are being sold, and take a decision accordingly. But, at times, the price may not really matter. In such a case, how do you price the product?

The product we are talking of is, say, a ticket for a rock concert. In 2007, there were four international artistes who performed in Mumbai in the MMRDA grounds, which is considered to be the largest ground for such a show. All the four artistes were highly popular, and had Mumbai on their map. They were: Roger Waters of the legendary Pink Floyd Group, Shakira, the Latino star, Beyonce, of the ex-Destiny's Child group, and the Scorpions, the still popular German rock group. All of them were on a world-wide tour, which meant that they were not visiting Mumbai because it was Mumbai, but simply because India, (and hence, Mumbai), was one of the several countries that they were visiting to promote their own stuff. Mumbai was one of the centres they visited in the country, with Bangalore also being covered in most cases.

No one really knew the length of the shows; the organizers did not tell any one in advance whether it would be for 2 hours or 3. They themselves probably did not know, or just assumed that the audience would turn up for the show irrespective of the length. The audience was to be permitted from 5 p.m. onwards, and it was advertised that the show would begin at 7 p.m. or so. The shows had to end by 10 p.m. as that was the pack-up time announced by the Municipal Corporation and the police authorities. It was also felt that normally such



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shows last for between 2–3 hours, though one could never know the exact duration. It was based on what the sponsors said, and they only mentioned that the gates would open at a certain time.

Nobody had an inkling that the Waters show would be for 3 hours, Shakira's for an hour and a half, as was also the case with Beyoncé's, and 2 hours for the Scorpions. There were lots of sponsors for these shows, ranging from cell phone providers to soft drink companies and TV channels. The turnout for the shows could not be guessed, and one was never sure about how many would turn up. But the number could not really vary significantly as there are a fixed number of people in the country who would go to watch an English rock show. In fact, the difference could be in the age group that would be attracted to the singers. It could be those with greying hair who would have preferred the Roger Waters show. The kids would be keener on the Shakira concert, Beyonce would have a mix of both, while Scorpions would appeal to the crowd beyond the student fraternity, in the age group of 35 and above. The upper limit could have been 15,000. But, even this was a wild guess, as the turnout in Bangalore was better, as was the attendance in Shillong.

All these stars had their bands and troupes accompanying them, and the cost of just transporting them to India along with their instruments could have cost a neat sum of money. The cost of transporting the singers and their bands would have been around Rs. 25–30 lakh. Add to this their equipment and it would have run into another Rs. 30 lakh. The pricing of the tickets would have to take into account the fact that 50% of the price would go as entertainment tax and other levies charged by the state government, and the municipal corporation. Not to mention the rent for the land on which the show was being held, as well as the cost of putting up the structures. Therefore, it is unlikely that the cost of the ticket would really have covered the cost of the show in any significant manner. But there were enough sponsors to ensure that the show was possible, and it was felt that the organizers ensured that they made their profit through the sponsorships while covering the cost of bringing in these stars. The tickets must have only embellished their returns.

Given that one show had 15,000, and another one just 4,000, how should the tickets have been priced? Let us see how the tickets were priced:

Roger Waters: Rs. 1,000, Rs. 2,000 and Rs. 3,000

Shakira: Rs. 2,650 and Rs. 3,650

Beyonce: Rs. 1,650 and Rs. 2,750

Scorpions: Rs. 1,000 and Rs. 1,500

The fact that the tickets were priced differently is important. Also, the fact that the turnout varied and tended to fall sequentially meant that either people had too much of foreign shows, or were just not interested, or maybe the popularity of the artistes varied. Roger Waters is classic style psychedelic rock, while the fan following got truncated, as in general there is less interest for western pop music compared to Indipop. The tickets were relatively lower priced, as it was the beginning of the year, and the sponsors were not really sure about the response. The ticket prices kept rising in the second show of Shakira but, as the turnout was low, the price got reduced when Beyonce showed up. As the response was still not good enough, the ticket prices came down further when the Scorpions played in December. Another factor could be that rock music gets in a better audience. Any which way, what was clear is that one can never gauge the strength of the audience at the end of the day, and it is a matter of conjecture as to what would be the money they would be willing to pay.

The question that can be raised is: if all these numbers got in some audience, could the sponsors have charged a little more without repelling

the audience? A person paying Rs. 1,000 would probably have paid Rs. 1,500 too as the Beyonce concert went for Rs. 2,650. Further, those who paid Rs. 2,650 for Shakira, must have been diehard fans



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and could have been made to pay another Rs. 350 to bring it to Rs. 3,000. Alternatively, if the ticket price did not matter, then it could have been priced slightly lower too without affecting the turnout as the fans would have turned up anyway.

Therefore, whenever there is a service or product where the cost is not to be covered by the price, and the quantity of sales (in this case the ticket) is not known, then pricing becomes a difficult issue. Usually, sponsorships for such programmes, along with a certain minimum level of ticket price, can cover the cost involved, besides allowing a minimum level of profit. Hence, the selling price of tickets would be an additional profit to be earned.

A similar example can be picked up when Indian classical music concerts are held. The Hridayesh Arts Group conducts a 3-day Indian classical music festival in Mumbai where nine leading artistes come and perform every year in an open ground belonging to a school. The artistes include maestros like Ustad Amjad Ali Khan, Pandit Jasraj, Pandit Bhimsen Joshi and others. Normally, when these artistes perform in a formal theatre, the tickets start from Rs. 200 for the last row and move upwards to Rs. 1,500 to Rs. 2,000 as one gets closer to the performer. But, the ticket for this show, or rather a season ticket stops at Rs. 600. The artistes are sentimental about this programme and come for a lower price as they take pride in maintaining the tradition. But, the organizers could actually increase the rates marginally by 15–20% and could still be sure of having a packed house. So, where does one draw the line, and fix the price? The feeling one gets is that the ‘willingness to pay’ is not the sole criterion for fixing the rates, though differential pricing based on proximity to the performer works on this principle.

The government is also at it

The Railways is a classic example of such pricing with a difference. Higher prices never stop one from travelling in India. People travel because they must, be it to visit relatives or attend a function. It could be for a holiday, to meet friends, or just annual trips. Travel is generally inelastic to price changes as even the poor rationalize by saying

that they do it only once in a year, and hence it does not matter. In fact, rarely in the country can a person walk into the railway station 10 minutes before departure, and get a confirmed reserved ticket any time during the year. Therefore, when the tickets are to be priced, the government can actually charge higher rates and still retain passenger loyalty, especially in the lower classes. Besides, there is the question of popularity. This is so as train journeys are the cheapest mode of transport in the country. They reach out to most regions, and the comfort provided makes it a superior mode compared to road transport. The question is, in case the Railways were not under the government, and were in private hands, would the pricing pattern have remained the same?

For the upper class, the Railways did witness competition when cheap airlines fares came in. As Air Deccan started the price war, and made tickets available to passengers at a cost which was just about that of a second A/c ticket, many passengers migrated to air travel. Air travel is still considered to be exclusive but, with the tickets becoming cheaper, people made it a special occasion and preferred to take their families by these airlines. However, for the lower class, i.e., sleeper class, trains remained cheaper. This also meant that if it was the private sector, it could have actually extracted a part of the consumer surplus by simply raising rates by 'x' rupees.

According to the government, around 14 mn passengers travel on Indian trains every day. This translates to 5,110 million passengers for a year, or roughly 500 crore people. Suppose the Railways increase the price by Rs. 1 per passenger, they can easily garner Rs. 500 crore every year; and if they raised it by Rs. 5 per ticket, then their collection would move to Rs. 2,500 crore, which is a huge sum for the department. Such an increase would actually not impact the passengers travelling but, at the same time, increase could fetch more revenue. Yet, the Railways do not do so, as any increase in the fares is interpreted as hurting the poor, especially if the increase is for the lower classes.

This thought brings to mind the '*Tatkal*' service of the Railways. These are emergency tickets which are issued five days before the journey; they command a fixed charge varying from Rs. 75 to Rs. 300

per ticket based on the class of travel, and the season involved. On most trains one can book such tickets. The basic idea is to enable all last-minute travellers, to buy their tickets at a premium from the Railways, instead of going through touts, which was the route used by such travellers earlier. This was the initiative taken by the Railways to reduce the secondary market for tickets. The question that can be asked is, how was this number arrived at?

The tickets in black used to be available at double the rate, especially during the peak season. This worked, especially for the lower classes, when people were desperate to go to their home towns far away. The tickets were booked by the touts indirectly, and held on by the officials to be given to the passengers in their names. The railway officials would be working with the touts in this regard. The computerization process made it difficult, but still it was possible. The online reservation system has made it virtually impossible today since no one can book the tickets and block seats, and then bring them out into the open. The only way out is to draw from various quotas which could be open. Therefore, there is no way for the black market scenario to dominate here.

If this is so, then the Railways should actually not be charging this amount, as there is a flouting of the principles of equal access to all. In fact, at another level, this could be a case of the state selling tickets in the black in the open! Why should tickets be made available five days in advance, considering that up to five days in advance one is paying a fixed amount, and in case he does not get a ticket, then he has to pay more in that duration.

Alternatively, if the Railways are charging differential rates, they could very well charge a different rate for every day, based on the time when the booking is done, as with the airlines. As the systems are computerized, this may be an efficient way of rewarding those who book early.

But a thought which comes to mind here is, why can't this rate be increased further? After all, if one can pay Rs. 300, Rs. 500 should also be acceptable. There is no way to know what would be the most tolerable level for the potential passengers. Normally, people who book

under this scheme are desperate to travel and are not deterred by any such change in price. Therefore, in a captive market, the issue of pricing is always difficult as the cost plus principle is not being applied. The same holds for cancellation charges, where the nominal amount of Rs. 50 can always be increased to Rs. 100 without altering the act of cancellation as a person cancels tickets because he cannot travel. The cancellation cost is seldom a deterrent.

For the Railways, moving towards the market system is certainly feasible, considering the steps that have been taken to increase revenue without raising fares. The principle followed is to run the trains at full capacity, instead of 60–80%, which could be the utilization during the off-peak season. Therefore, the approach now is simply to upgrade passengers to a higher class, and get the waiting list people to travel. Considering that there are 13,000 trains that ply on a daily basis across various locations, getting in even 100 people on a train through this strategy would mean having 13 lakh people travel every day, instead of that many being turned away. At an average fare of Rs. 200 per ticket, the possible extra revenue for the Railways would be Rs. 26 crore per day, or Rs. 9,500 crore per year. There is no expense involved as the train has to run at any rate with or without those passengers, and there is no incremental cost involved.

In fact, this market-oriented technique indicates that the Railways could actually start a differential pricing scheme where the rates move up with the advance of time. The same can hold for cancellation charges, which today are based on a fixed formula. This would really work well in the off-peak season and make people also to adjust their dates accordingly, instead of heading for the counters for the peak season.

Both these examples are clearly distinct. In the case of the rock shows, one never knows where to start or stop, as the audience is fairly inelastic to prices. But, the fact that there are too many of these shows, which make them common, would mean that often these people would lose interest in the ‘any price is acceptable’ theory. The Indian Railways story is quite different as it is a monopoly, and passengers really have no choice here, especially for the long distance hauls where there is no alternative. The same may not hold for goods

traffic as there is competition from the roads where the cost of transportation is subsidized to the extent that the price of diesel is fixed by the government. The department can definitely earn higher revenue through both the differential pricing system as well as raising of certain rates without impinging on the passengers ferried. However, being a government department, this may not be feasible as there could be contradictions in terms of what is socially acceptable.

Another case where pricing of a product varies across locations is a ticket for the theatre. Usually, all theatres have standard settings which means that for the audience and the artistes, there should be little differentiation. But still, for a play at, say, the Prithvi theatre in Mumbai, one pays normally Rs. 200 for a show, which could go up to Rs. 1000 in, say, St Andrews's auditorium, for the same. As production costs are the same, the only difference could be the rent being charged, or the location of the theatre. This is where the question of raising rates could be posed. Suppose we assume that all theatre goers are from the same genre of society, i.e., normally, people from the upper classes. They are actually neutral to the cost. If one wished to see Macbeth staged, he would see it for any price. But, when two theatres charge different rates, the issue raised is, why should the one charging the lower rate not increase it?

The same cannot be said about cinema theatres because every cinema hall caters to a different class of people. The taxi drivers would not walk into a multiplex and pay Rs. 150 for a ticket when it is there for Rs. 50 in an adjacent theatre. But, for plays, there is really no answer. It is the theatre that is being irrational in the 'economics' sense. The eco-cynic would be flummoxed by this one for sure.

6.2 AIR TICKET PRICING

The worst sort of business is one that grows rapidly, requires significant capital to engender the growth, and then earns little or no money. Think airlines.

—Warren Buffet

There was a time when there were fixed rates for all airlines' tickets. One did not even have a choice of an airline in India, where Indian Airlines was the only option. The fares were fixed, and one flew by the airline because there was no alternative. The airline did not bother whether the seats were filled up or not, as profitability was not a concern because it was run by the government. Making a profit or loss did not really matter for the airlines as the Budget made provisions for the same. Tickets were overpriced anyway, and most travellers were business people or government servants, and hence the price did not matter. In this scenario, even the quality of service was not an issue as the passenger had to take what was offered. But, things changed in the nineties when the skies were liberalized, and there were several airlines which came into the picture from the private sector.

These private sector airlines naturally followed all the principles that go with such an enterprise:

profit motivation, passenger acquisition strategy, passenger retention strategy and above all, efficiency in operations. A new market had to be created, and it could be done only by using a smart pricing policy to get in a new lot of customers. Because, ultimately, it was believed that pricing would be the differentiator for all potential passengers. If a person was used to paying Rs. 2,000 for a ticket (in those days) from, say, Delhi to Mumbai by Indian Airlines, he could be drawn towards the private airlines either through superior service, or price. To begin with, it was the service factor that was important, and only subsequently, the price factor.

To begin with, one suddenly was exposed to the concept of choice. There was Damania, East-West, Jet Airways, Modiluft, Sahara, and so on which sought the passenger's attention. Competition was based on 'quality' as air fares were more or less fixed, and the differentia-



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tion factor was the quality of service offered. There were newspapers or a free drink that was offered at the time of check-in. Further, hard drinks were also served on some flights which were later withdrawn when there were several cases of misbehaviour on the flights. An airline like Jet Airways had little boxes of chocolates which we liked to carry home. Gifts were given by others to little children. Sahara Airlines also gave a box of toffees to each and every passenger. The meals became elaborate and for the first time, we had the concept of a hot or cold towel being offered to passengers when they boarded the flight. This was a different experience from the standard cologne-sprayed half-dried tissue that was supplied by the government airline. And some airlines took pride on having better landing times with few delays.

The private airlines actually revolutionized the flying space where the state-run Indian Airlines had to match their standards, which they did. From the drowsy service standards, things got elevated to dynamism as the airline strove to improve its service to retain passenger loyalty. The air hostesses actually put on a smile, howsoever contrived it was, to welcome passengers. They were also more liberal with the toffees that were offered, and sometimes even went on to ask whether or not you wanted another cup of coffee.

The private airlines had to comply with the condition of having flights on non-trunk routes. While they did try to escape in the beginning by having a gestation period concept, ultimately, they had to comply with the same, which then put the state airlines at a clear advantage. However, the private airlines story changed with takeovers and closedowns, and there were ultimately only two survivors, i.e., Jet and Sahara. This was a shakeout that was waiting to happen as airline management is not easy as the costs are high, and the time taken to break even is high. In this interim period, the burden of debt could cause one to fold-up.

Things were quite sedentary till the onset of a new kind of airlines, the no-frills ones. These airlines, heralded by Air Deccan, sought to change the landscape of flying by appealing to the lowest common

denominator, i.e., the common man. The model followed was that all flights have a fixed cost which has to be met if the planes are to take off. Then, there was a variable cost that was incurred on the flight which could be a good percentage of the fixed cost. Ticket prices were slashed, with the rates coming to as low as Re. 1 per ticket. The concept was quite simple. Evidently, both of the cost components had to be tackled in different ways. The fixed cost could be defrayed over more passengers travelling, as a higher capacity-utilization was achieved. Normally, airlines operate with an average capacity utilization rate of 60–70%. The problem is that the aircraft has to be used as many times as possible during the day, and should go full, or near full to make it an efficient model. Pricing is one way to tackle this issue.

In terms of variable costs, the airlines wanted to reduce this to near zero, which meant that the meals could be dispensed with, as also the frills like sweets, a cold drink, tissue paper and towels. One could be made to pay for the water. Hence, there was no need to have backward linkages with a hotel to provide snacks, and the aircraft could take off faster. The airline could pay less for the fuel in case they opted for low priority filling which meant that they queued for longer to get their tanks filled. Further, the aircraft would take secondary parking facilities, which came cheaper.

The ticketing system

You had to book well in advance to make use of these tickets, the first 100 people getting them really cheap. The Re. 1 ticket was misleading as the airlines actually did not include the taxes and surcharges, which together came to somewhere below the normal flying fare. The idea was to attract passengers, and this was a great move made in this industry. They were no-frill airlines, which meant that the towels disappeared, as did the free water or juice, and if you wanted to eat on the flight, you had to pay for the same. Baggage was limited, and there were flimsy boarding passes with no seat numbers; it was like going back to 'survival of the fittest' once you got in. The physical ticket disappeared and gave way to an e-ticket for the first time. In fact, booking

on the Internet could also give you a clear discount on the ticket as intermediary/agent cost was eliminated.

The other airlines joined the fray, and the structure of competition then got elevated to another level where different tickets were priced at different levels. Pricing of tickets has become a major business where several models have been used to optimize capacity utilization and revenue. The basic concept is that when a flight takes off, there is a fixed cost involved. The crew, maintenance, boarding, hangar and parking, runway usage, airport space, lounge, depreciation, and so on are the fixed charges, while the fuel cost varies, depending on the duration and distance of the flights. These costs are spread across all the flights that are operated by the airline. Therefore, the larger the number of flights operated, the better the capacity utilization, and greater the net revenue.

A curious cost is that related to the placement of airline counters in an airport. It starts from the time you enter the airport where the airline offices and counters are located. The prime spots cost more. Therefore, the discount carriers are pushed to the corner. The counters have a rent, and hence, the discount airlines have a maximum of two counters, against maybe 10 for a regular one. The security check routes may be more crowded for the discount carriers, as could be the lobby where you wait for your announcement. The parking of the aircraft would also cost differently to the airlines. Therefore, you may have noticed that the discount airlines invariably have a bus taking you to a distant place on the airfield for boarding the aircraft. Further, aerobridges cost more, and the discount fliers would be lucky to get them as their mode of connectivity would invariably be the bus, which is non-airconditioned. Lastly, the money paid by the airline to the air traffic controller also plays a role in the aircraft taking off and landing on time. The time priority accorded to the aircraft varies with this amount, though it is not publicly stated that such a differentiation exists. The choice of the airline is to either circle the city indefinitely and wait for its turn, or ensure that the circling cost is the lowest.

The math was quite simple to understand. The seats have to be priced in such a manner that the utilization rates go up from the range

of 60–70% to 80–90%.

In order to do this, the seats have to be priced differentially. One of the first moves was to get into the Internet mould, which was better than the travel agent route as part of

the cost could be saved by the passenger. The agents got lower commissions, and passengers were actually encouraged to book on their own through the net. Some of the principles followed may be highlighted. The earliest the tickets are booked, the cheaper they are, and the price goes on increasing as we come closer to the departure date, peaking on the day of departure. Certain days of the week are cheaper than the others. Fridays and Mondays do not call for concessions. Further, the timings matter. The peak timings are between 6 and 9 in the morning, and 6 to 10 in the evening as people try to get to their place of work, and would be willing to pay any amount for the same, especially on a weekday. In fact, on these flights, there are very few concessional seats, and they are restricted to the early bookers. Again, the late night flights become cheap, and those looking for discounts take these flights. They are inconvenient because, unless you have someone picking you up at the airport, there could be trouble getting home!

