Opinion

MONDAY, FEBRUARY 18, 2019

BREXIT AMBIGUITY

Simon Coveney, Irish foreign minister

I think we were reminded again last night of the reality that the House of Commons isn't clear in terms of what it wants; there doesn't seem to be a majority of MPs asking for anything specific

RationalExpectations

SUNIL JAIN

sunil.jain@expressindia.com
@thesuniljain

How does the govt pick winners?

Picking national champions, as China does, stifles innovation and is a bad idea; and why is govt protecting steel, not telecom?

EVEN WHEN NARENDRA Modi became prime minister, despite what some of his ministers said, it was always obvious that he was more statist, in the mould of leaders in Singapore or China as compared to free-market economies like those in Europe or the US. As his term comes to an end, this has been proven time and again, by the government's refusal to pursue a serious privatisation agenda, by its unwillingness to open up areas like coal mining to private sector firms or its step treatment towards private sector oil companies.

Indeed, with the reversal in the e-commerce policy hitting foreign investors like Amazon and Walmart—in doing that, it benefits local firms like Reliance Industries and Big Bazaar—the question that needs to be asked is whether Modi is trying to create national champions in the manner that China has in the past with its Baidu and Ant Financial for instance.

While it is not possible to make a conclusive statement on whether Modi wants to create China-style national champions, it is not clear that this is a great strategy either, even assuming it can be pulled off. Take the case of ISRO which has, by default, become India's national champion in the satellite space over several governments, not just the Modi one. There can be little doubt ISRO has several accomplishments that India can be proud of, including its prowess in low-cost launches of satellites, but the flipside of the special status is that India's satellite market remains closed for all practical purposes—while the new satellite policy was announced in 2000, the entry of competition was delayed by the fact that the detailed guidelines and procedures were made public only a decade later. As a result, satellite tariffs in India are several times the global rates; that is the exact opposite of what happened in telecom thanks to the policy of allowing competition to the state-owned players. Indeed, India has a very small fraction of the capacity it needs to increase rural broadband penetration from 2-3% today to 100%—satellite is a good way to do this. India needs 1,800-2,000 Gbps of capacity, but we have just 50-100. And with ISRO playing a big role in clearing private sector permissions to build satellites, the net result is no serious player has got clearances so far.

> **ISRO, by default, is a 'national champion', and has done a lot of good work. But its monopoly has meant satellite charges are very high in India and the capacity is a fraction of what the country needs**

Or take the case of Chinese home-grown champions like Baidu that were created by closing the market for global search engines like Google, or AliPay (Ant Financial) in the payments space that was helped by the support the government gave it. The argument here is that, were India to emulate China, it would have its own home-grown giants. While it is true India has no Baidu-equivalent, it is worth keeping in mind that Google has just hired engineers to help design computer chips in India, it has a team of 2,000 people in India working on various cloud solutions as well as machine-learning and it already trained one million people to work as developers on the Android platform—the target is to train 2 million eventually. This is not to say a home-grown Baidu wouldn't have created important skills in the country; of course it would, but India hasn't done badly since an open economy encourages others—not just Google—to start doing development work in India since there is no fear of their intellectual property being stolen. Indeed, most top US tech firms, including Intel and Qualcomm, have large Indian back offices doing development work—such as designing chips—here.

And no one can argue that the open systems created by UPI and Aadhaar—