The airlines evidently have tried to space out the travellers so that those looking for bargains will fill up the seats in the non-peak hours. The aircrafts have to be used throughout the day—there is no escape. The peak hours have the business people paying the full fare as the company account does not look at the cost. Those on lower fares have to fill up the seats during the middle of the day. It is a win-win situation for all, as the airline has better capacity utilization, and the passengers can now join the snob crowd, albeit in a different way. These airlines also comply with the non-trunk route tenet, and have passengers fly during the off-peak timings, which fills up the spaces in-between the trunk route timings.



The math was quite simple to understand. The seats have to be priced in such a manner that the utilization rates go up from the range of 60–70% to 80–90%. In order to do this, the seats have to be priced differentially.

While the discount carriers advertise low tickets, as do some of the regular ones, invariably there are few seats kept for each bucket. Therefore, on a flight with, say 200 seats, there is actually only one ticket available for Re. 1 which has to be booked well in advance. These tickets have limited refund rules, which means that you are committed to travel. In case you do not travel, you lose your money and the airlines gains the entire amount as well as the tax, since the ticket is unsold and the tax comes in when the ticket is deemed sold. The cancellation rates on flights could go up to 20–30% of the original booking, and becomes an important source of revenue for the airlines. and as the day of departure draws closer, all tickets cost the same. The discount carriers actually observe the rates of the competitors for each and every flight, and price their tickets accordingly.



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This is a practice followed across the world where discounted tickets are sold by airlines on a differential basis. It is not surprising that at times an available ticket disappears in a

second's time, and you are forced to move to the next bucket. At times, the travel portals make bulk purchases at a discount, and then figure out ways to fill them up. The airline is secure that it carries less risk as the ticketing is partly transferred to the portal. The portal, on the other hand, ties up with banks which provide some other freebies on use of their credit cards. Hence, the same risk is shared between different parties as the portal has to compete with the airline directly now. This is interesting.

The passenger can book on the airline web site for, say, Rs. 5,000. The travel portal, on the other hand, can offer the same at a lower cost. But, very often, it does not do so; instead, it provides you a sop of loyalty points so that you book on its platform, at times for a higher cost—which may be just Rs. 50 more, or the ticket is linked with an

ICICI Bank, Standard Chartered or State Bank of India (SBI) credit card which takes on the risk of the passenger actually buying on credit, as there is a cash discount offered. If all the passengers pay on time, then the bank would not gain any interest income, and would fall back on the commission that is charged to the travel portal.

Hence, in this game, the entire risk of having empty seats is actually divided among the airline, the travel portal, and the bank. The airline on its part also maintains a loyalty programme to ensure that passengers continue to use it to accumulate points. The interesting fact is that the rate of accumulation is much lower than the utilization of the same. This means that while you accumulate say, 12,000 points, to get a free ticket to Delhi from Mumbai, you keep getting a much smaller amount of points, say, 1,000, for undertaking every journey. Hence, the passenger has to make a large number of such trips, say, 12, to get a free ticket. Now, with a rate of return on an airline ticket being, say, 10%, the 12 full tickets costing Rs. 6,000 each would yield a sum of Rs. 3,600, which is in fact the cost of a discounted ticket. Therefore, the airline does not actually make a loss, because the flight would have gone with 70% utilization anyway. But, the airline has made you prefer it 12 times! Further, the discounted tickets give you a lower number of points as full award of points is given only for full paid economy tickets—which normally are booked for corporate personnel.

Also, by giving you points even when you travel on a discounted ticket, where the number would be a fraction of what is given for a full fare ticket, the airline ensures that you do not use any other carrier for your travel. This is a very useful way of ensuring customer loyalty at a negligible cost, and in a way, is a predatory strategy. The allocation of silver, gold and platinum cards based on the frequency of travel gives additional benefits like lounge facilities or tele-check-in options. This feel-good factor ultimately ensures that the customer remains loyal to the airline.

The concept of differential pricing has now really caught on, even in the regular airlines which have started selling such tickets. They call some of them 'check fares', which cannot be cancelled. The objective is really to get a better utilization of their aircraft as the model

of the low-cost carrier works here as well. Their pricing is kept above the low-cost ones, maybe up to 20% more, so that corporate fliers go in for them to maintain a snob distance. This has also now spread to international airlines where there is a time stamp for the fare, with limited options for cancellations and amendments.

Hence, the concept of pricing has really transcended the textbook issues of average cost or marginal cost, and the focus is now more on using varied techniques to optimize capacity utilization and reap the benefits.



7. Getting Professional, or Rather, 'Non-professional' Professionals

The third time you get bitten by a dog, you can know one thing for sure: it ain't the fault of the dog.

—Thomas Jefferson

As a rule we always seek approval of others in our lives. This approval-seeking attitude starts when we are children and want to shine in class because our parents will be proud. Subsequently, we want our teachers to say good things about us, and then our bosses, and so on. The same holds for organizations too when they need to shine and have others tell them that they are very good. The awards game described earlier is part of the same endeavour. Going ahead, they need someone to tell them that they are on the right track, and in this way, we find that a new breed of consultants has walked into corporate world where they are seen across the professional spectrum.

The need felt or created for the consultant has made this class of professionals a most wanted one, and it has become fashionable to become a 'consultant' as it carries a lot of respect. The advisor's role is better than that of an employee, and it is now the norm.



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Therefore, we see consultants engaged in fields ranging from the trivial (designing the room of the CEO based on vastu¹ to the complex (strategic planning). What really are the undertones that go behind these moves? The consultant is omnipresent today, and he or she can actually be seen in our neighborhood in the form of a tutor. This class of consultants has actually become big business—starting from the housewife-tutor to the tutorial classes—which are in a position to extract a fair share of your wallet. These consultants are the beginning of a large chain of professionals who come in an unorganized form.

This train of thought leads to a discussion on the income strategies of smaller businessmen. They are not really small business people; they actually belong to the genre of persons engaged in some common professions who have created their own models along the way, without formally sitting together and planning strategies. More importantly, they work quite smoothly and are self-evolving. While corporate products are well thought out and structured in an intelligent fashion, with all the management techniques being invoked to market the product, there are many such cases where incomes are earned, albeit with quirky business models. These models are not from a textbook, but have evolved and matured within and have been handed down generations. They use the market principles as well as some very good psychology to derive their incomes in a fairly professional manner. These entrepreneurs are the likes of a vegetable vendor, a garage owner, or a cab driver. These people need to be observed to understand their models. While it is difficult to talk to them and get to know the exact numbers that need to be highlighted, the power of observation is adequate to trace patterns. This then is the subject for the eco-cynic, who would find this journey fascinating.

7.1 CONSULTING THE CONSULTANTS

*Never ask people. Not about your work. Don't you know what you want?
How can you stand it, not to know?*

—Howard Roark in Ayn Rand's, "Fountainhead"

¹ An ancient Indian science of architecture which helps in making a congenial setting, or a place to live and work, taking advantage of the benefits bestowed by nature

All companies have certain goals which have to be achieved. Maybe some 30 years back, this did not matter as one took life as it came, and the normal growth rate was extrapolated. Hence, if sales were Rs. 200 crore last year, it was assumed that with a population growth in either the country, or the consuming class at, say, 5%, the sales growth rate would be 5%, or Rs. 210 crore. The same was done in the financial sector, be it insurance or banking. But, with competition, things have changed. Every company starts looking at various options, and simple extrapolations do not really work. One needs to get beyond these rudimentary techniques and to do this, there is need to think deeper. One looks at competitors, new products, new markets, branding, differentiation, global forays, mergers, de-mergers, and so on. The world is becoming more crowded, and this holds true for every business line with new entrants, as everyone looks at his existing business with the eyes of a new entrant. The basic motivation is that, if every new player is looking at opportunity, why can't I spot the same? Why should I be doing things the same way?

So far, so good. But the routes adopted to find an answer have undergone a metamorphosis, which can be the subject for discussion. In Stage 1, the objectives and targets are actually set by the so-called management, where the senior folks get-together and brainstorm over cups of tea and coffee, probably into late night. Here, the scenario is very much like that of the old school, where the CEO speaks, and the others nod in assent. The CEO has an idea and wants the consent of his colleagues, and the best way to get them to agree is to explain the same, and get their nods! There is little opposition as there is fear of being rejected, so the basic plan is accepted by all. Individual managers would of course give their views on their own working, and paths for the year, but the corporate goals would be taken to be sacrosanct. Therefore, the sales or costs target is accepted, and the chiefs will have the freedom to explain as to how they would achieve the goals.

In Stage 2, companies have advanced, and actually create a strategic planning outfit. This is the actual think-tank of the organization which consists of the *crème-de-la-crème*. They are the thinkers who are cherry picked by the management or the CEO, and are given a free hand at thinking. Basically, these people have the trust of the CEO

and are allowed to think laterally. So, short of saying that the company should start selling on the moon even when there are no people there, all suggestions are appreciated, even if not acceptable. This group gives form to the ideas, and there are several value additions which are finally presented to the managers who have to comply with the same. There could be discussions and minor modifications, but the basic plan is approved as it has been run through by the CEO already.



We need someone to tell us that we are good, which is human weakness. And naturally so, because we can carry on in an egotistic manner thinking that we are right, but, finally, society has to approve either with a nod or a reward, which is what we are looking for.

However, as mentioned earlier in this section, a study of human psychology shows that we are forever seeking approval of others for anything we do. We all crave approval and appreciation. We need some-

one to tell us that we are good, which is human frailty. And naturally so, because we can carry on in an egotistic manner thinking that we are right, but, finally, society has to approve either with a nod or a reward, which is what we are looking for. The same holds for organizations where, at times, we begin to suspect that we are not thinking right or rather, say that we are looking at things from our own perspective, and are finding things right when they may not really be so. Therefore, enter Stage 3 where it is best to seek the approval of others, or better still, get someone else to tell us what we should be doing, and how we should go about things. Maybe not something which Ayn Rand would have approved of, but still, this has become the norm today, which makes consultants what they are.

STAGE 3: ENTER CONSULTANTS

Consultants have credibility because they are not dumb enough to work at your company.

—Scott Adams

Consultants are the ones everyone looks for. As a student in the market place, this is a coveted job as the pay scales are grandiloquent, and overseas exposure the norm. As a CEO, you look for them to look at every corner of your business. and as a consultant, you know that you are indispensable. But first, you need to make a name for yourself as a member of a consultancy firm.

There are two kinds of consultancy organizations. The first variety is of global giants which dominate the entire spectrum of business, spanning all the way from the manufacturing to the services sectors. In-between, agriculture also gets thrown in. These organizations are global, with expertise in every line of business, and having experts posted across the world. The basic idea is that, with this kind of experience, they are able to fit in the relevant organization with one of their several case studies which invariably lead to the best solutions.

The consultants hence have this support system which works very well, and they are able to tap resources anywhere in the world. The stories are well laid out and documented, and form the basis of their own studies. Today, everyone is global, and every CEO would like to do what GM did, or what Sony did not do. All these stories are known and analysed by these consultants so that the options are quite clear.

These consultants only provide a broad framework, and do not get into the micro issues. Hence, they would advise you to start business in Africa, divest your holdings in a unit, or take over another company. These are actually various options or engines for growth. The choice is kept open, and it is here that the company's own team takes over and builds a strategy to implement.

The second kind of consultants are the individuals who have made a name in their field by building contacts in the course of their business life, with a lot of personal experience thrown in. They probably come from a normal background, having worked in a special area, and now go around in the same or different field, and make their presence felt through good recommendations. They too are strong in numbers and form an important part of corporate life, and need to be discussed. Their typical route to becoming independent is that they leave the orga-

nization they are working in, then come back as part-time consultants, and leverage their linkage to have the other doors open for them.

Are there any patterns in their recommendations?

Consultants today are hired by not just private firms but also governments. Some of the more common suggestions that come from the consultants, if they are working for the government, are plain motherhood statements:

- open up the economy
- less government intervention
- downsize, or right-size labour
- privatize
- let the markets dictate the course of the economy
- less political influence
- more decentralization
- look at external markets
- let in foreign investors
- let private and foreign sectors operate more freely
- decontrol prices (especially in areas where it is just not feasible, such as the oil sector, or power supply).

It need not be mentioned that we will never come across a consultant who will advocate the opposite of these recommendations.

If the advice is for an individual company, then the path recommended is:

- expand
- merge or demerge
- diversify or specialize
- get in more professionals
- get rid of old people—the age comes down progressively as time goes by
- have more branches (if there is one office) or consolidate (if there are too many)
- close down non-performing units

- change the compensation structure and bring it on par with the best.

The big ones

It is now fashionable to have all strategic planning either done by a consultant, or ratified by the same. Therefore, there are two options here. The first is where the consultant comes in and recommends to you the sweeping changes that are needed. Here, the path is quite clear. The consultant is told that the company wants to globalize, be aggressive, be a trend-setter, enter world markets, and expand like mad, and so on. It is always the superlatives that have to be used here for effect. After all, when you are paying Rs. 10 crore or so to a consultant for 90 days of service, you need to think big. The consultant then spends a week or so meeting critical people in the organization. They are the ones chosen by the management, which means that there is an inherent bias here. Then the CEO gives his broad plan which sets the contours of reference. After this, there are several sessions in a luxurious outdoor locale—where no one can disturb, and all cell phones are put off, where the same people discuss with the consultant who makes a preliminary presentation based on discussions held earlier. The outdoor session is enriching, and the consultant will return with the first draft.

A part of the deal is some travel, which often would be across the globe. A company thinks twice when a staff member has to travel, but when it pays for the consultant, it is fair enough. In fact, most of them charge by the hour and hence, it is not surprising that the sessions with them always end up on time. They are praised for being professional, while actually they would not like to go beyond the 8 hours of brainstorming, as the 9th one cannot be had for free. They return with a plan, and there is the lighter side to their presentations. Their first, second and final drafts will have around 100 slides. There are fancy diagrams and new terms used, such as ‘ballpark numbers’ and ‘white spaces’. There is a lot of writing on the presentation, which can

seldom be seen—it is not meant to be seen, because once seen, it can be questioned. Hence, the slide remains on the screen for a minute or two while the gist is communicated verbally.

Now, there is a view that each presentation is actually shown to the CEO and his core team before hand so that they do not really say things which are not palatable. Consultants rarely would like to go against the CEO if he has very strong views as it could probably mean loss of the next contract. (This may not apply if the consultant is very big and reputed). This is a classic game where the CEO and the consultant know the rules. The CEO wants the consultant to ratify his plan. The consultant would normally tend to generally go along the line and would crystallize a plan that is workable. Otherwise, the consultant would provide viable options which would include the plan of the CEO. The consultant is being paid for this, and knows it, and would hence tow the line. This way, it is a win-win situation.

Now, let us look at the two views on this subject when corporate planning is delegated to the consultant at a high cost.

From the point of view of the consultants, it may be said that they do bring along with them great expertise. They do have experience of cases across the world, and are hence able to better compartmentalize the case with others, and assure greater chances of success. They are considered to be neutral and unbiased, and can therefore provide an independent view. They have a reputation to protect, and would not compromise anywhere. Also, because all companies use consultants, they evidently bring in a lot of value, and must be good. Otherwise, no one should be recruiting them, considering that some of the best firms use their services.

The critics' view could be thus. The first would be that consultants, unless in the top league, normally toe the line of the management as, otherwise, they would not get any further contracts. While they give a different view, they do make it a point to show that they have taken note of the management's views seriously. Secondly, they never take responsibility for the implementation part, and hence, when the plan fails, they can say that the plan was good, but the company did not

carry it out properly. It is somewhat analogous to how the IMF and World Bank constantly ask countries to bring their fiscal deficit down, and to remove subsidies. But, practically speaking, their advice cannot be followed. The next point against consultants is that they are often represented by young management graduates who know little about the subject, and actually have their on-the-job training in the client's office. Very often, they are not aware of the basic sources of data, and charge you for what exists free of cost in a government department.



From the client's viewpoint, hiring a consultant itself reflects poorly on the organization. The critics argue that they are hiring someone from outside, meaning thereby that they do not have, or are not using in-house talent.

From the client's viewpoint, hiring a consultant itself reflects poorly on the organisation. The critics argue that they are hiring someone from outside, meaning thereby that they do not have, or are not using in-house talent. In fact, a top public sector bank had revealed that it had once hired the services of a consultant for an HR revamp. While the policy was accepted, it was then realized that the same had actually been proposed by a junior staff member the same year from the HR department, which had been rejected. Hence, it is back to the approval-seeking syndrome, or a common ploy used to have an outside expert to ratify a radical approach so as to gain inside acceptance.

In this context, two points need to be highlighted. The first is that the government too is not out of this race. The government often hires foreign consultants to look into rural issues, which is intriguing, as most of these consultants are the ones who reside in Manhattan, and occasionally visit Mumbai or Delhi, where they stay in the Taj or Oberoi. Yet, they are being trusted for carrying out in-depth studies based on which critical recommendations are made for the entire rural sector!

Consultants everywhere now

Another observation is that getting consultants' advice on human resource policy has gained a lot of currency in recent years. These consultants are given the task of rationalizing the policies of the organization. The usual recommendations are: cut staff if the numbers are large; hire more at the junior level if there is shortage; hire senior specialists to add depth (this happens in the public sector banks); re-deploy people (this is a favourite); have a core team (promote cronyism); decentralize power (if power is centralized), and so on. Invariably, there are chapters on compensation. The company is told to raise the salary levels to that of the industry. Here, there are different techniques used. The industry average is based on how you see industry, or rather, how you define it. For a private bank, you can compare the salaries with those in other private banks or foreign banks, but never with public sector banks (the current CEOs would cry murder here). The goal is to raise the pay slips of the top management the most but, given the base differences, they would get an increase of only 20% while some lower layers would get 30%. The average increase in bill would finally come to 10–15%. To compensate this echelon, there would be a performance bonus scheme, which would reward the senior-most people the most. And somewhere in-between, there would be a differential ESOP scheme which would be discretionary, and thereby favour those for whom they are designed.

Hence, the entire idea of engaging consultants has now come down to the fundamental aspects of the working of the company, with HR being the most common field for them. While HR starts with compensation and deployment, or right sizing, the latest is about training. Training is one area which has become the focus of attention of all HR activities. There are professional and soft skills that are covered here, and the organization would like to report that, by the end of the year, every employee received 'x' number of hours of training. While professional training could be of use, provided it is of the right duration, very often the kind of training suggested is seen more as a paid holiday with the organization sending its staff to a nice location where such training is imparted. The trainers are always fixed; remember the

contacts that you develop? There is a comfort factor which develops and ensures that these activities become ongoing processes.

But the question which is rarely raised is: Does such training actually help the staff?

Consultants at home, since long

While all this is good management of corporates (from the point of view of the consultant or consultancy firm), the same can be said of another kind of organization—the one right at our doorstep—the tutoring industry. This is really one of the most successfully run micro business in the service sector which faces competition only from, probably, the small retail shops. The teaching industry has grown from its humble origin—the middle-class home where an educated housewife began to tutor her own children, and then, when she could not keep pace with their requirements, sent the kids to another home for tutoring. Alternatively, if she had the bandwidth, she would take on the role of a tutor for other children too. Gradually, this vocation has grown into large, organised classes in teaching institutes which are now run almost like private limited companies.

Homemakers, and now active tutors, span the entire education spectrum. In the country, starting from the nursery level and graduating to college level. This is a 100% unorganized sector industry on which no information exists, and where the fees start from Rs. 100 a month, and move on to Rs. 1,000 or more per month or Rs. 12,000 and beyond per annum. Here, there is the added advantage of personal attention being given to the student that enables him or her to score better marks in the examinations.

Over time, this business, which is actually an extreme form of tutoring, has evolved to become the role of a consultant. For example, every year there are at least 50 lakh, or 5 mn students taking the 10th standard examination in the country. Today, almost everyone who takes the examination would be spending at least, on an average, Rs. 5,000 as tuition fee. This again is a very conservative estimate considering that most organized classes in the cities charge around Rs. 20,000 for a course which is taken by all students. Yet, assuming that the smaller

towns would have a smaller outlay, this number would be reasonable. This means that there is a tuition industry of Rs. 2,500 crore for just one examination being taken. If this income is cumulated over, say, engineering, medical and management, besides the 12th standard courses, we may actually be talking of an industry which would top



Consultancy has thus, carved a niche for itself, and in a way, has become indispensable to the country's overall economic system. Dependence on the tutor is now all-pervasive, with the individual mind getting attuned to being tutored by an external agency.

Rs. 10,000 crore, and could even reach Rs. 20,000 crore. This kind of consultancy in the field of education is big business, which has also been replicated one step down in the individual house.

Hence, the entire process of consultancy has actually permeated even the household, besides moving right up to the corporate level where every activity is being taken care of by the management consultant. Consultancy has thus, carved a niche for itself, and in a way, has become indispensable to the country's overall economic system. Dependence on the tutor is now all-pervasive, with the individual mind getting attuned to being tutored by an external agency. This trend could, in a way, discourage original thinking and innovation, just as we run the same risk in any organization which depends too much on others for guidance.

7.2 THE LESS-KNOWN BUSINESSMEN

Entrepreneurs are simply those who understand that there is little difference between obstacle and opportunity, and are able to turn both to their advantage.

—Niccolo Machiavelli

When we talk of business acumen and success stories, the reference is invariably to some of the top CEOs who either started from scratch and made it big, or had the fortune handed down, and multiplied its value, by themselves and their progeny. The story of Dhirubhai Ambani is quite well-known now—how he moved on from being an

attendant at a gas station in Aden to establish the glorious Reliance Empire. Concepts, such as backward integration were adapted and made to work by him in the Indian setup. Ironically, the Vimal fabric was the first introduction to the Ambanis, and today it is probably their smallest unit. It has, in fact, been revived only this year. Infosys' beginning and growth is also legendary—how a group of engineering professionals went on to create this company from scratch, and raised India to a position of dominance on the global plane in the information technology industry. While these names are extraordinary, we also have stories of descendants of large industrialists, like the Birlas or the Tatas, who have made their mark in India, and on the global scene.

More recently, there has been good coverage on the Mumbai *dabbawallas* for their famous 'six sigma' delivery systems. These people are a large group of illiterate persons who transport lunch boxes across Mumbai city from homes to offices and back in tin containers with various symbols marked on them. Different sets of people pick up the containers from home, cart them to the railway station, travel with the containers and offload at the destination where another group picks up and carries to the offices. They identify the boxes through the symbols and never deliver them to the incorrect address. But there are some other lines of business which need less capital and good business acumen, and are carried out probably by illiterates at times, but yet deliver good results. These business fields need to be explored further. There are thousands of such entrepreneurs who, coincidentally, follow the same principles, even though they have not gone to school. They understand the human mind, are aware of the existence of information asymmetry, and work on the basis that all customers are not rational though they think they are intelligent.

The friendly vegetable vendor

The vegetable vendor on the roadside is one classic case where he or she has a sound business model which includes capital, income, logistics and above all, some profit. There are two types of vendors, those who are licensed, and those who are not. The licensed one could be paying Rs. 350 a year as licence fee, and a lower bribe to the police to

operate in the area allocated to him/her. For the one without a license, the bribe may vary from Rs. 50 to Rs. 100 a day. There is also the possibility of confiscation of his goods, in which case he would have to pay up to Rs. 2,000 to get the cart back, probably along with the wares. These are the nuisance value costs that have to be borne by the vendor. The typical economic capital required to start business would be varying from Rs. 750 to Rs. 2,000 which can help to stock and transport more vegetables. Otherwise, the option is a basket which could come in for Rs. 200 or so. A typical, vegetable vendor would be dealing with around 50 kg of a variety of vegetables, and needs to have an investment of, say, Rs. 500 to Rs. 1,000 a day in order to operate. There are credit facilities available, but their availability depends on the model which is used.

Vegetables are procured every day from the *mandi*, the wholesale market. The vendor could do it himself, but since the lot size is a quintal or a minimum of 50 kg, it would not be feasible for him to pick up the whole lot. Therefore, procurement is done either through an agent who buys in fixed lots and distributes them to the vendors, who need small quantities of 5–10 kg each of the vegetables. The more organized ones get-together and buy the vegetables in bulk, which they transport to their locality and distribute among themselves. Therefore, there is decentralized procurement going on, albeit inadvertently.

The real test is in pricing the product. Usually, they grade the produce and differentiate between the good and the not-so-good, and run a parallel establishment alongside. The good quality vegetables would sell at 100% margin, to begin with. Hence, if cauliflower is sold in the *mandi* at Rs. 1,000 per quintal, then the intermediary sells the same to the vendor/vendor group at Rs. 1,200. Alternatively, they bifurcate and sell one lot in the morning, which is the second grade, and the better ones in the evening, when shopping is normally done. The good ones would go at Rs. 24 per kg, while the not-so-good would sell at Rs. 16–20 to begin with. The prices would be held at this level till night time when they would be sold at a reduced price. The challenge is to

ensure that there are no leftovers, because there would be new stock coming in 6 days of the week, and the old stock cannot be sold. Therefore, they have to keep reducing the price, and the lowest they can go to is at a 10% margin, or else, the same is transferred to the second grade goods lot which are carried forth the next day and go at a lower price. Storing is a problem as there is no storage space available. Normally, the vegetables are tied under a sheet and kept on the cart within proximity of the vendor's residence.



The vendor thus, has to use considerable dexterity to maintain the inflow and outflow of the vegetables. Given that they are perishables, the management of inventory is critical as the vendors cannot afford to sustain a loss.

The vendor thus, has to use considerable dexterity to maintain the inflow and outflow of the vegetables. Given that they are perishables, the management of inventory is critical as the vendors cannot afford to sustain a loss. On an average, on Rs. 12 worth of purchase, they would make a 50% profit, and hence, there is close to Rs. 300 to be made every day. This amount would go up when the prices of vegetables are dearer. But this amount has to take care of his capital cost, the interest to be paid in case the money is borrowed, and also the bribes. The net earnings could be close to Rs. 250 a day at the lower end.

The business attributes shown by the vegetable vendor is in the form of price formulation and price changes, and the entire logistics chain—from procurement to stocking of the produce. Further, a lot of psychology goes into play when he has to charge differential prices from the customer and unlike a retail chain which has a single price for all customers, the price changes according to the customer. Large scale, or regular buyers get the produce at a lower price to maintain customer loyalty. Further, there are certain value-added services which are made available—starting from home delivery, to credit, and taking back of the fruits in case they are not up to the mark.

The fast food restaurant

A more observable business line, which is a model for efficiency, is the humble Udupi² restaurant in Mumbai. Typically, the structure is more or less fixed. There are two sections where 80% of the seats are in open space, as well as inside, with fans, and 20% in airconditioned hall. The seating arrangement is distinct. The table is for four persons, and there is hardly any space between two persons so that one cannot really put both arms on the table. There is limited walking space between the tables, which either have stainless steel or sunmica tops to enable cleaning. The seats are of metal so that they do not break. In the airconditioned section, the seats may have a bit of cushioning. But the basic idea is that one should not feel too comfortable to sit for longer than is required!

The rates charged for any item is reasonable, and there could be a 10–20% premium in the airconditioned section. Seats are allocated efficiently, with the aim of optimal capacity utilization. There is a head waiter who directs you to a table depending on the number of persons. The waiting list is maintained, and each and every patron is told that the waiting time is 10 minutes. This is to ensure that you do not leave. Once seated, the menu card is placed, along with glasses of water, and there are several courteous enquiries to ensure that you place the order. Within a reasonable time of placing the order, the dishes are served. There is not much of elegance in the way the dishes are brought and served. After all, when a family goes out to eat, the idea is to eat together. But, here, it is time management, wherein they ensure that there is some movement on the table all through so that the customers are busy. After you finish, there is the polite query on the dessert, with a follow-up of the bill to ensure that you are on your way. The quality is good, food fresh, and the service courteous, and one can never be dissatisfied.

² Udupi is a town in Karnataka which has specialized in cooking and inhabitants have emigrated to other parts of the country, Maharashtra in particular. These restaurants are quite common in Mumbai are known for its hygienic, tasty and cheap vegetarian food. All employees starting from the owner to the cleaner are known for their courtesy and fast service.

The business model here is straightforward. Charge low rates and ensure full capacity utilization. The turnover needs to be high to earn the profit, and the turnaround time



The business model here is straight-forward. Charge low rates and ensure full capacity utilization. The turnover needs to be high to earn the profit, and the turnaround time extremely low. Therefore, the turnaround time is a few seconds.

extremely low. Therefore, the transition from one set of people to another, or rather, the turnaround time is a few seconds. The lower rates ensure that you keep ordering more of the items. The ones that are high priced, such as Chinese dishes, are priced high as it is assumed that you would not go beyond the initial order. Hence, the amount spent per head would just about cross Rs. 100 with the juice and dessert thrown in. The staff employed are normally boys from Mangalore who would otherwise be unemployed. They are provided food, shelter and clothing, and they invariably study for exams. The salaries paid are moderate, ranging from Rs. 500 to Rs. 3,000 a month, depending on the employee's experience. Invariably, some of them send back a part of their earnings to their homes. Therefore, labour relations are cordial, and there are never any disputes. Attrition of labour exists; the educated ones get elevated in status, from cleaner-to-waiter-to-cashier, and can move on between hotels in this process. Generally, employers do not look upon outward movement of the employees with any hostility.

The real business challenge is to keep the chairs occupied throughout the day. Morning time is fixed for breakfast, while the lunch and dinner timings are flexible. But, the need is to get the footfalls between these three basic meals. A novel scheme used is to entice students by offering discounts on certain food items during certain off-peak timings. The idea is to make such dishes in bulk and ensure that the customers order only those dishes, and nothing else. Therefore, the bar concept of happy hours is introduced, which invariably makes you order a package which gives you something like, say, a cold drink that

you may not have had in mind to begin with. The other way is to offer 30% discount for students who show their college identity cards. This is a good way to draw them during the off-peak hours, which works well as students also prefer a change from their college canteens.

Beware of the cabbie

The third astute businessman in the small service sector is the taxi driver. Taxi drivers are not liked much in most places in the country as they are considered to be dishonest and discourteous. They however understand human psychology very well and most of the times get away with their idiosyncrasies. The typical driver reaps the harvest in strategic locations, such as the airport or railway station. The former is a better harvest ground than a railway station, though the latter provides better volumes. The important part of their operations is that they have their own union, and hence an economy of their own. For a nominal fee of Rs. 100–500 per annum, they are registered as members of a recognised trade union which protects their legitimate business interests. The union on its part has good relations with the policemen, and transfers large sums of funds to them to ensure that they are not harassed for incorrect behaviour. The cabbies operate obsolete and dilapidated vehicles, but they cannot be penalized because the unions are there to make the requisite interventions. However, this scenario is changing and some of them in Mumbai have switched over to relatively more modern second hand vehicles of Maruti and Hyundai. The unions invariably have political links which, in turn, helps them to tackle any kind of corrective police action.

Until recently, i.e., September 2009 or so, the system of pre-paid cabs in Mumbai domestic airport did not exist. The drivers would use psychology games when transporting passengers. At the airport, they pick up the passenger who mentions his destination. The meters, as a rule, are rigged and often are turned on well before the passenger boards the vehicle. As soon as they start, the meter begins ticking. At the destination, there is the usual haggling, which starts with cribbing, “I have been waiting the whole day, and you should think of this before paying”, and so on. The next level is to get aggressive or

abusive, and this technique is used depending on the overall countenance of the passenger. He knows fully well that after emerging from the airport, you are unlikely to quarrel too much. Either you are being reimbursed by the company, or the money does not matter. They have two sets of cards to read the fare. The genuine one is used in case of a police check, or in case you know the rates, or they straightaway use the false card which starts off okay but starts deviating by leaps and bounds as the fare increases. Thus, the meter reading of between Rs. 1–2 reads okay, and then accelerates beyond.

At the railway station, the job is easier, as they can distinguish between residents and visitors and overcharge accordingly on the tariff as well as on the luggage rate. The taxi drivers hence form a class of exploitative people who ensure that there are no laws that can regulate them. They know that few people actually go through



The system actually supports such deviant behaviour as the authorities can easily fix a fare for passengers at airports and railway stations. But it is hard to understand why such a system exists in some airports and railway stations and not in others.

the trouble of complaining to the cops when they overcharge or refuse a fare. The possibility of cabbies actually getting into trouble is rare as, generally, the local cops are bribed to look the other way when they are doing anything incorrect. The system actually supports such deviant behaviour as the authorities can easily fix a fare for passengers at airports and railway stations. But it is hard to understand why such a system exists in some airports and railway stations and not in others. Quite clearly there is a mutually beneficial nexus between the drivers' unions, police and other local authorities which promotes such irregularity. The passengers are the ones who end up paying the price.

The café culture

Just like 'going to the theatre' culture is back in vogue with the mushrooming of multiplexes in the cities, drinking coffee, or rather starting with a coffee and going beyond, has caught on in the last five years or

so. This has led to some smart business ideas, and the models emanating from these experiences are noteworthy. Barista and Café Coffee Day are two chains of coffee shops which have brought back the habit of hanging out over coffee in India. There was a time when there were 'India Coffee Houses' around where intellectuals met and discussed political and social issues. They were proletarian in status, and were mainly meeting places for intellectuals to begin with, which caught on soon with the common crowd of youngsters, especially of students, who probably did not have too much money to spend. The alternative for them was to go to a mid-level restaurant which, again, was not really suitable for the wallet.



You go in knowing fully well that the coffee, which costs Rs.8 on the roadside and goes to Rs.15 in a smaller restaurant, is going to cost you between Rs. 40 to Rs. 60 in such an environment.

Today, it is the in-thing to hang around these coffee shops and spend time. These coffee shops are clearly targeted at the upper middle class, and the hip crowd which

has no age bar as such. It starts from children, meanders through the teenagers, and goes right up to working people and the senior citizens. While they are known for the coffee, the menu extends to cover ice cream, soda, and croissant too. Hence, children who grow up on Archie's comics would also identify with the surrounding, though Pop Tate would be missing. The environment is non-obtrusive and cheerful. You have to make your choice based on a fixed menu card. You go in knowing fully well that the coffee, which costs Rs. 8 on the roadside and goes to Rs. 15 in a smaller restaurant, is going to cost you between Rs. 40 to Rs. 60 in such an environment. But it does not matter as the time spent is more important than the price. Besides, these shops are the so-called 'happening places'.

However, the person taking the order will tempt you with add-ons. You could have some cream or Brazilian whiff, spices, hazelnut or ice cream with the drink which costs you, say, just around Rs. 50 to begin with. But, with these delicious add-ons, the cup now comes for close

to Rs. 90. As you sit far longer, no one even hints to you that you have overstayed, which is quite a novel experience in a restaurant. We are normally used to the waiter asking if we want anything more, which is an euphemism for the obvious. But, somewhere inside you, you feel a bit guilty and then order a second drink, or a light snack. The bill now crosses Rs. 150 as you leave the place. This model is successful because it appeals to a class of people which has a lot of money and wants to experiment and pay for it, but still carries a tinge of guilt when the middle-class value against free riding overtakes it.

Now, the beauty of this model is that the actual cost of the coffee is fixed for all, and the add-ons do not justify the cost. But, to make you value the addition, the cost attached to the cream is fixed at a higher rate. You need to feel that you are having something beyond the simple cappuccino or mocha. At the end of it all, you are glad that you experimented, while the café is happy that it has claimed a larger part of your wallet.

Garage capers

A different kind of business model emanates from the motor garage. All showrooms which sell cars have garages which take care of the servicing requirements which along with other authorized garages for present purpose could be called official garages. There are also numerous roadside garages which provide similar services, which may be called local garages. Now, everybody swears that the charges at the official workshops are at least 40–60% higher than the charges in the local garages. But, still, there is a snob value attached when we give our cars for servicing to at the official garage. Otherwise, logically, everybody should go to the garage where the costs are lower, and there is more personalized service. But, the fact that the two coexist quite peacefully and successfully means that there is a vibrant model at work to bring in the clients.

To begin with, you are told that if the car is serviced regularly at any of the official garages, then the value of the car is maintained, which is important when you want to sell it, or exchange the car. And this

is reiterated to you when you are purchasing the car, which is funny because the last thing you would think of doing at the time of purchase is of selling it! Now, practically speaking, you would never sell a second-hand car to the official dealer, because you always get a lower price compared to a direct sale, or through a broker. But, you would like to believe that there is a premium attached to your car if it goes regularly to the official garage.

Again, the official garage tries to get you to take an extended warranty and service contract at the time you buy the vehicle. Ideally, when you buy a car, this should not be a primary concern but the dealer tries to load the same on you. But, they work on the premise that when you have spent Rs. 5–10 lakh for a car, the extended warranty running into Rs. 10,000–20,000 for 2–3 years would not matter. The same recommendation is made when you go through the statutory three free services which are offered by the manufacturer in any of the official garages.

The so-called official garage is impressive and neat. There are different sections for engine work, tyre service, overhauling, greasing, etc., The workers are well-attired and would be conversant with English. The ambience is comforting, and there could be some nice music being played at the reception as you wait for your turn. This is the first impression that you get when you enter the service station, and for one who does not bother about the cost, it would be really appealing.

The modus operandi

The dealers earn a fixed commission on the sale of a car, but have to also maintain a large staff of both salespersons as well as mechanics in the garage. This is part of the normal business as one of the pre-qualifications of taking up a dealership is to have in place the requisite infrastructure, including personnel. Then there are the overheads to cover. The sales business would not cover these costs, and hence would not be viable by itself. In order to keep it going and make money, the garage needs to be the second business unit, and for it to work efficiently, has to be fully utilized. The same holds for non-dealer of-

ficial workshops where the manufacturer insists on their keeping state of the art servicing equipment.

The way out is through the service department. The operations of a dealer who has a workshop would be illustrative in this respect. There is an established name in this business, an agent of one of the leading car manufacturers in India, and one would like to buy a car here because it is a professional outfit and known for honesty. The service is excellent and the salespersons are persuasive. The experience of every customer who has purchased the vehicle follows a certain trend, which is interesting because it is what catches the eco-cynic's attention. The three free services are provided promptly, and the car is always in an excellent condition. The vehicles are delivered in a very clean condition and there is a 'feel good' factor here for the customer. While on the third service, the attendant would advise you strongly about what needs to be done. There is rust proofing, powdering of the engine to prevent rodent attack, polishing of the vehicle, etc., You are told that your particular vehicle is quite different from the others, and that this recommendation is being made only for your car because it is a special one. This makes you more possessive of your car, and you would be tempted to go in for some of these add-ons.

Once you are in the paid-service mode, you realize that every service costs you at least Rs. 2,000–5,000. The normal service is supposed to cost around Rs. 700, and when you give your car for servicing, there is some estimate drawn up. The estimate, you are told, would be for things which would be checked and replaced if need be. But, they would not do anything without informing you. This is reassuring. The estimate given is, say, Rs. 2,500. This cost would be the normal servicing cost as well as the consumables which need to be changed, of which oil change is always recommended.

At around noon time there is a call telling you that the brake lining was not all right, or the gear required a bit of work, or that the clutch had to be greased. The cost would be around Rs. 1,200. You really cannot say no at this stage, especially as you would not like to take a chance on such parts, and that is what is intended. You naturally say that you would go with this new deal while the attendant reassures

you that the part being attended to will now run for 5 years. When you go to collect the car, the total cost is Rs. 2,350. You are asked to fill a feedback form in which one of the queries is whether the final cost is different from the estimate. The answer is always a big yes! This is



The garage needs to earn money to keep the business profitable and therefore, an average realization of Rs.

3,000–5,000 per vehicle would be essential. Otherwise, it is not worth the time nor the space occupied, as the same could be used for another vehicle.

a classic case of a self-fulfilling prophecy.

In fact, if one did ask for certain services to be carried out at the time of handing over the car, so that the estimate was over Rs. 3,000—like wheel balancing or alignment—

the call would never come and the estimate would also be met.

This really prompts a deeper eco-cynical investigation. It is learnt that the workshop takes on 80–100 vehicles every day. A talk with other customers as well as the information put up on the worksheet board reveals that out of these 100 cars, around 40% would be the free-service vehicles that would be cleared quickly. As they are under warranty, no part needs to be changed, and even if there is something defective which will work, it is left as it is with the expectation that when you return for a paid service, the part could be changed. The remaining 50–60 cars are the revenue earners. Most of them come for routine servicing, while around 10 of them have some major complaints. A record is maintained of the car, just like our medical history with the health centre, and the attendant checks and lets you know what all is advisable, given the age of the car. You could postpone the decision, but then the noon-time call would follow. If you agreed to the maintenance regimen, then the call would be missing. The garage needs to earn money to keep the business profitable and therefore, an average realization of Rs. 3,000–5,000 per vehicle would be essential. Otherwise, it is not worth the time nor the space occupied, as the same could be used for another vehicle. The free-service cars are

mandatory, and have to be gone through because there is a commission earned from the car company.

Assuming an average spending of Rs. 5,000 per car, the garage would earn around Rs. 25,000 to Rs. 30,000 per day, of which roughly 60% is pure labour cost, i.e., non-material. While the charges per man-hour are put up as ranging from Rs. 80–120 per hour, at times one wonders how a particular job ends up with a labour cost of Rs. 468, with the part costing around Rs. 300. There are multiple mechanics working on the same job which is recorded to the last minute, and hence this odd number. Therefore, a net earning of Rs. 18,000–20,000 a day is necessary as the overheads are anyway fixed. Therefore, they also end up taking in more bookings, knowing fully well that there would be defaulters. Also, they ensure that the vehicles are picked up the same day as it would otherwise block a space on the next day. But, the overall experience is good as the car is handed over to you in a very good condition, and there is someone to explain to you the various jobs that were carried out.

The same experience in a local roadside garage is different. The costs are probably half that charged by the official garage. The parts used are not the originals, and the mechanic will tell you to go in for a cheaper version which lasts the same duration of time—there are a large number of small ancillary manufacturers who produce Suzuki or Hyundai parts at a fraction of the manufacturer's cost. When the roadside garage mechanic purchases these non-original spare parts, there would be a commission for him of up to 15%. In case of the official garage, they stock the original parts. The labour charges are substantially lower, and often the various jobs get done by taking the car to other sites to have the service done. Their overheads are cheap, with the staff being paid between Rs. 1,000–4,000 a month, compared with the Rs. 3,000–10,000 at the official garage.

These indigenous models that have been described are ones which are not discussed in a classroom, or written in any textbook. They work on the principles of practical business sense where net income has to be maximized with full capacity utilization. The economic con-

cept of economies of scale are applicable here, which is understood at the ground level by the vegetable vendor, or the cab driver who works on human psychology to extract value from the business. The customer is always fickle-minded and irrational, and hence, will always succumb around 80% of the times to these strategies, which is the aim to begin with.

The doctor's dilemma

Doctors today are quite a maligned lot because, in the common man's mind, they tend to charge a lot of money. Further, as seen earlier, they share a symbiotic relationship with the health insurance companies. They are out to make money, and why not?

Except those employed on salary in government or private-run hospitals and dispensaries, the doctors working independently cannot have any guaranteed income. The bigger ones among such independent doctors tap the hospitals and the process of hospitalization to make money as consultants, while the smaller ones have to live on fees from patients who choose to consult them. They have fixed timings for work, with Sundays being off. They do not earn a salary, and do not get paid leave. If they work the whole year, they get their money, and any holiday means loss of pay. Therefore, they have to work for long hours and get in as many patients as is possible.

There are two kinds of doctors—one who only provides consultation while the other one also dispenses medicines. Those who consult and are attached to a hospital follow a fee structure while those who operate independently work on market principles. There are generally unwritten rules that they would not normally undercut one another. However, the one who dispenses medicines would charge for the same even though often they are doctor samples that are being dispensed. Neither of them is keen to provide receipts, and even when you ask for it, normally give it on their prescription letterhead. This way, there is no record of the money being collected. This helps while filing returns at the income tax office.

All doctors have to maximize their income within the time constraint of say 4 hours in the morning, and 4 in the evening. They face competition from other practitioners; while the established ones have patients coming in, the new ones have to strive for clients. So, typically, the doctor has to call you a couple of times, even if it means for a check-up. He has to price himself moderately so that the patient is induced to come a second time. Therefore, normally the medicine is changed the second time by the doctor, who may then tell you not to come again. The medicines could even be placebos which do no harm when there is no ailment as such, or if he is not giving you the medicines, the second time charges are kept lower—often 60% of the first time charges. This is a regular practice, and when questioned, he will tell you that they have to charge once they recommend a medicine. Therefore, doctor's ensure that they have something to write for you. They have to also ensure that they do not appear like they are fleecing the patient because, once the word spreads, their business will suffer.

Doctors also have tie-ups with various diagnostic centres and usually use the centre's letterhead to tell you what tests have to be taken. They understand the psyche of the patients, and always advise them to take a whole series of blood tests and X-rays, besides the sonography and scans. They also recommend specific centres, and discourage you from going to any other of your choice. They would tell you that the X-ray machines are best in the ones they recommend. On probing, one can make out that there is a percentage to be had by them from the diagnostic centre they recommend.



The doctor's dilemma is really that he has no control over the time a patient takes and very often the patients or their accompanying relatives like to pour out their concerns, and ask all sorts of questions ranging from how the medicine should be taken, to the diet regime to be followed.

Doctors too have to work on the principle of full capacity utilization, and would not like to spend any time sitting idle. Therefore, the patients must keep flowing in. They have a choice of allowing for appointments, or having only walk-ins. If appointments are given, they keep them as close as ever so that they get in at least six in an hour, even if they know fully well that each patient takes 20 minutes. There is also the fear of non-appearance of the person who has taken the appointment, over which he has no control. Once in, you are unlikely to move away, and will wait even though you will complain a lot. But we Indians are used to waiting for everything, and we anyway do not have respect for the other person's time. The message passed on is that the doctor came in late, and hence the delay. The doctor's dilemma is really that he has no control over the time a patient takes, and also that, very often, the patients or their accompanying relatives like to pour out their concerns, and ask all sorts of questions ranging from how the medicine should be taken, to the diet regime to be followed.

The walk-in system also works but, while the order is maintained, often the patients may reserve their time spot, but not turn up. People generally wait to be called, and the environment is similar to that of a hospital where no one cares. In these situations, the doctor has the upper hand and rarely cares for your patience, as you require him more than he needs you.

Can you shout for your rights? Yes, you can, but you run the risk of being told to leave if you so wish. As the doctor becomes popular and busy, it is easy to take such a stance, or the absence of competent doctors around can make the doctor assume a tough stance. So, it is back to the economic law of competition wherein doctors exploit their monopoly power once they are established. Hence, when new to a locality, the doctor is amiable, but turns snobbish once he or she knows that there is no other option for the patient. But, the emergence of competition makes them more malleable and friendly. However, given that patients prefer doctors they know, waiting is rarely the reason for them to change their preferences. Besides, when you are there for a follow-up, you are really in a corner, and have to wait, no

matter how long it takes. It is more like banking where you are virtually stuck to a bank irrespective of the service standards to the time taken for your transactions. You do not often change your bank and the same holds for a doctor.

These little professional models have evolved over time to the extent that every person in the profession behaves in a preconceived way. There are neither rules written, nor any theory expounded. With the focus being only on human psychology and constant observation and assessment of human behaviour. Experience has been an integral part of this process, with adjustments being made constantly to form firm theories.



8. Oddness Around Us

Business has only two functions—marketing and innovation.

—Peter Drucker

There are a number of scattered scenes and images around us that are significant, and yet may not really catch your attention to cause you to pause, think and reflect. Maybe, when there is a discussion on the subject, it will elicit an opinion though, in the normal course, it is taken to be given. These are important for the eco-cynic, because there is a point when economics does not matter, and other weighty considerations tend to take over. And when these considerations are in the social and political realms, they become even more illuminating. The idea here is to look deeper at some of these aspects and try and draw up some patterns which could explain these phenomena.

The first one looked at has to do with gender anomalies where we associate certain occupations with a gender. While a satisfactory explanation exists, these tendencies are changing gradually, and there is an explanation for the same. Here, there is a role for economics, and where there is a role for the subject, the eco-cynic would also come in to see why such changes are taking place, and why the pace is slow. Further, just as economics is all about sending price signals, we do the same in our lives when we are trying to tell others about our strengths. From the concept of self-fulfilling prophecy, and the signals

being sent out therein, we realize that we are not alone, and that the same holds for companies too, which behave like an individual with similar motivations. They get into the whole business of rating, and the economic game that is played is quite revealing. The eco-cynic sees a lot of matter here to chew upon and frankly, it becomes difficult for us to believe what we see once, we get to know what could be going on in the background.

Another quirk that we are exposed to in the newspapers and TV channels is the business of forecasting. Forecasting is big business today, and there is a tendency to have elaborate models to forecast the results of an election or even a cricket tournament. And there is a lot of pride taken in saying that the model worked in 60% of the cases. Is this a bluffing game, or is there more to it? By claiming 60% success, we are actually hedging ourselves, and probably also fooling the gullible into believing that something nice has actually happened. Why do people do such things, and why is it being lapped up? More importantly, why is no one ridiculed for being incorrect? The subject of course gets a cover in the glib cliché that all models work on assumptions which are susceptible to change. Perhaps, as the eco-cynic will say, no one really takes these numbers too seriously and uses them for convenience. After all, in a seminar, one can always use the forecast which appeals most to the participants, and make it a win-win situation. If you want to say that things will not be too good, then you can use the forecast of your choice!

The taboo attached to smoking and drinking is more than that attached to drugs. Drugs are banned, while the others are allowed. Though one does indulge in these vices behind closed doors, there is this tendency to talk lowly of them. No one will tell their children to smoke or drink as it would be too 'cool' to do so. Therefore, as a rule, everyone is opposed to these two vices even though we all agree that individuals should have freedom to do what they please, as long as they do not harm to others. In such a case, there is nothing wrong in these two addictions. But, still, they are the favourite whipping boys for the government, and those with high moralistic pretensions. But, at the same time we do not want to ban them. Clearly, there must be compelling reasons for such a state of things to exist. This is where the

investigation should begin.

The government is always a delight for the eco-critic, and while the ostrich-like attitude to the two vices rings a bell, its own policy at economies is more startling. The



The government is always a delight for the eco-critic, and while the ostrich-like attitude to the two vices rings a bell, its own policy at economies is more startling. The growth of the bureaucracy has been amazing, and the structure of the staff takes a comic twist when the numbers are looked at.

growth of the bureaucracy has been amazing, and the structure of the staff takes a comic twist when the numbers are looked at. On one hand, we are aware that some of the best minds work with the government. On the other, we cannot escape the fact that a visit to any government department always gives a feeling of inefficiency as you are sent from counter to counter down the line. This way, one feels quite helpless and frustrated, and does not know what to do. When a drill down is done on the structure of staff, then one realizes the reasons behind both the sights.

While on the government, some of their actions in the field of defence defy logic. Why should many developing countries keep spending so much on defence, especially when they are not in a position to feed their own people? And why does the USA go on interfering in the affairs of Iraq while not caring too much about an African country? Will the world be better off if we started living in a civilized manner and cared more for the people than for other country's wealth? This never will happen, and such thoughts are pure wishful thinking. But, these apparently illogical steps of countries do have economic implications, and help in the process of creative destruction, as we destroy to rebuild. It creates wealth in other parts of the world, and keeps things moving. The defence budget of countries provides sustenance to a lot many industries, while a peaceful world will actually affect the fortunes of the engineering and metals sector, as well as many others related to them.

And, finally, in this illogical world of contradictions, where there is such a vast difference between the haves and the have-nots, we still

hear a call for peaceful coexistence. Are there any social barriers to tackle the economic disparities? The existence and growth of the middle class provides comfort to all nations as the middle class acts as the safety valve required for social harmony. This class always gives hope to the poor that they can move up the scale. It provides post-facto justification for the richer classes who would say that one can succeed if one tries. Therefore, the middle class becomes important for everyone, and keeps the countries moving towards a harmonious future. Business models are structured on consumerism, and it is nice to say that even though the person in a slum has no drinking water and steals electricity from a nearby pole, he still is connected through the mobile phone. This is the ultimate triumph of capitalism over socialism, and shows the power of money.

8.1 GENDER ANOMALIES

Judgements prevent us from seeing the good that lies beyond appearances.

—Wayne Dyer

There has been a tendency for us to typecast the genders based on certain traits, and going ahead; it has also been possible to really say what are women or men better at. This could be based on erroneous conclusions that are drawn by observation of trends, which themselves could be biased due to ingrained mindsets. Therefore, women may be known for cooking, not because they are better cooks, or are made for cooking, but simply because society evolved in such a manner that most women ended up cooking. Further, many beliefs commonly held are not really chauvinistic, like when it is said that men are better at adventure while women are great homemakers. It goes back to the primeval times when the men were the ones who went around hunting for food, while the women tended to household chores, and ensured that things were comfortable. It was a kind of division of labour between the sexes, and both the jobs were considered to be equally important, with the two genders being interdependent. Over time, or rather, generations, this kind of division has become institutional-

ized to the extent that each of the genders is associated largely with a certain range of activities.

The most often quoted example here is that men get a thrill out of adventure, and would be thrilled at the prospect of buying an aspirin at twelve o'clock in the night. The thrill is in hunting, while the lady would find it tedious, and probably go without it. Men are excited in doing such things just as they were in the primeval times when they went around hunting for food and came back with the goodies. Women, on the other hand, would love to do up the house and arrange the food well in the house so that it looks good, and also keep the children clean, well-fed and dressed. Men would not bother about the same and would also rarely notice the difference until they were told. These traits are supposed to be inbuilt, based on genetic evolution, and really there is no need to debate whether it is right or wrong.

Now, if you observe the division of labour in a typical house anywhere in the country, you will notice the same. The cooking is invariably done by the lady of the house, be it the mother, the wife, or daughter. If a cook is employed, it would normally tend to be a lady too, as such a job is typecast as a woman's. All men love food cooked by the lady, and it is not uncommon to come across celebrities who swear on good old home food, with the suffix, being cooked by the mother or wife.

But the economic anomaly arises when one goes out of the house and dines in the restaurant. All the cooks are invariably males, and even where the restaurant is run by a lady, the cooks are men. Hence, while most men swear by home food cooked by a woman, where there is no cost involved (this is a major fallacy in the subject of economics which treats such a service as a free one), they still end up paying a lot of money in a restaurant where the food is cooked by a man. Why must this be so?

There are two economic reasons here. The first is that as restaurants came up, Indians being basically conservative, did not encourage women to work. Therefore, they would not really step out of the house. But, further, if at all they worked, cooking would be the least

preferred job. Therefore, social mores came into play. Hence, they could go to another house and sweep the floors and do the dishes, or cook food, but cooking in a restaurant was a strict no-no. This basically boils down to the strata of society that we are dealing with. The lower income class would not prefer such a job. In most Indian sub-societies, at least at the lower income levels, it is not considered to be proper to have women working with men all the time. Curiously, it has been observed of late that there is a large number of women who work as maids in hotels to do up the rooms, but they would still not typically be involved with the cooking. But, this still does not answer the question as to why is it that a restaurant does not appoint an all-ladies crew of cooks?

Women of the higher income class, being better educated, could take up a job where their intellectual capital would carry weight. Cooking for them was not the main activity that they would like to take up, and hence, they preferred to do other jobs. However, this trend is changing gradually due to the initiative taken by certain NGOs and women's groups, and now there are products prepared by housewives which are sold in the market. This is an adaptation to the job of cooking where the food is cooked elsewhere by the women folk in these organizations and then marketed. A very good example here is the effort undertaken by the Mahila Parishad and SEWA (Self Employed Women's' Association) which have an all-ladies workforce which is involved with a multitude of activities, including preparing a large variety of ready-to-eat food items. However, more often than not, the focus is on women who take on a job more as a means of self-sustenance rather than a profession. But, restaurant cooking still remains a male preserve.

The second reason why women have not taken up the job of cooking in the hospitality industry could be because of informal entry barriers set up against them. Hence, there are excuses made, such as unsuitable restaurant timings like late shifts, to keep women out of this job, especially when we are looking at star hotels. Also, the labour laws come in the way at times, and either put restrictions on the working hours, or the facilities that have to be provided to women who work late in the evenings—which are the peak hours

for any restaurant. Therefore, from the practical point of view of the employer, not having women in the kitchen makes more sense. In fact, laws also state that the owner has to provide for the safety of the women staff, which could be better avoided by not having them! The belief, either rightly or wrongly, assumes that women may not be commercially suited for certain jobs. But, this view has also changed, especially in places like call centres and banks where women have the same rights and responsibilities. So, maybe sometime in future this wall could also break down in the hospitality industry as we have seen happening in say the BPO (Business Process Outsourcing) sector where women do work in shifts and are provided requisite facilities by employers.

The scene however changes dramatically when we look at the so-called cooking experts. The names of Anjali Mukherji or Karen Anand ring a bell. With people becoming more health conscious, especially among the women in the upper echelons of society, branding of food products with women chefs has become popular. These are brand names, though they too have the cooking done by men. We have delicious food products associated with the likes of Sanjeev Kapoor, with an exception earlier in this genre when cookery books and cooking were synonymous with Tarla Dalal. Today, there appears to be a drift towards health-based cooking among the women chefs. But, still, the actual preparations in the kitchen continue to be male-dominated. But, here, the differentiation is made based on the target consumer. The so-called upper echelons do give in to indulgences of health foods which need some branding to be appealing but, somewhere inside, the recipe is one conjured up by a lady.

Advertising and designing

One of the more entertaining movies from the Hollywood stable was “What Women Want”, starring Mel Gibson, where he tries to imagine what it is that women want. “If Men are from Mars, and Women are from Venus, and you can speak Venusian, the world can be yours”, is what he is told. In a rather humorous series of events, he tries out the products that are used by women to understand the products that he has to market.

The advertising world best explains how men think about what women want. Most of the big creative Directors' names that we hear are men folk. On the contrary, the advertising campaigns that are launched for various products for which they advertise, invariably are those that appeal to women. In fact, a casual look at all the advertisements would show that around 80% of the non-corporate/industrial products dealt with are dealing with the woman's psyche, irrespective of whether or not the product concerned is a woman's product. The assumption is presumably that most purchase decisions are taken by the lady. This leads to a surmise that men are better at deciding as to what would appeal to women, and that they are better mind readers, or alternatively, they are the ones who really guide women's actions. In fact, there is a prevailing theory that the advertising area is the ultimate one where men tend to still dominate women by really deciding for them the type of products they should be having. A series of advertisements showing models speaking a language, becomes the language of most, if not all women. In a way, it also buttresses the so-called gender specialization that was spoken of in the beginning.

There are two things that can be concluded. The first is that we do not need women to create such products. In fact, even in the area of designer-wear, the dominance is of men. Most of the women's apparels are created by names, such as Hemant Trivedi, Suneet Verma, Rohit Bal, Manish Malhotra, Tarun Tahiliani, and others. While lady designers, such as Anita Dongre, Ritu Beri, Ritu Beria, Shaina N.C. and others are on the rise, designing is still a male dominated territory. Most of the Bollywood heroines' dresses are designed by the males. Therefore, a strange conclusion can be drawn that men know what women need, or what suits them best!

In fact, here too, our social value system comes into play, where it is assumed that stitching, as a profession, is meant for men. Traditionally, the profession of stitching or tailoring was a man's job; it was thought men knew best how apparels for women had to be designed. The profession was that of the traditional darzee who would learn the art from his father and pass on the skills to his sons, not daughters. The proliferation of tailoring classes extended to designing, and then

fashion, which made the entire profession glamorous. The traditional tailor, who also conceptualized the designs, is now a designer who earns multiple times what the tailor does, and generally employs a large battalion of male tailors to stitch the clothes.

The other conclusion is that even in this age of equality of sexes, men continue to dominate women, and make them do what they want them to do. This will sort of reinforce the beliefs that have been held all along, which is also the way it has been self-fulfilling. However, there is some comfort to be had in the knowledge that this is the case in other countries too, where changes are taking place, albeit at a faster rate.

8.2 SIGNALING AND SELF-FULFILLING

Reputation is an idle and most false imposition; oft got without merit, and lost without deserving.

—William Shakespeare

In economics, by tautology, all policies are self-fulfilling. Broadly, this means that if we assume that a policy will have a certain effect provided certain conditions are met, and then pursue it to the tee, the result of-



In economics, by tautology, all policies are self-fulfilling. If we assume that a policy will have a certain effect provided certain conditions are met, and then pursue it to the tee, the result often justifies the action, thus vindicating the policy.

ten justifies the action, thus, vindicating the policy. Of course, there should be a rationale to the action which is supported always by theory. Let us assume that the monetary authority is convinced that lower interest rates will spur the economy. The policy approach will be to lower interest rates which, in turn, will lead to enhanced spending, resulting in growth. In such a case, it would be concluded that the policy has delivered the right result. The same holds for economic reforms which were introduced in the country in the nineties. Things

changed drastically and the country progressed, which was then attributed to the reforms. These self-fulfilling prophecies are important because they always work on the basis of ‘signaling’, where there are ‘announcement effects’ which ensure compliance and deliverance.

The best example of a self-fulfilling prophecy are the signals sent out by investment banks and brokerage firms on the prospects of a stock. The bank or analyst has to conjecture that the current price of, say, Rs. 50 for a share is low and that it would go up to Rs. 500 in 6 months time, given the state of the company, sector, and the overall stock market environment. If this sounds credible, it can unleash a lot of interest in the stock in the form of purchases. The sheer demand for the stock will raise the price continuously to the desired level. The advisor will turn around and say, “I told you so,” when the price inches towards Rs. 500. This is how the stock market operates, where the herd mentality is strong, and the strong players work on this premise to push up or bring down the share prices. It is for this reason that these markets are also amenable to extraneous influences.

Signals and announcements are sent out all the time by all agents, and this phenomenon can be seen in every aspect of our lives. Two areas where they are dominant are education and the rating game. Let us see how this works in our own context. In education, there are some established institutions which have made a mark. Therefore, colleges, such as St Stephen’s or Lady Shriram in Delhi, or St Xavier’s, Mithibai or NM College in Mumbai, or Presidency College in Kolkata have a name that has been established. They are almost like your Levis and Gucci brands which are accepted without too much of argument. You may or may not like it, but then, it is a brand. The list is



This means that sheer accident of birth can lend one a distinct advantage throughout one’s life time, which is what we see in our society. While there have been exceptions, this has been more of a norm in the last two decades or so.

not exhaustive as every field has its own set of so-called elite institutions, especially when it comes to specialized courses like management, engineering and medicine.

Most of this is due to tradition where it was assumed that if a student studied in these elitist colleges, then he had to be of a certain quality. This served as a screening mechanism when a student applied for higher education. The same holds in the case of IIMs, IITs or other specialized institutions, such as Delhi School of Economics. The same qualification from a regional engineering college or university puts the student in the second category. The basic idea here is that it is assumed that it is difficult to procure admission in these institutions as the entry norms are tough. The cut-off marks are high, and there is a screening process comprising interviews or a group discussion where the family of the student is also considered along with the academic qualifications. In this way, these institutions have become elitist. While this can be contested, the fact that these institutions are still the most preferred institutions sort of justifies their claim. One has never stopped to think that by tautology, even those getting into these institutions could have been selected because they had a certain background. This means that sheer accident of birth can lend one a distinct advantage throughout one's life time, which is what we see in our society. While there have been exceptions, this has been more of a norm in the last two decades or so. But, becoming elitist cannot be 'the be all and end all' of the pursuit of education.

The students tend to do well as they end up getting into another set of elitist institutes, or join the Civil Services which still hold charm today. So much have these institutions gained distinction that they have been linked inexorably to good jobs, and as a corollary, given rise to a strong feeling that they are a passport to success. It was never questioned that merely because 10 students from St. Stephen's College had got into the first 5 civil services (the civil services have their own caste system in terms of hierarchy) could not mean that that college was a passport for entry into the top services. If five students from an elitist college got into the IAS (Indian Administrative Services), there were another 120 not from that college who got into the IAS as well. Similarly, merely because a post-graduate in Economics from Delhi School of Economics had managed to get a doctorate from Purdue, Harvard or Chicago University did not mean that others could not

do so, or that such a qualification was a necessary condition. In fact, a large number of students with other backgrounds have also done their doctorates from the same universities. But it is the aura built around these elitist institutions that matters. To justify this claim, the names of several top bureaucrats, academicians, CEOs, sports people, etc., are used to make it sound as if this was a prerequisite for success. The truth is that while studying in an elitist institute provides an edge, meaning that it could be a sufficient condition for a better career, it is certainly not a necessary condition.

To take another analogy, the IIMs (Indian Institute of Management) have been linked to the best. The reason is simple. The IIMs have built their name historically. Therefore, all students who want to pursue a career in management invariably would prefer to do so from there; their first choice are the IIMs. The examination is tough to the point of being ridiculous. You need to be quick in solving mathematical problems, and must have the imagination to decide how different figures fit in the picture. For example, you have to calculate the time taken for two taps to fill a 10 litre cistern which has a leakage of 500 ml per minute when tap A fills the cistern in 10 minutes and tap B in 15 minutes on their own, or you have to complete the sequence of S, M, T, W, _, _S. And to think that you get around 2 hours to answer 120-150 questions, is quite a challenge. Curiously, no corporate decision is ever taken in a hurry; in fact it takes months to reach! Yet, this is the screening mechanism in the IIMs. Then, there is a group discussion where everyone looks even more ridiculous trying to act as an effective manager and a leader. In reality, the CEO is the leader, and seldom tolerates interference in meetings. But, that is a different story. and finally, there is an interview which has a psychologist on the panel, who decides whether you are in or not.

Once in, you know that you are the cream of society, and get lapped up by the McKinseys, BCGs, Citi Banks, HLLs and others of the sort. Therefore, the conclusion is that if the big companies are taking people from the IIMs, and if it is accepted that these companies are the best (which they are supposed to be, going by the even more absurd initial

remuneration packages they offer), then, studying in these institutes is a prerequisite. This is how the self-fulfilling prophecy works.

Hence, the right way to signal a prospective employer is to have the appropriate credentials in terms of education. You are straightaway short-listed to the elite list while the others have to wait a bit longer. Signalling is the hallmark of the market system where all agents are sending signals all the time about their demand or supply. This is true in the job market where the CV, in which everyone extols his or her attributes to prospective employers, becomes an effective marketing tool. The employers have preconceived notions which are used to screen the candidates, and the rest follows the way that it has been described. Therefore, the employment market works on the same principle as the market for any physical commodity, with the due trouble being taken in the advertising campaign through the CV.

Moving over to corporates now

(Trying to work out which banks are the world's best is a bit like awarding the prize for prettiest war-torn village. It is a title that carries little kudos. It is also likely to prompt further shelling. Winners of industry awards in the past three years include Ken Lewis, the chief executive of Bank of America, for banker of the year (2008); Société Générale for its risk management; and Angelo Mozilo of Countrywide, a failed mortgage lender, for a "lifetime of achievement".)

Economist, May 21, 2009

Now, this holds at all levels, even within the corporate world, where companies in the same industry need to show that they are the best in their class. Therefore, the business of ranking becomes important. This has made the ranking business itself a profitable one. There are numerous such rankings done for every possible category of entities. At one time it was done for the top 500 companies when every business newspaper had its own ranking of the best. This was done on the basis of size, profits, profitability, cost management, average business concepts in terms of staff, or unit of output. Here, invariably the large manufacturing companies scored in terms of size, while the services sector delivered on profits. To widen the scope of this busi-

ness, the ranking was done for manufacturing and the services sectors



By giving less weight to size, and more to profits, the toppers could be inter-changed. At times the number of accounts held by a bank mattered while, in the others, it was unimportant.

separately, and further to the next level too, of banking, insurance, retail, hospitality, etc.

The business magazines, such as Business India, Business Today and Business World joined the fray. Hence,

every organization which went into this game had its own well-established criteria for rating these firms. Most of these publications commission the study to a consultancy firm which then lists out the criteria and its ranking calendar, which varies from that of the others. By giving less weight to size, and more to profits, the toppers could be inter-changed. At times the number of accounts held by a bank mattered while, in the others, it was unimportant. Invariably, the new private banks ended up scoring the best ranks even though, in retrospect, one would wonder why so many folded up soon, or why some of them have major quality issues even today. At times the size of the bank matters, in which case the public sector banks score over the others. When staff parameters are considered, the private sector banks do better. Similarly, in case of mutual funds, by changing the tenure for reckoning the growth in value of assets, instead of using a five-year average, the top five names could be changed.

Then, the ranking moved to the best employers, where one got to read about the cool environment, informal dealings, a happy staff which gets to play bowling during office hours, and healthy canteen food which is also eaten by the CEO. The IT companies always scored, and one still feels that if these companies were dream jobs with dream salaries, why should there be such high attrition rates? But this kind of ranking has afforded a celebrity-like status to the HR Chiefs who appear in all these magazines answering questions on the best HR practices being adopted by their companies. It is a different issue that

most of them also end up leaving their jobs just after eulogizing their HR practices.

All these surveys, and the tendency of each and every company to show off in these exercises are actually to signal to the world that they are the best. It really helps when companies are going in for an IPO (Initial Public Offering) where a friendly media and better publicity is necessary to tell the public that the company is a prized one which should be part of the individual's portfolio. It becomes even more important in case the company is planning an ADR (American Depositary Receipt), or GDR (Global Depositary Receipt). The company has to be well-known; the easiest route is through the awards channel. Companies could get a cutting edge in case it came in the lists of international journals like *Banker*, *Forbes*, *Fortune*, etc.

In the same breadth, we have seen the extension of these rankings to CEOs in the form of awards bestowed by various agencies for different attributes. While reputed organizations do follow strict models for giving these awards, there are others whose awards can be purchased by way of sponsorship. Hence, continued advertising support to a particular publication could also have the Best Businessman Award attached to it. This has made the modern CEOs celebrities of a sort, with the readers getting to know their likes and dislikes, the brand names preferred for their clothing, as also their lifestyles. The existence of these awards, and the quest for them has made CEOs quite egotistic in that they seem to really believe they are the best. This has made it fashionable for a large number of them to visit the golf course, and also spend a lot of time with their families. But one can never figure out how this is possible, given that they work, and make their subordinates work, for 60 hours a week! But, this is how this business works.

Why do CEOs want to be known? It is more of managing the brand of the company for, very often, the CEO gets to be associated with the company and by projecting the human being behind it, the company also gets projected. The company needs to tell the world that it is doing well, which can be conveyed by projecting its performance. But,

very often, one needs to go beyond the company's performance, and extol the dynamism that has come into it on account of the new approach being adopted, in which case it is essential to attribute a face to the "new approach". This is where the corporate executive comes in. A TV business programme, a write-up on the company, or a related issue, would be incomplete and bland in case there are no faces. That would be more in the genre of reporting. But, once there is a face, the report becomes interesting.

As time progresses, the average CEO could get carried away, and would like the company's name to ride on his or her own name. To keep the momentum going, the company would start investing in the image of the man or woman, which then gets reflected in these awards. Besides helping the person, such signals also provide a window for the outside world to see.



The eco-cynic would only caution that one should not get overwhelmed by the institution, or the person when the business of ranking is conducted.

The eco-cynic would only caution that one should not get overwhelmed by the institution, or the person when the business of ranking is con-

ducted. This is important because there could be a tendency to form a positive bias based on the assumptions that we make when embarking on such an exercise.

8.3 FORECASTING: CHARLATANS AT THE GATE

It's not a good idea to take a forecast from someone wearing a tie. If possible, tease people who take themselves and their knowledge too seriously.

—Nassim Nicholas Taleb

The world over, people love to debate issues and discuss things. Educated people would be longing to get into debates about the rights and wrongs of an issue. You may have noticed that in every such argument there are two (or more) positions that you could take. One is, what should logically be so, and the other, the opposite. Then, finally, the

result could turn out to be quite different from what was conceived to begin with. In such a situation, economists, who are known to enjoy such arguments (notice the endless debates on TV channels) indulge a lot in media games, with the 'forecast' being the primary tool used to make the arguments sound convincing. The moment you can give a number to the event, you are apparently on firmer ground. Hence, if we are talking of the economy slowing down, just saying so is okay. But, if I can say that the slowdown is by $x\%$ points, it is better. And if I say that my model shows that it will be $x.y\%$, it is the clincher. When one gets into this area, it is confusing because there are ' n ' number of possibilities which goes beyond the conventional two dimensional, yes or no.

Forecasting is now roughly a decade and a half old in India. Of course, forecasting as an academic exercise always did exist where economists tried to make sense of numbers. But they were mathematical outcomes that were practically not relevant, and confined to the sweaty discussions in academic institutions where the view of the more popular economist always prevailed, for the simple reason that he or she, "could never be wrong"!

Prior to economic reforms in the country, i.e., 1991–92, we had some indications of how the government felt we should be doing, in the form of projections of GDP growth. Projections are actually aspirations based on certain sound principles, and are thus 'targets' set out to be achieved. If a country has grown by, say, 5% in the previous year, we could target a rate of 6%. Rational governments do not really double the number if they know that it cannot be achieved. Therefore, the Government of India or the RBI make periodic projections of targets which are often interpreted as forecasts. The idea of targeting a growth rate is based on the assumption that the policies pursued would result in the achievement of the set growth rate, or rather, it was believed that if the RBI set a higher growth target, it could be expected to lower rates in its credit policy. The government was never aggressive on the achievement of this target, being quite happy to gradually elevate it from 3 to, say, 6% over a decade. But things changed along

with the circumstances, and also developments in economic thinking after reforms were introduced.

Rationally considered, it is very difficult to actually forecast economic variables. There are two aspects to this statement, one theoretical, and the other practical. Theoretically, there are models which look at complex relationships between different variables over a long period of time, and then assume that these relations hold good in future too. In fact, every time there is a model, it is tested with the last few observations. And when the model passes the test through empirical verification in the most recent past, then it is possible to become bolder with further forecasts. Theoretically, this sounds good, but can we really be sure that what held in the past would hold well today, or tomorrow? This was the practical side which, in turn, made forecasting a very critical tool. When this basic assumption becomes questionable, the entire exercise of forecasting could run into inclement weather.

But, with economic reforms, there was an influx of Foreign Institutional Investors (FIIs) into the country which took pride in the depth of their research capabilities. This was also the time when the mutual funds boom took place, as also the time when investment banks became popular. Basically, these institutions either represented their foreign shareholders, or borrowed money to invest in India. For their business to look credible, there was evidently a demand for research where both macro and micro aspects had to be analysed and reported to their investors. Their investors had to be told often that their money was being put to good use, which meant that the markets that were being targeted by them were the best. Therefore, at the macro level, a view had to be taken on the economy while, at the micro level, individual sectors as well as companies had to be critically evaluated. The purpose was that a story had to be sold to potential investors or lenders about the prospects of the country.

In order to accomplish this objective, glossy reports were brought out on the economy and the various sectors, and further, at the micro-level, on individual companies. These reports had to be complete as foreign investors would not have known much about the country. This approach led to the business of forecasting every possible vari-

able. It started out for GDP and inflation, and then went into a disaggregated mode where growth in various sectors was projected. The exchange rate, interest rate, foreign exchange reserves, etc., all had fu-

ture projections. The audaciousness of this exercise was best exemplified when these projections were made for a period of between 5–10 years. After all, if you had to sell an economic story, it had to hold good for a long period of time, and hence, a decade's experience had to be the focus for these models. Besides, most of the foreign investors had a longer time frame in mind, and needed to provide a complete and durable perspective.

Therefore, the glossies had pages devoted to the projections, or forecasts for several years up to, say, 2003, in 1994. The macro reports led to the sectoral reports, and finally to companies' dissections. The purpose was to sell a bright story to investors as their money was going to be invested in the stock market, where the gains to be made depended on the price movements of stocks of certain sectors which reflected the overall economic prospects. The investors were after all putting in big time money in Indian stocks, and wanted as much information and analysis on the way things were going to shape up. Besides these numbers, all physical aspects, including the regulatory structure, was under the scanner. The budget and monetary policy was now elevated to the status of the Oscar shows. Every statement made was interpreted in some detail, and for the first time, we all suddenly started reading through the numbers.

The range of confusion which emanated from these myriad forecasts was fascinating. There were around 30 such broking firms—Indian and foreign—which made such projections where the GDP forecasts differed by 1–3% points. Quite obviously, all could not be



The audaciousness of this exercise was best exemplified when these projections were made for a period of 5 to 10 years. After all, if you had to sell an economic story, it had to hold good for a long period of time, and hence, a decade's experience had to be the focus for these models.

right or wrong. But there were different signals sent across about the GDP growth prospects which varied significantly from the official estimates. Besides, the government never went beyond a one-year projection or target, while the Five Year Plan spoke of an average for 5 years. This situation sort of exposed the fallacies in forecasting. Each firm made forecasts based on certain assumptions, but the assumptions themselves were subject to change on a real-time basis due to dynamic economic conditions. For example, nobody can ever guess the agricultural production of the country in April when the harvest actually comes first in October, and later in March-April (rabi season). Knowledge of sowing patterns emerges from July onwards till December, while the impact of the weather on the crops is known only along the way. But, these firms were audacious enough to make forecasts firmly using statistics as the tool for extrapolating, and no one stopped to really think how reliable they were. The interesting thing is that when our growth rate was in the 5–6% range, these firms would also have forecasts that ranged from 5–6% growth, leading to the conclusion that it need not take an economist or an econometrician to really tell you that the growth rate would range between these two numbers. These firms further hedged their forecast by having a worst case, and a best case scenario!

Subsequently, it has become fashionable to have forecasts of everything for every possible period of time. Therefore, on TV, we have bankers and industrialists talking of interest rates for the next week or month, or even five years down the line! This is sheer mockery of economic forecasting but, unfortunately, it is now an essential ingredient of all economic debates. GDP numbers come from the Government of India, RBI, PM's Economic Advisory Council, NCAER, Delhi School of Economics, CMIE, various foreign banks, various private sector banks and investment banks, FIIs, IMF, World Bank, Standard and Poors, Moodys, etc., Quite clearly, there is a whole mass of confusion for the reader as the numbers are different. In fact, the numbers vary depending on the agency making the forecasts. A very good example of this confusion can be traced to the prospects of the

Indian economy for FY08, which at one time ranged from 6 to 9.4%! And all these forecasts came from very reputed agencies.

“The only function of economic forecasting is to make astrology look respectable”. This is what Keynes had said about the art of forecasting. Let us try to look at the working of the mind when it comes to these numbers. The government, and government associated agencies would tend to be conservative most of the time. However, while their own numbers would be conservative, their officials would not hesitate to use those of others when they are suitable. Therefore, when times are bad, government officials refer to the private forecasts, and refer to their own lower forecasts as being very conservative! The World Bank and other multilateral agencies would be less optimistic than the government, but would be only a few basis points away from the official forecasts. The private players would be more optimistic, but a lot would depend on the overall economic policy environment. If the policies are positive, then the forecasts would be high, but if the pace of reforms is tardy, then the forecasts would be around that of the government. Irrespective of the credibility of the forecasts, the exercise of forecasting itself has surely become big business.

We need not be too embarrassed about this situation because it happens everywhere. Everyone is keen on number crunching which keeps happening all the time as there are several such changes taking place in the country. Let us start from 2007. Nobody knew that there could be a financial crisis, and the world economy would be on a downward spiral. Then, thanks to Bear Stearns, numbers were rolled back. In 2008, all central banks and economists, as well as financial analysts said that the worst was behind us, and that one could look forward from then on. But, now the CDO (Collateralized Debt Obligations) story, and the fall of big investment banks like Lehman Brothers and the bailout of others has brought in a different series of forecasts. The fact that not one model had factored in such a crisis really means that there is something seriously faulty in the exercise of forecasting. In fact, the reputation of the entire clan of economists has taken a hit in the last two years as no one really knew that this crisis would explode, and that it would last this long.

How exactly do these models work?

Models basically juxtapose data on various variables which influence each other, and look at past relationships. Based on these results, the models are used to look forward for the coming periods. Basically, we make a heroic assumption that the conditions which existed in the past would also exist today. This is a very dangerous assumption to make since conditions change quite fast, and cannot be captured that easily. Yet, the justification for such models is to have some models rather than none! Conditions are changed, or rather, adjusted for the future, but they can never be all exhaustive. Hence, even the more steady forecasts of IMF or the World Bank run the risk of going totally off-target.

The picture has been sensationalized with the growth of the media which has business news and views almost round-the-clock. There are business channels which need new stories every day, and have made it a practice to build hype around every economic phenomenon. As economists we know that numbers like GDP, inflation or industrial growth are annual phenomenon and are subject to changes across months, depending on the overall situation. Therefore, logically, we should not be getting worked up on the weekly inflation number. The fact that inflation is around 12% is sufficient to indicate that there are hard times for all. But, the media tends to sensationalize a movement from 12 to 12.1% one week, and a fall to 11.9% the next week—neither of which is justified really. In fact, the revisions that are often made in the final numbers of any economic variable, starting from inflation and going up to GDP, makes these forecasting exercises more like simulated games in the classroom where several models are used, but no one ever gets it right finally.

The question which should be posed is whether or not forecasting is a good thing? Forecasts certainly provide a certain degree of strength to our conjectures as they substantiate them on a theoretical basis. But, the inherent fallacy in forecasting should not be ignored. The basic premise that the past is good enough to conjecture the future is a bit dangerous and is subject to considerable debate. Further,

every forecaster makes a different set of assumptions which by itself increases the possibility of getting different results.

If the numbers are not to be trusted, should we junk them? Here, one cannot give a straight-forward answer because the purpose becomes important. If the forecast is being made to get a general idea of the state of things to happen, it is fair to have them. However, the multiplicity in forecasts will add to the confusion as we will never know which would be the right one. But, once we make use of these forecasts for concrete business decisions, the risk factor increases. Let us assume, for example, that we are dealing with a bank which is planning its business for the coming year. The level of credit in the banking system is linked to the GDP growth forecast. Accordingly, the bank makes provisions for certain infrastructure, such as staff, branches, funds, etc., for the same. Now, if this GDP number for the system as a whole does not materialize, then the market share which is aspired to would remain distant. In which case, the planning process would tend to be faulty. There could be a case of over-investment or under-investment on account of using these forecasts. Hence, while planning requires some conjectures, the risk factor and the confusion factor would tend to rise in the presence of these forecasts.

Therefore, the best answer is that while forecasts are an academician's delight, they should be used as broad indicators in the practical world, and not linked inextricably to business decisions, though there would still be a lot of doubt over which forecast should be used. There is still no clear answer here, as rarely has any forecaster got all the forecasts right, all or even most of the time. Forecasting is probably relevant in the world of Taleb to maximize the serendipity around you.

8.4 THE VIRTUES OF SINNING

I'm in favour of legalizing drugs. According to my value system, if people want to kill themselves, they have every right to do so. Most of the harm that comes from drugs is because they are illegal.

—Milton Friedman

It has been well-established that consumption of fatty foods leads to health problems, and probably death. Consumption of aerated drinks have been likened to drinking poison, and there is a story which says that if a tooth is stored in a glass of such a drink, it would disintegrate in a day's time. Chocolates are bad for your teeth as they cause decay, and also probably harm your heart in the long run. Sweets are said to be bad as they can lead to diabetes and coronary problems. Consumption of processed flour is said to be bad for your weight, and also heart. Yet, we consume all these products from a very young age. We also do not pay much attention to the reused oil that goes into our cooking, which is said to be multiple times more dangerous. We also inhale fumes on the road from various vehicles, and there is hardly any fine or deterrent for such pollution. We eat fruits and vegetables that are grown with poisonous fertilizers in unsanitary conditions. And the street stalls prepare food in the most abysmal conditions which are eaten by us, and become staples in our lives. These eateries are eulogized as being life-lines of the city, and have a novelty that cannot be compared with food cooked at home.

In India, there is a stigma attached to the habits of smoking, and drinking liquor. This is when there are around 120–150 million smokers in the country, and around 75 mn who consume alcohol. Assuming that all those who drink liquor would also tend to smoke, roughly 10% of our population is actually addicted to these two habits. While the move to ban smoking in public places has drawn attention, the general thinking today is that we should get rid of tobacco and tobacco-related products. There is also resistance to consumption of alcohol but, as it is normally a private affair, the level of noise made is of a lower decibel compared to smoking. So much so that there are moves to even stop showing smoking in films and TV. In fact, if such moves were permitted, the day may not be far where even a story teller may have to desist from having characters in his stories who smoke or drink!

This thought-process is gaining currency across the world where governments are making efforts to reduce consumption of these two products. Therefore, there are major campaigns that are launched to

ensure that people keep away from both of them (referred to commonly as vices or sins). Hollywood stars, amongst other celebrities, who were seen with cigarettes, are now talking against smoking in their cancer campaigns. The belief is that consumption of liquor and tobacco products over a long period of time has the potential to cause various forms of cancer—of the liver and lungs in particular, for which there is no cure available today. These habits are known to start as fads in the early age, and become addictive as the child or teenager grows up. Hence, if children are educated about the harmful effects of the use of such substances, they would be better informed and may become averse to their consumption.

The cause for concern is multi-faceted. To begin with, people who consume these products tend to die earlier, and there are various studies which show that cancer deaths are associated with their consumption, of tobacco in particular. Secondly, health is badly affected and the addict would need treatment which becomes a burden on the family and the society at large, besides the nation as some drugs used for treatment are subsidized. Add to this the loss of working time during periods of illness, which imposes an indirect cost on the employer. Thirdly, when young people in particular are exposed to advertisements showing people smoking and drinking, there would naturally be a temptation in them to follow suit. Therefore, the government has put severe curbs on advertisement of these products.

Liquor companies are not allowed to advertise their products in the media which, at

first thought appears to be absurd. In a free society people should have a choice of goods, and decide what they should consume. Liquor is even a weaker case compared with tobacco because, unlike in the case of smoking, a non-drinking person in the vicinity of a drinking per-



Liquor is a weaker case compared to tobacco because unlike smokers, a person who does not drink will not be affected if he is with someone who does. Therefore, there is a strong case for not banning such advertising.

son will not be affected in any way. Therefore, there is a strong case for not banning such advertising. Logically, if one can produce something, and sell it, it should be allowed to follow the general marketing processes. But, in India, there are restrictions on such advertisements because 'bad products' should not be shown to the 'good boys'. Such an attitude is typical of our psyche and we should eschew it.

The cigarette and liquor companies have got around this restraint by way of surrogate advertising. It is time to recollect that in the chapter on advertising, this group of firms was noted as one of the large spenders on advertising—which continues to be done, though officially there is a ban. The route taken is innovative. As liquor cannot be advertised, the companies also get into an innocuous line of business which goes with bottles. The bottles look the same, and the expressions of the models are similar (where they show that they are macho or 'cool'). But, the product is plain mineral water or apple juice, which would account for not more than a single percent of the overall business. The name of Kingfisher, for instance, which is associated with liquor, gets projected despite the product being advertised is plain water. Another way adopted by such firms is to have full page advertisements showing cocktails being made at home where various fruit juices and spices are added to the liquor which goes by the brand name. The reader knows what is being advertised, while the authorities pretend that they do not know the same.

This kind of surrogate advertising actually exposes the absurdity of the rule that exists. Similar stories go with cigarette companies. These companies are not allowed to advertise cigarettes, but they can advertise sports products, clothing accessories, etc. This goes beyond the statutory warning that must accompany every cigarette pack and liquor bottle. In fact, in some cases, it is surprising that even the surrogate products like the Wills Lifestyle and John Players' brands have become a hit. Curiously, the surrogate products today have become major lifestyle products in their own right, and often the new generation may not know of the existence of the tobacco brand behind them.

The issue really is whether people should have the freedom to choose the products that they want in a free society, or does the government have the right to decide what is good or bad for the people? If these are serious issues for the government then, logically, the simple solution is to ban the production and distribution of these products. Just like how we are not allowed to use drugs, the same can be applied for tobacco and alcohol. If tobacco and alcohol are bad for health, and all of us believe they are, we could simply ban their presence in the country. But, there is a major catch here, which goes beyond the fact that the people who are in the government, who pass such laws, may be major consumers of these products. There is also an economic rationale here which would be highlighted by the eco-cynic. And the rationale is that both of these 'condemnable' products are major revenue earners for the government.

The sin tax, which is the tax levied on cigarettes and liquor, is a major source of revenue for the government. They are lucrative sources of revenue because the government can keep increasing these taxes



The sin tax, which is the tax levied on cigarettes and liquor, is a major source of revenue for the government. They are lucrative sources of revenue because the government can keep increasing these taxes without fear of opposition.

without fear of opposition. If government taxes motor cars or tooth-paste, there are voices of dissent from some sections. But, in these cases, there is no sound of opposition. In fact, one cannot miss the smile on the Finance Minister's face, when he remarks at the time of making the Budget announcements that cigarette smoking is bad for one's health and that he is making it more expensive for people to indulge in these sins. The basic assumption made here is that the demand for cigarettes is inelastic to prices. When prices are raised, demand should not come down because, if it does, then the government's revenue is affected significantly. Therefore, every time the rates are increased,

there is an implicit hope that the response is indifferent. Further, every level of government can burden this sector with additional doses of taxation without any objection being raised. Besides the excise duty and other levies, such as cess or central sales tax, various states impose their own taxes to get their share of the cake. The curious part is that in case people do get reformed and consume less of these sin products, the biggest loser will be the government!

There is some interesting data available on the extent of these taxes which is presented in the table below. The data is based on the profit and loss accounts of a random set of companies for 2008-09, and should serve as an illustration for this purpose.

Taxes on Sin Products FY09 (Rs. crore)

Taxes	Cigarette industry	Liquor industry
Excise duties	10,147	7,311
Total indirect taxes	10,228	8,649
Net sales	26,782	19,463
Tax-to-sales ratio	38.1%	44.4%

Source: Company Annual Reports.

If the two industries are clubbed together, it may be seen that they contributed Rs. 17,458 crore of excise duties to the government's exchequer. In 2008-09, the total excise collections for the Union Government were Rs. 1,08,359 crore. In fact, if excise collections on petro-based products are excluded as also various cess imposed for specific purposes like education, infrastructure, the ratio would increase to over 25%. This means that around 16% of the excise collections are being accounted for by the sin products. Therefore, any reduction in consumption, or ban on these products will actually mean that the government will run a higher fiscal deficit, something not palatable. On the positive side, raising the tax on these products would automatically feed into the coffers of the government.

These numbers show that all governments across the world are really dependent on the smokers and drinkers for their own sustenance.

They always work on the premise that people will continue to drink and smoke because, if they stop doing so, the government's coffers will be badly affected. The ratios of tax-to-sales of around 45% are definitely extremely high, and very few industries would actually survive such high rates of taxation. The governments however are schizophrenic when it comes to these taxes, and will never take the logical step of banning the production and consumption of these products.

The same story holds even in case of petroleum products. Given the fuel crisis across the world, governments are exhorting people to use less oil. Petrol and diesel are the two major products which are used for transportation purposes. The government earns a substantial amount of money from these taxes. In fact, in the 2008–09 Budget, the total amount of revenue in the form of cess and surcharge on these two products was Rs. 25,030 crore, of a total proposed collection of Rs. 1,08,359 crore in the form of excise duties. This works out to around 23% of total collections. If the sin taxes are also added, then, roughly 40% of the excise collections will be from a product the consumption of which the government would like to, ironically, both increase and decrease!

If the so-called sin products are bad, why can't the government just ban them, as it has done in the case of drugs? There are both economics and politics involved. The most compelling reason of course is the revenue factor. But, tobacco as a product is a large industry. There are around 6 million farmers employed in this sector, which means there are a potential 30 mn persons whose livelihood could be affected by such a ban. Of course they could look for alternative crops, but then, there is always reluctance to do so, even if the cultivation conditions are favourable. The entire tobacco crop is valued at around Rs. 2,500 crore, which means that there are multiple worker groups involved (in terms of value creation), in this segment, right up to the point of the actual smoker.

When there are so many people involved, it also means votes for the politicians. Tobacco cultivation is primarily in the states of Andhra Pradesh and Karnataka, which are critical for not just the state govern-

ments, but also the central government where there are 42 and 28 Lok Sabha seats respectively. The voters in AP and Karnataka are normally not pre-disposed to any specific party. The Congress, and TDP (Telugu Desam Party) are the main ones in AP, and Congress and BJP in Karnataka. Any decision to ban the cultivation of tobacco will affect the governments not just at the Centre, but also in the states concerned. Given the anti-incumbency trend in our elections, no party would risk bringing in such a ban. Further, there is a strong lobby which also works towards a compromise solution wherein the government can keep increasing taxes on tobacco while the companies continue getting their profit—a win-win situation for both. The question is, why upset this applet when everything is working fine?

There are attempts being made however to encourage farmers to shift to soyabean or pulses. But they are unwilling to change their cropping pattern for two reasons. The first is that tobacco has been a traditional crop grown over generations, and there is hesitance to shift to other crops. The second is that tobacco is a more remunerative crop for them which makes any shifting to other crops less attractive. The political angle becomes important across the world because, often, these companies are the ones which finance political parties, and hence are very much a part of the system. In the western nations, the lobby is strong and the tobacco companies would actually be financing the government's programmes—sometimes, with a twist of irony, cancer research!

Therefore, the battle continues, albeit without a logical solution in sight.

8.5 STA(U)FFING THE BUREAUCRACY

In that, while it has been government policy to regard policy as a responsibility of Ministers, and administration as a responsibility of Officials, the questions of administrative policy can cause confusion between the policy of administration and the administration of policy, especially when responsibility for the adminis-

tration of the policy of administration conflicts, or overlaps with, responsibility for the policy of the administration of policy.

—**Humphrey Appleby in: “Yes Minister” by Anthony Jay and Jonathan Lynn**

The Sixth Pay Commission has rewarded all government employees with higher remuneration. This was required because it has been a decade since revisions have taken place, and the cost of living has increased substantially over the years. Also, the structure of production and consumption has changed, as has the country. Therefore, having incomes fixed for this long period of time is, to say the least, unfair. This is particularly significant because the pay scales in the private sector have risen substantially, and there is a stark difference in the styles of living in these two segments. There is need to have pay-parity between jobs across the private and public sector, especially in the same field.

There are two issues here. The first is the need for parity, while the second is the need for corresponding responsibility and accountability. Both of them are quite thought-provoking and can start a meaningful debate.

On the issue of parity, the government pay scales set the remuneration for employees of the RBI and the public sector banks. That is so because the grades of the RBI are equivalent to those in the government, which means that somewhere along the way, the salaries of the Civil Servants get linked with those of the public sector banks. Thus, when one looks at the compensation of, say, the chiefs of private sector banks, such as ICICI Bank, the HDFC Bank, or the AXIS Bank, and compare the same with that of a public sector bank chief, the difference is stark. The earnings were in the region of Rs. 250 lakh and above in the private sector (for 2007) while the chief of a public sector bank was rewarded with around Rs. 6 lakh, excluding some benefits like a palatial residence in the heart of south Mumbai. Surprisingly, these pay numbers are not revealed in the public sector bank's annual reports, even when one talks of transparency in disclosures. The numbers, or the entities, are not important, but the fact that the chiefs

in the two large banks in the country (one in the public sector and the other in the private) have such differences in pay packets is revealing. The simple reason why the public sector banks cannot reward their employees is just lopsided policies. Therefore, there is need to bring about parity between the pay-scales of the two, and the Pay Commission's recommendations are a step in this direction.

In this context, one very often talks of the public sector not having enough responsibility. This is only partly true, because the concept of responsibility does often get swept away in case of the private sector. Today, governance is quite weak in most companies, and there has been a tendency for promoters as well as managements in professional-driven companies to reward themselves disproportionately when things go well, and not take punitive action when the tables turn. This came out in a clear manner during the financial crisis of 2007 and 2008 when the executive pay structures came under the lens.

Therefore, it is really debatable whether the public sector can be chastised for being irresponsible, or less responsible. The recent financial crisis in the west has actually shown that there was a tendency in all the failed institutions to over-reward their senior management for years. In fact, most of the failed companies are in the private sector. Also, the non-performing assets of banks are those of private companies. Indeed, even the companies in the entire list of sick ones are private companies!. To be fair to the private sector, public companies are not allowed to fail due to government backing. When one is in the public sector, the deficits help to camouflage such failures. Therefore, losses of, say, Bharat Petroleum, or Hindustan Petroleum, will not make them go bankrupt as would have been the case with private units in the same field.

Parity in pay is necessary, and cannot be contested provided the responsibility is fixed in an equivalent manner. After all, access to malls or condominiums should not be restricted to the private sector employees only, and public sector employees should also be able to enjoy the benefits. The picture today is that public sector employees drive a Maruti 800 vehicle after putting in five years of service, while a fresh

entrant to Hindustan Lever or Mckinsey moves around in a Honda City car from his first day in service.

The problem with the numbers

While these facts should be taken into account when passing value judgments, an interesting feature of the government sector is the staffing pattern. In the private sector, when the numbers are large, the policy is to reduce the strength, as well as offer differential pay packets so that one is able to separate the good from the not-so-good. But, in the public sector, while increasing pay scales is desirable, the government cannot be seen as being partial. If the top person's salary has to change, the same has to be carried out in the case of employees at the lower levels too. In this democratic setup one needs to visit the staff structure of the government. While the same principle does not apply in the private sector, the presence of strong unions makes it non-feasible in the public sector. Hence, practically speaking, this kind of differentiation cannot be made. Also, it is a known fact that when one talks of the high level of inefficiency in



There are two sets of people who talk a lot about the need to cut expenditure and improve efficiency in the government sector. They are the Finance Minister and the RBI Governor.

the government sector, the strata that we are talking about is invariably the lower level staff, and not the professionals who come through the civil services, or the banking services routes. The unions tend to be stronger at the level where it is difficult to make an improvement.

There are two sets of people who talk a lot about the need to cut expenditure and improve efficiency in the government sector. They are the Finance Minister and the RBI Governor. The former has to say so because the Budget gets affected when there are expenditures which cannot be linked to productivity. And the latter has to say so as the position is invariably for an economist, and all economists have this penchant for the concept of productivity.

Therefore, it is instructive to look at how these departments/organizations are structured in terms of employment. The first is the Department of Expenditure which is a part of the Ministry of Finance, and the other is the RBI. The Ministry of Finance has put up on its web site the structure of its organization for each department, with the names and addresses of all employees as part of the RTI (Right to Information Act). The RBI has given in its annual report details of its employee setup. The structure of the department is important because it reflects at one stroke the strength, unionization, efficiency, redundancy and expertise in terms of skills in one place. This can be juxtaposed with the private sector which has a different way of looking at the staff.

Department of Expenditure

	Category	Number
A.	Secretary, Additional Secretary, Joint Secretary, OSD, Director, Joint Director, Deputy Director	38
B.	Under Secretary, Senior Accounts Officer, Asst Deputy Director	29
C.	Desk/Sections Officers	31
D.	Assistants	58
E.	Upper Division Clerks, Lower Division Clerks	103
F.	Ps, PPS, Pas	49
G.	Peons, wash boys, store keepers, cooks, h-mals etc.	164
	Total	472

Source: Web site of Ministry of Finance in 2009.

The table is quite revealing. The so-called professional workers would be under the categories of A and B, which constitute 14% of the total staff. The C and D categories would be more like the support staff which is qualified, though not professional. This constitutes an-

other 19% of the staff. The last 3 categories, D, E and F are the balance 67% of the staff. The curious part of the staff allocation is that there is an uncomfortable ratio of 1:2 for the professionals and qualified (A and B) to the clerical staff/peons. This is an amazing ratio, which would not be seen in a modern organization.

If one looks through the staff structures of the private companies, the categories of peons, clerks and PAs actually disappear, or are kept to the minimum. There is limited support staff, and the personal secretaries are confined only to the management. Therefore, a private sector work ethic would be simply to disband the E and G categories of staff, and reduce the F to a handful. Automatically, one is getting rid of 300 of the staff, which means that the department actually has only 170 odd staff members. On a crude average basis, if the total salary bill of the government is divided by the total staff strength, the net remuneration received per staff member would be around Rs. 2 lakh based on the numbers provided in the government documents. Now, if the Rs. 600 lakh that is saved by the private sector ethic is distributed to the remaining 170 staff, the average salary would work out to Rs. 5.5 lakhs, which is jump of 175%! This is the kind of reallocation which has actually taken place in the private sector where a part of the so-called high payments made is really possible due to a lower overhead.

Therefore, the problem in the government sector is really with the over-staffing decisions which was taken way back when a certain hierarchy was in place at the time of the British rule. There was need to have someone to make tea, which had to be carried by another category of staff, and cleaned by another. The files moved through another category of staff who would be offended if someone else did their job. There were others to assist in getting things typed or take appointments, while there were those who did personal errands for the senior staff. The problem is that this structure has become ingrained in the psyche, and we cannot think of a Secretary (the senior-most position in the bureaucracy) going to the coffee machine to pick up his or her coffee from there. This person would not type the letter, nor prepare the notes. There would be junior staff, such as section of-

ficers who will do the same job. This has led to the creation of several echelons which is hard to crack. The existence of unions at the lower staff level ensures that this category of staff cannot be trimmed, nor can their duties be performed by others. It is not surprising that this lower category has become a burden, and their salary bill a drag on the exchequer.

Our own experiences in these dusty offices

In fact, all of us have our own little experiences with the government offices. The first impression after an experience is that nothing moves. For example, all working people are supposed to have a PAN card which has all the details about the person. At the same time, all government departments have spent millions of rupees on computerization and setting up systems. But, the problem is that every department has its own system, and no department talks to the other, or would share information willingly with the other. Maybe it has not even occurred to them that they should, as that would save a lot of money. If this were not so, we would not be filling in such detailed forms for every contact with a government department. For a passport we need one set of application details, which is repeated for a ration card, a telephone connection or a bank account. The logical thing is that once we have a unique PAN card, we should not be filling in forms again and again. But, since the department has loads of staff which has to be kept occupied (unions protest if they are not given work, or given too much work), the public goes through this trauma repeatedly.

Therefore, there is one clerk who distributes the form, and another who gives you a receipt if it is chargeable. Another one collects it and stamps the counterfoil. The fourth will carry it to the central department (the fifth person) which will sort the forms, and then have the sixth person carry them separately to different departments. Then, similar processes are repeated within these sub-departments. Any absenteeism at one desk has a cascading effect on the entire system and files stop moving. Very often, there is a senior officer, whose job is to lazily initial forms.

All this means that a citizen who is confronting these inefficient departments not only pays for their salaries, but also goes through the humiliation of being called off and on by, say, the passport office, and then being shunted from one dusty window to another while greasing all the hands along the way. The passport process involves a police check, and one can never understand why this check is required. The policeman is to come to your house and check if you live there, and ask for the same proof which is already submitted. But, invariably, you are called there on the grounds of your door being found locked. The reason is that the cop would like to be paid for attesting the form. One would have thought that a police check is needed to see if you have a criminal background, which cannot be verified by seeing you in person. This adds another layer to the structure, and the cop who attests forms has a large side income to be earned and naturally, his position is a coveted one. The real issue is that, as these people need to be kept employed, the tape has to be stretched further. In economic terms, the value chain in every government department is elongated to give jobs to everyone, even if it means making the system wasteful, in addition to being inefficient.

The answer evidently has to come from within. The senior staff should be willing to forego the entire retinue of servers in case they want higher remuneration that is consistent with a given level of responsibility. Recruitment of junior staff needs to be reviewed, and the staff taken on need to be trained to move to higher value-added jobs. Otherwise, any kind of change in salary structure will be difficult to maintain given the limited resources available to the government.

Besides the legacy issue, the Indian bureaucracy has tended to multiply over the years, driven also partly by the objective of providing employment. This objective has been there from the beginning, and has been a major reason for the existence of an oversized workforce. To this was added the benefit of unionism which gave the lower level staff protection in the form of tenure, work that could be taken from them, etc., Unions have become militant of late, and this trend has added to the inefficiency within the system. Therefore, it is quite dif-

difficult to downsize the government's huge workplace. Based on the data available on the Ministry of Finance site, there are around 33.3 lakh employees in the Central Government. If the state government employees are added to this number, the total would quite easily exceed the 2 mn mark.

The picture provided by the RBI is even more interesting. Its annual report for 2008–09 states that as of December 31, 2008 there were 20,952 employees in the organization. Their break-up into different categories could be the starting point of the discussion.

Department	Class 1	Class 3	Class 4	Total	Ratio of Class 3 and 4 to Class 1
All	8760	4908	7284	20952	1.39
Administration	1242	779	3911	5132	3.13
Banking operations	142	51	78	271	0.91
Supervision	768	113	140	1021	0.33
Currency management	1382	1519	1909	4810	2.48
Foreign exchange	399	224	210	833	1.09
Economic Analysis and Policy	279	125	108	512	0.84
Statistics and Information Management	196	102	89	387	0.97
Expenditure and budget control	565	348	173	1086	0.92
Premises	383	270	302	955	1.49

Source: RBI Annual Report.

The Class 1 staff are the professionals, while the Class 3 are the clerical, including stenographers and typists. They are, for all practical purposes, the support staff. The class 4 staff are the peons and *mazdoors* (labour) who do relatively menial jobs in the bank. Here again, the ratio of support to professional staff is 1:5. The illustrative break-up across some

departments is even more amazing. The DEAP and DSACS, which are the research and statistics wings of the RBI, have a support staff which is quite out of place in an environment where work is done on computers. Even more striking is a ratio of 1:5 for the department of expenditure and budget control. Administration also has a ratio of 3:5 which is quite mind-boggling.

While there is little transparency as far as the work of each category of staff is concerned, the following is the pattern that is heard. The officers are the cream, and do the thinking work. The clerks are semi-educated: they can read and write, and think within limits. They can hence count old notes, but are not able to count more than a certain number of notes every day, and are also protected by their union. The peon will carry the glasses of water, and a fixed number of tea cups and trays. There are restrictions put by the union to ensure that the peon is not exploited. The peon will carry a certain weight, i.e., files. But if the load is bulkier, say over 2 kg, he will pass on the work to *hamals* (a class of labour), whose job is to transport these loads. The cleaners are at an even lower end, and have a fixed assignment of keeping the premises clean. But, this is not done round-the-clock; it could stretch up to three times, though twice is the rule. The third would be applicable if there is an emergency, i.e., spillage of water or glass pieces to be picked up.

In-between, they are

idle, and while away the time gossiping, once their siesta is over. While their functions are flexible, the work they are put to would depend a lot on their relationship with the higher ups. Cordial relations will mean better response time from this staff.

Clearly, the organizations or Ministries that are dealing with costs need to reduce these expenses which are becoming progressively tougher by the day due to the structural rigidities that have got built



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into the system. Until these structures are overhauled, these anomalies would continue to exist, and the salary differentials will remain between the private and public sectors. The public sector will be unable to match the pay levels offered in the private sector, as they have to maintain parity between the highest and the lowest, which is not a feature in the private sector, where there is more autonomy, and also inequity, within the organization.

8.6 PLAYING WITH DEATH

The lunatic is on the grass, remembering games and daisy chains and laughs, got to keep the loonies on the path.

—Pink Floyd, “Brain Damage”

From 2004 onward upto October 2009, that is, a period of just over five years, it has been estimated that 4,276 US soldiers were killed, and another 30,182 injured in the course of the war and its aftermath in Iraq. Over 90% of the casualties to the coalition forces were Americans. In fact, the number of soldiers who were killed was larger after the siege of Baghdad, which means that more lives were lost when the US and its allies were supposedly driving the peace process in the country. A total of 7,924 Iraqi soldiers lost their lives, while 100,000 to 1,000,000 civilians were killed in the process. This was a result of the



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incessant attacks on the peace-keeping troops by the local forces, and the retaliatory or preventive fire and bombing initiated by the former. Around 3.4 mn refugees were displaced from their

homes and moved out of their settlements to other parts of Iraq and the neighbouring countries. The total cost of this war so far (it has still not come to an end) is estimated at over \$ 700 bn (which is over

70% of India's GDP valued at market prices), with the cost per day being calculated at \$ 275 mn.

These numbers tell a story of melancholy as the madness of war gets absorbed in our minds, considering the number of people who have been killed, and the money spent. In fact, if the value of the people who died is computed, the cost becomes much higher as the per capita GDP is drawn from these human numbers. For example, the USA has an average per capita income of close to \$ 50,000, which, when superimposed on the 4000 odd killed soldiers, means a direct loss of \$ 200 mn, excluding the material loss caused to their families. The loss for Iraq would range between \$ 200 mn and 2 bn, depending on the number of people who have lost their lives. The obvious reaction to such numbers is that all wars are acts of madness as no one really gains, and everyone loses, which is the least optimal solution to a problem which is invariably economic in nature.

The issues that are raised are, firstly, why are wars fought? Secondly, as wars are possible any time, we have to spend a lot on defence. In fact, having a solid defence arsenal is a sufficient deterrent as has been seen with the nuclear capability



All wars are fought for economic reasons because a country wants to take on the economic resources of another.

The motivation is clothed often under the veil of historical corrections, religion or ideology.

story. Can we put a number to this expense? Thirdly, looking at wars dispassionately, can one separate the economic implications and conclude that a war, or threat of the same, could actually help economies to grow rapidly? If put in another way, can destruction caused by war help to revive the economic processes even while the loss of human beings is only in conformity with economic laws?

If one were to really look deeper into the motivations of a war, it would actually point towards the following: All wars are fought for economic reasons because a country wants to take on the economic resources of another. The motivation is clothed often under the veil of historical corrections, religion or ideology. In fact, today a war waged

by any country, especially the USA, is under the garb of defending justice. But, no country ever wants to take over a landscape that yields no economic returns. The world wars were fought to conquer other countries, while George Bush has become quite infamous for trying to use the might of the USA to take control of the oil resources of West Asia. There could be community battles, such as those fought between Iraq and Iran, which, it could be said, also had oil at its core. Iraq invaded Kuwait to control the oil stocks. While there could be debates over whether religion or ideology are the dominant factors behind a war, the fact that no one is keen on conquering countries in the Sahara Desert, or the Andes mountains (at least until such time that one realizes that there is a lot of mineral wealth thousands of feet underground), it may be stated that the possible economic gains are always in the mind of the invader. In fact, the dictatorships in several countries in Africa where the citizens are subjected to constant subjugation by rogue governments, are never good enough reasons for the west to wage a war for the sake of justice. But, Iraq or Iran? It makes a lot of economic sense.

Even our history books always talk of the quest for wealth as invaders raided India to have access to its rich natural resources. Alexander did it, as did the Moghuls. The East India Company had the same motivation when it slowly consolidated its operations in the country. Hence, colonization has always had economic motivations, which Karl Marx noted as an act which is inevitable in a capitalist state. There is a theory which states that the British finally granted India freedom because of two reasons: the first is that the World War had crippled them, and the second is that there was nothing else to exploit in India. While the second may sound too simplistic, there could be an element of truth in the idea. Now that colonization is *passé*, countries still vie for a greater share of the oil pie. Therefore, we have the USA which got keenly interested in the atrocities of Saddam Hussain while similar activities in, say, Rwanda, Chad or Botswana would not provoke affirmative action from it.

Hence, given that all countries are greedy and would like to invade

others if they are stronger than the other, it is essential to build a large defence force. Not just build, but also maintain and grow this force to be on par with all potential invaders. This is a classic 'game theory' situation where no one knows the right quantum of armoury to be built up to feel secure. No one knows who could be the potential attacker, even though there is a rough idea about a potential predator. Since we do not know exactly what is the military capability of the hostile neighbours, it is necessary for us to conjecture, based on our own surveillance, as to what could be the potential threat posed to us. Further, rarely does a country really reveal its military might, and when it does, it is primarily to send signals to be on guard. The classic case is the ability to build nuclear weapons. By announcing the same, one sends a signal to the others that the possessor could use it when required, and hence it acts as a deterrent. For this, one needs to track the latest arms deals between different countries, and prepare to either counter the same, or match the threat by having the same weapons. As long as the potential enemy knows that you have superior weapons, it is less likely to turn hostile. In a lighter manner, it has been put forth by Sir Humphrey in the now legendary BBC TV serial, "Yes Prime Minister": "even though they probably certainly know that you probably wouldn't, they don't certainly know that, although you probably wouldn't, there is no probability that you certainly would!"

However, nobody really knows the exact strength of the other country. An example often quoted here is that the US, with its superior espionage ability and surveillance, guessed wrong on the existence of chemical weapons in Iraq, which was then used as an excuse to invade that country.

Further, just like in the classic "Prisoner's Dilemma" situation, if countries actually collude to keep expenses down, they would be better off. The Prisoner's dilemma goes like this: Two suspects are arrested by the police. The police have insufficient evidence for a conviction and having separated both prisoners, visit each of them to offer the same deal. If one testifies ("defects") for the prosecution against the other, and the other remains silent, the betrayer goes free

and the silent accomplice receives the full 10-year sentence. If both remain silent, both prisoners are sentenced to only six months in jail for a minor charge. If each betrays the other, each receives a five-year sentence. Each prisoner must choose to betray the other, or to remain silent. Each one is assured that the other would not know about the betrayal before the end of the investigation. How should the prisoners act?

But, no one really would like to agree to collude, and even if they do agree, one cannot be sure if something is not happening in the background. This was the ideological conflict which India had faced prior to the India-China war, where we assumed that China would maintain its distance from the border. We also believed the Chinese' assurances, while, all along, they kept preparing for an attack. The attack caused umbrage from our side, but it did not help. We still do not have the conquered land, and this loss could be attributed to the foolishness of believing a possible predator. Knowing this, everyone works in the background, which confirms the view that agreements are not adhered to, and that there is need to build up your own forces. The result is that all end up spending, which now becomes a necessity.

In the past, there was the practice of collusion where the former USSR was a friend and ally of India, and assisted in strengthening our forces to match the assistance provided by the USA to Pakistan. But, today, in the absence of such an alliance, it is essential to remain ahead. But, then, we need to decide which is, or are the potential threats. Is it just Pakistan, or could it be China? Such questions are always asked and answered through additional allocations for building a strong military force. But this involves outlays of large sums of money. Let us try and get a sense of these numbers. The table below gives a broad view of the military expenditure of various countries for the year 2008.

Country	Amount (\$ bn)	Country	Amount (\$ bn)
USA	607	Italy	40.6

China	84.9	Saudi Arabia	38.2
France	65.7	India	30.0
UK	65.3	South Korea	24.2
Russia	58.6	Brazil	23.3
Germany	46.8	Canada	19.3
Japan	46.3	Spain	19.2
		Australia	18.4

Source: CIA: World Fact Book and Stockholm International Peace Research Institute.

The total expenditure of the entire world on defence for the year 2008 was estimated to be \$ 1464 bn, which is higher than India's GDP. The USA, as can be seen in the table, had a share of 41.4%, with the next country, China having a share of 5.8%. Quite clearly, USA has the highest spending power, and it is not surprising that it has assumed the role of 'big dad' in the world to the extent of being a bully. The curious part of the US defence expenditure is that, while it spends 7 times more than the second highest country, it has not had a single war fought on its shores. This means that the money is being spent entirely on wars offshore, either as direct military intervention, or maintenance expenditure.

The military spending of the country is hence, more to maintain world peace, where it has taken on the role of the referee. As a corollary, the expense, or the loss of lives is really the cost that it is paying for occupying such a position. The other countries too provide an interesting picture, especially Australia, Spain and Canada, which are among the top 15 spenders, even though they have never really been involved in a war for over half a century! Therefore, it could be stated that building up a strong defence force has become a fashion even for those countries which probably know they would never be involved in a war. Yet they continue to spend on their forces.

This is important because, if one were to look at the opportunity cost of such expenditure, it is startlingly high. Opportunity cost, incidentally, is defined in terms of alternatives that could be achieved by spending the same money. According to the World Bank's estimates

on poverty (August 2008), there were 1.4 bn poor people living in the developing countries. The new definition of a poor person is one who earns less than \$1.25 a day or \$ 456 a year. Multiplying the two, we get a sum of \$ 638 bn of expenditure that would keep the entire developing world free from poverty. Extrapolating these numbers further, we get some revealing alternatives:

1. If the world cuts its defence expenditure by 50%, \$ 732 bn would be released, which can take care of the entire poor population of the developing world.
2. The USA would have less of a nuisance value in the world if it stopped interfering in all global disputes where it has an interest.
3. If the USA can drastically scale down its expenditure on defence to, say, \$100 bn, just \$15 bn more than the spending on



These numbers speak for themselves, and convey the kind of waste that the world is indulging in, in the name of war and build-up of defence forces.

defence by the China., it will still remain the leading spender on defence. At the same time, it will be able to substantially finance the entire process of

poverty eradication in the world on its own (\$ 507 of the \$ 638 required), and earn goodwill, instead of the ill-will earned today by spending on self-righteous interference!

These numbers speak for themselves, and convey the kind of waste that the world is indulging in, in the name of war and build-up of defence forces. But, evidently, there must be strong reasons for countries not to trust one another, and to continue to build their forces for the rainy day. What could these reasons be?

The growing insecurity, increasing hostility among countries, and global terrorism have invariably cast a shadow across the world and made defence spending mandatory. It is also a sad fact that when a war becomes a global issue, the entire world contributes to the forces that are built up, as it happened in the case of Iraq. This is bound to be a

rule in future too when there is an alliance of countries to counter terrorism. Further, since one can never anticipate hostility, it would always be better to be prepared for the same.

If there is military spending, there are also economic benefits to be had. Military spending includes employment for a large labour force. Further, the expenses on arms and ammunition translate into a big boost to the economy as expenditure on planes, guns, ammunition, tanks, ships and so on goes to feed other sectors that provide materials for the effort. Hence, the engineering and steel industries receive large orders from the government. Similar would be the effect on the metals and electrical segments, as well as plastics, all of which go into the making of military equipment. The exact impact is hard to gauge as all military activity is a hush-hush affair. Countries, such as Oman, Qatar and Saudi Arabia spend as much as over 10% of their GDP on defence while Iraq and Jordan spend 8.6% and 8% respectively. Other countries have not really been engaged in military activity in the recent past, but have yet built up forces and maintained them out of fear of an attack.

When we speak of war, there is large scale destruction of property besides life. Property lost has to be rebuilt, which involves a lot of money. Very often the country causing destruction actually helps to rebuild the destroyed nation. It happened after World War I when the Allies worked towards rehabilitating Germany in particular. The same happened even after the Second World War when the Allies, particularly the USA, helped to restore Germany and Japan's economies. This has been a Keynesian route to growth where high government expenditures have actually kick-started these economies.

The picture which emerges is that, ideally, if countries lived in harmony, there would be no need to have a defence force, and the same expenditure could be used to eradicate poverty across the world. However, countries cannot remain at peace as inherent greed, or commitments to ideology or religion will always foster hostility, though the primary purpose of most appears to be to have greater access to economic resources. Once countries start spending on defence, they really do not know how much to spend, and a game develops where

countries try to conjecture their potential attacker's forces. To remain one-up they need to raise their spending progressively. While such spending could end up as wasteful expenditure if a war is not fought, it is still necessary as the build-up serves as a deterrent. There are, as discussed earlier, the obvious economic linkages fostered in this process where various industries thrive on such contracts. In fact, any cut in expenditure could slow down the economy, as the indirect effects could be greater than the direct ones. Hence, if defence accounts for, say, 10% of GDP, the fortunes of another 30–40% of GDP would be contingent on this segment. Lastly, destruction of property and life could paradoxically also serve an economic purpose. Loss of life would be in line with what Malthusian theory prophesized earlier, that the annual natural and man-made events would ensure that corrections take place. Further, loss of property would also mean some kind of creative destruction wherein structures are rebuilt. Every war for instance leads to the destruction of economic resources which have to be rebuilt. The reconstruction process by itself provides an impetus to economic activity and hence becomes creative. The Second World War put Germany in disarray and the reconstruction programme meant not just an impetus for Germany but also USA where their exports got a boost. Similarly aid given to Iraq, automatically, means import of machinery from the western countries with the USA getting a major slice of the same which provided the backward linkages for growth within the domestic economy. The initial cost of reconstruction was placed at \$ 56 bn just on humanitarian grounds which could go up to \$ 500-800 cumulatively.

The most charitable conclusion that can be drawn is that spending on defence is a necessity as men cannot live in peace with one another. The tendency to try and dominate one another results in the relentless build-up of hostility, which in turn necessitates progressively higher expenditure on defence. This leads to a secondary chain of economic impulses which sustains a lot many of us in terms of employment and income, either directly or indirectly.

Therefore, the eco-cynic would say that high levels of uncertainty helps industry to grow, and us to live a good life—the paradox of war!



9. Why We Will Survive?

*Breathe, breathe in the air
Don't be afraid to care
Leave, but don't leave me.
Look around, and chose your own ground
For long you live, and high you fly
And smiles you'll give, and tears you'll cry
And all you touch, and all you see
Is all your life will ever be.*

—Pink Floyd, “Breathe”

Ideally we would like to have equal societies and equal countries, as are people within each of them. But, inequality is a fact of life due to certain natural and historical causes. While governments strive to reduce economic differences among people and communities, the gaps just seem to be increasing. Countries strive to get the living standards of their people improved, and the measure of per capita income is often used to assess whether people have become better off or worse. But, one needs to pause and reflect, as per capita income tells only one part of the story; it does not cover the distribution aspects. At times, countries show how the ratio of the poor to the total population has come down, but such low ratios could be associated with a larger number of poorer people. Are we then really better off? The absolute number of poor may just be increasing across nations, which is a worry because, in a way, it debunks the entire story of progress that we have taken pride in so far. The question raised often in coffee table discussions is whether societies would finally crumble with these growing disparities, especially in a country like India where there are stark differences between the rich and the poor.

Often, a thought which comes to our mind is: how long will the poor observe this difference and take it in their stride. Religion,



Often, a thought which comes to our mind is: how long will the poor observe this difference and take it in their stride. Religion, fatalism and fear of law could suppress this anger for some time. But, wouldn't it be natural to actually rebel and attack the rich.

fatalism and fear of law could suppress this anger for some time. But, wouldn't it be natural to actually rebel and attack the rich. This happened in the past, with a revolution becoming the logical conclusion to

such built-up anger. So, is this not possible again?

The issue is pertinent because, many years back, Karl Marx had prophesied the same when he spoke of capitalism. Capitalism, driven by self-interest and economic Darwinism creates an inegalitarian society which would lead to the creation of fissures. Capitalists exploit the labour force by keeping it at the subsistence level, and then retain the surplus earnings for themselves. In course of time, the labour force would realize that they are being exploited, and would rise in revolt, which could end in a revolution when the proletariat would take over the capital.. The result would be bloody as the people would rise in revolt and establish the dictatorship of the proletariat.

We have seen the rise of socialism in several countries during the time of the world wars and its abrupt, dissipation by the nineties. There are probably just a handful of communist countries surviving today, albeit in a modified form. Further, revolutions have never taken place despite the abysmal living conditions of the people. The thought that comes to mind is: Why is this so? We can look at two types of governments which have to tackle the problem of inequality—dictatorial and non-dictatorial.

In Africa, for example, dictatorships or autocratic democratic governments typify the political systems. Here, dictator ensures that people never unite. Even if a dictator is overthrown, the replacement is another despot, which does not change the life of the common man. Countries like Cuba and North Korea outside Africa are other good

examples of intense suffering of the common man, with the dictator, along with the military, calling the shots.

However, in tolerant nations there is an economic rationale which answers a big part of this question. The reason is simply the existence of a middle class which serves as a buffer between the rich and the poor, which provides a lot of solace to the underprivileged as it shows that it is possible to move up the income scale. The middle class provides the necessary aspiration for the poor by showing that even they can succeed in life if they tried. This is particularly true in India where their rise in sheer numbers mainly through upward mobility, makes current suffering more tolerable.

Let us look at the process of economic reforms in India over the last decade and a half. The reports on poverty vary from 25–80% in the official circles where the estimates come from the National Sample Survey NSS and the Arjun Sengupta Committee¹. The criteria used to judge poverty varies from the calorie concept to the dollar value per day. But, the important thing is that there is a high level of poverty in the country. At the same time there is probably every facet of luxurious ‘foreign-ness’ indulged in by the rich can be seen in India—ranging from the BMW to imported fruits. Clearly, reforms have made a lot of material things possible in the country, with various segments of society being provided with more opportunities. But, we still have high poverty rates, starvation deaths, as also farmers’ suicides in the country which makes any talk of economic progress questionable.

Reforms have opened a plethora of opportunity for the people, and while there is a level playing field, there has also been formation of various elite sections in the new society which ensures that the field is actually restrictive. The benefits have flown to these new elite sections, which has given the feeling of affluence in the country. Pay scales have multiplied, as have bonuses which were non-existent

¹ The Arjun Sengupta Committee or that of the National Commission for Enterprises in the Unorganised Sector had come out with a revelation in 2007 that 77% of the Indian population was below the poverty line defined as those earning less than Rs. 20 per day.

earlier. The concept of Employee Stock Options Scheme (ESOPs), along with the growing stock market has ensured that there is a lot of money floating around these circles. The advent of foreign companies, and the spate of mergers and acquisitions that have taken place have brought in 'dollarization' of the pay structure, which has created a purchasing power to sustain this growth. Hence, the growth in GDP from 5% to 8% has been driven by consumerism, albeit from certain pockets. Markets have been created for cars, houses, jewellery, white goods, fine dining (reference is to fine dining and not crockery) designer labels, travel, holidays, mobile handsets, laptops, health, good living, etc.

The early nineties basically laid the foundation for the break-in to prosperity where the dollar- denominated salaries came in and the justified the new production processes geared to this end. This is how capitalism functions, where the production processes are reinforced



A slum dweller who lived a lowly life suddenly finds himself elevated to the status of a flat owner, and living amidst rich people. He does not rebel against the rich, but sees opportunities to become one, and starts of with imitation and gradually moves up the echelon in terms of lifestyle.

through the consumption pattern that has been triggered.

However, in this entire process, there has been rapid growth of the middle class which provides the balancing act. There is this new class, which has been

redefined, wherein a large number of low-income people, have got exposure to the goodies, though not all of them. A very good example in Mumbai is the successful implementation of the slum rehabilitation scheme. The scheme basically has a developer being allotted a large slum area. The slum could have around 2000 hutments where people live in abysmal conditions. The developer clears the land and provides each of the slum dweller a flat with a fixed living space. The rest of the land can be privately developed, which invariably turns into fancy complexes which sell at the commercial rate. Now, a slum dweller who lived a lowly life suddenly finds himself elevated to the

status of a flat owner, and living amidst rich people. He does not rebel against the rich, but sees opportunities to become one, and starts off with imitation and gradually moves up the echelon in terms of lifestyle. His life serves as an example to his peer group, and they too begin to aspire through imitation, rather than protest with violence.

The advent of the mall: why is it significant?

The emergence of the shopping mall best explains what is being said here. Malls are now the 'in thing' in every town, and their proliferation is not just an exposition of the retail boom, but also a testimony of the invisible hand at play which bridges the divide between the rich and the not-so-rich. These malls have been targeted not just at the rich, but also at those who are 'aspirational'. This is necessary to keep the volumes moving in the stores. The business premise is that the turnover has to be steady, which will not be possible with a limited purchasing class. Therefore, the malls have realised the need to attract this 'aspirational' class by generating goods as well as facilities to bring them in. This can be done through the provision of goods for everyone (which is being done by several manufacturers), as also by encouraging use of enabling instruments like credit cards. The 'aspirational' class wants to move up and mimic what the rich do, and this is the best way to enable them to do so. In this process, there is considerable social integration that takes place as the visitors from the lower income group enter these premises, initially with awe and wonder, and then come to mingle with the so-called upper classes.

Hence, the growth of this class has acted as a safety valve, as the stories of better living narrated by these persons, who actually have their roots in the rural areas, provide hope. This process of economic 'sanskritization', coupled with the fact that the vast population cannot really unite to revolt, has kept society stable.

The other side of the coin is that capitalism, by its very nature perforce, has to bring in this class under its fold. Production is for people who can pay for the goods or services. But, what happens when this consuming class is satiated? This is an issue when we have, say, 10% of the population in the rich bracket, and another 10% in the upper

income class. The rest lie at different levels below the 20%, but have to be targeted as they have a large base, albeit with limited spending power. Once you have a house and a car, and all the luxury goods, you would typically not be changing those products once too often. The market solution is two-fold. The first is to create higher value products which add snob value, and make those who do not need the goods but can afford them, to actually buy them! This holds for the higher level cars, mobile handsets, plasma screens, home theatres, and so on. But this class would be relatively small, and may not always justify the investment that may have to be made to break even.

The other route is to actually move over to a different set of products that can be afforded by the lower class. Hence, products become cheaper suddenly, partly due to competition, and partly through the economies of large-scale production. One produces more of these products for the lower income classes so that they also enter the consumption stream, and do not get left out. A good example here is that of the mobile handset where, five years back, the basic cost was Rs. 10,000. Now, the same has come down to the three digit level, making it affordable to all. With slight additions, the value goes up, and the consumer gradually moves up the scale from a basic phone to one with all the add-ons.

This is the entire idea of there being a fortune at the bottom of the pyramid. Capitalism has to attack this section to keep the production wheels moving. By including all people for its own existence, it creates a self-sustaining mechanism that reduces social tensions and pressures, and allows the social structure to function in a harmonious manner. Therefore, today the call is for 'inclusive growth', and the focus is on delivery of products to the not-so-rich people at an affordable cost. Hence, a large number of consumer goods' companies have started bringing out products for the rural masses, such as detergents, soaps, cosmetics, oral care products, clothing, etc., which are priced at a lower range for them. These products are never introduced in the urban areas as it is assumed that these goods are meant to be used only by the lower middle class, and should not be offered elsewhere, or else they would cannibalize their own products in the regions which have

money. Alternatively, the packaging is in smaller quantities that are not made available in the urban centres.

The fact that today the lifestyles of people in a housing complex and a slum are not very different is significant. They use similar (though different) products, but there is always a sense that they are moving up the class ladder thereby providing a 'feel-good' factor. Hence, in a place like Mumbai there are these curious observations when a comparison is made. All mighty housing complexes have an equal measure of a slum in their vicinity. The difference in incomes could be at least 10 times. Yet, there are a lot of similarities which help to maintain a balance.

Intrinsically, human beings are the same, and it is a matter of chance that some are born rich and other poor. In India, except in some respects, depending on the states they come from, people more or less have the same cultural moorings. Their taste in music for instance is similar, as is witnessed in any popular celebrations, where it is seen that Bollywood dominates. Communication within families is in the mother tongue in general. Festivals and occasions like marriage are celebrated in a similar manner, either with the loud show and ceremony, along with blaring music, or depending upon the class, subdued and somewhat refined. With growing prosperity, and the economic integration that reforms under a capitalist setting have brought about, the less-privileged continue to visit malls and multiplexes, wear designer clothes, visit beauty parlours, etc.

Also, as has been described in the earlier chapters, the psyche is the same, and does not vary in terms of responses to economic stimuli. Hence, a majority of us react in a similar manner to temples, festivals, advertising, and so on.

The progressive convergence in living styles that is being observed is really a victory for capitalism which would survive for long, given that there are lots of people and income groups to be assimilated. The fact that the upward moving slum dwellers are admired in their own families in the rural areas, bears testimony to the hope that keeps most of the poor going as they seek to find opportunity in every corner of the economy. The fact that begging can be lucrative, and that bribes

help a large cross-section of society to elevate their living standards can be interpreted as some kind of distribution of income across income segments, albeit inadvertently.

Moreover, we are a tolerant society

Indians also, as a rule, have developed a sense of humour which blends well with their otherwise stoic way of life, and does not get deterred by the incongruities around us. We complain, pass remarks, and carry on, but do not have the interest to change things. Therefore, inefficiencies in the bureaucracy are taken for granted, and while we love to get into discussions and debates about how things should be done, we do not really try and change things. Somewhere inside, we feel that any change in government means the same from a different set of people. Corruption will continue, poverty will prevail, and our highways will remain under construction forever. Moreover, logic does not always dictate our actions, and hence, an inflated bureaucracy or expenses on defence will continue to dominate.

The fact is that a great degree of cynicism actually exists in our mindset. We know that banks and insurance companies are taking advantage of us, and while the government is lacking in morals, the corporate sector is not far off. Policies are skewed and rarely change, and while ours is a free society, there are limitations to our expression of protest. The world of business has become crazy, with people made to appear larger than life, and systems existing to keep the drama alive.

The stages towards inaction and self fulfilment:

All the world's a stage,

And all the men and women merely players;

They have their exits and their entrances

And one man in his time plays many parts, His acts being seven ages.

Shakespeare's "As You Like It".

A bit of introspection in us reveals seven stages:

Stage 1: Observation, where we see things around us.

Stage 2: Reaction, verbally (in discussions) to governments, corporates, consultants, media, etc.

Stage 3: Thinking of changing things around us, for if we don't, who will? This is the lurking idealism in each one of us which tries to surface.

Stage 4: Don't do anything since we realize somewhere that one person cannot change the world. (This is the beginning of the cynic, where we believe that we cannot individually change anything.)

Stage 5: We may as well join the bandwagon and draw the benefits. Maybe we could become celebrities while reeking in the big money.

Stage 6: Justify your worth as you have worked for it—a true hallmark of capitalism.

Stage 7: Sit back and laugh over your working life. It was well worth it!

There is therefore, a lot of hope for all of us, including the eco-cynic!

Further Readings:

1. Levitt, Steven and Stephen Dubner: *Freakonomics*
2. Harford, Tim: *The Undercover Economist*
3. Ariely, Dan: *Predictably Irrational*
4. Cowen, Tyler: *Discover your The Inner Economist*
5. Jay, Antony and Jonathan Lynn: *Yes Minister, and Yes Prime Minister*

Abbreviations/Key words

AGM	Annual General Meeting
ATM	Automatic Teller Machine
Belgaum	Place in Karnataka
BIS	Bank of International Settlement
BRICS	Brazil, Russia, India and China—be the four leading economies by 2050, according to a report prepared by a global investment bank
Choultry	A free resting place for devotees in a temple area

CSO	Central Statistical Organization, an arm of the Government of India that collects and publishes data on the economy
Darshan	The view of the deity in a temple
Darzee	Tailor in India
Diwali	Festival of lights celebrated by Hindus to signify the return of Lord Rama
Dow Jones Index	Stock index constructed by Down Jones
EGM	Extraordinary General Meeting
EMIs	Equated monthly installments, normally paid on home loans such that the amount paid back every month is the same over the entire period of the loan. The interest and principal components keep changing
Ganapati	Hindu deity worshipped on large scale primarily in the state of Maharashtra
Ganesh Chaturthi	Celebration of the festival of Ganapati/Ganesh
GDP	Gross Domestic Product
GSec	Government of India security
Hundi	Donation collection box
Jaisalmer	Place in Rajasthan that is on the border of India with Pakistan
KYC	Know Your Customer. Norms to be followed by banks before entering into a relation with a customer
Laddu	Indian sweet
Mahabharat	A Hindu epic made into a TV serial in India
Mahila Parishad	Women's organization
Mandis	Indian local wholesale market for food products like cereals, oilseeds and fruits and vegetables.
Marg	Road in Hindi
MMRDA Grounds	An area owned by the Government of Maharashtra in Mumbai where music concerts are held

MRP	Maximum Retail Price
NASDAQ, NIK-KEI, FTSE	Indices used in the stock market to represent benchmarks
NAV	Net asset value. Value of units of a mutual fund
Paise	Minor denomination in the rupee as cents in dollar: 100 paise = Re. 1
Prasad	Offering in temples
PSU	Public sector undertaking
PWD	Public Works Department
raddi	Second hand newspapers that are sold in market by households
Rs. crore	Rs. 100,00,000 = Rs. 1 core or Rs. 100 lakhs
Rs. lakh	Rs. 100,000 = Rs. 1 lakh
RTI	Right to Information, a law under which citizens can seek any information from a public body
Sanskritization	A social transformation process made popular by sociologist M.N. Srinivas wherein lower castes seek to move up the caste ladder
SBU	Strategic Business Unit, terminology in corporate and management
SEBI	Regulator of stock market in India
SEWA	Self-Employed Women's Association
Sivakasi	Place where fireworks are produced in India
Tehelka	A newspaper magazine dedicated to the search for Truth
Tirumala Tirupati Devasthanam	Trust that owns the temple dedicated to, the Hindu God Vishnu in Andhra Pradesh
TRP	Target/Television Rating Point. Measure to gauge popularity of a programme or event

Udupi	A place in Karnataka famous for cooking. People from this place have set up restaurants across the country serving South Indian cuisine which is good, and affordable
ULIP	Unit-linked Insurance Policy, where money invested is partly put into the stock market
Vaastu	An ancient Indian science of architecture which helps in making a congenial setting, or a place to live and work, taking advantage of the benefits bestowed by nature
Vidharba	Area in Maharashtra which is prone to droughts



Index

- Adverse selection 64
- Advertising 108
- Annual General Meeting 140
- Annual report 138
- Approval seeking syndrome 221
- Art of Living 48
- Aspirational 295
- Asset liability management 135
- Asymmetric information 64
- ATM 67
 - card 67
- Average cost pricing 197

- Bank deposit 61
- Beta 93
- Board of Directors 139
- BRIC's economies 25
- Budget 45
- Bureaucratic 66
- Buyback 161

- Call centres 43
- Capitalism 292
- Ceteris paribus 3
- Coffee shops 232
- Colonization 284
- Comprehensive insurance 84
- Consultant 213
- Consumerism 246
- Corporate governance 138
- Corporate social responsibility 163
- Cost over-runs 20
- Creative destruction 245

- Debit card 67
- Differentiation factor 126
- Diwali 52
- Dollarization 294

- Economic Darwinism 292
- Economic sanskritization 295

- Efficient market hypothesis 95
- EMIs 73
- ESOPs 154
- EVA 160
- Feel-good factor 211
- Financial asset 101
- Financial reforms 67
- Five year plan 262
- FMCG 27
- Food-for-work 32
- Forecasting 244
- Full capacity utilization 229
- Fundamental analysis 98
- Game theory 285
- Ganapati festival 21
- GDP 7
- General insurance 79
- Godmen 10
- GSec 79
- Hindu 43
- Human rights activists 54
- Imperfect information 91
- Inclusive growth 296
- Indian bureaucracy 279
- Inertia 126
- Information asymmetry 130
- Insurance 4
- Intermediation 64
- Internet banking 67
- Invisible hand 295
- Invitation price 104
- IPOs 144
- Keynesian 289
- Know Your Customer 71
- Law of arbitrage 132
- Life insurance 61
- Location technique 165
- Mall 274
- Malthusian theory 290
- Management 44
 - of inventory 227
- Mandals 57
- Mandi 114
- Marginal cost pricing 197
- MDA 161
- Metro effect 165
- Middle class 223
- Models 232
- Monetary illusion 129
- Multiplex 204
- Mutual funds 256
- Net asset value 99
- NINJA loans 71
- No-claim bonus 86
- No-frill airlines 207
- Non-profit organizations 44
- Nouveau riche 116
- Off-the-books 146

- Oligopoly 17
- Opportunity cost 41
- Over-staffing 277
- Paradox of war 290
- Pareto optimal situation 38
- Physical asset 101
- Price differentiation 123
- Price discovery 195
- Prime lending rate 130
- Prisoner's dilemma 285
- Private Banks 65
- Public Works Department 8
- Puja 58
- Raddi 102
- Rationality 107
- Regulators 156
- RTI 276
- Sadhu 47
- SALE 108
- SBU's 43
- Schumpeterian theory 173
- Self-fulfilling prophecy 243
- Sensex 99
- Shopper's frailty 129
- Signal 21
- Sin tax 269
- Snack effect 165
- Snob effect 121
- Stock market 132
- Supermarket 52
- Surrogate advertising 268
- Tatkal 201
- Technical analysis 98
- Tetra-pack strategy 166
- Third-party insurance 84
- Tirupati 45
- TRPs 185
- Turnaround time 229
- Tutoring industry 223
- ULIPs 68
- Value-added 227
- Vatican 46
- Veblen 126
- Western pop music 199
- Willingness to pay 200
- Work-in-progress 18
- Yuppy class 178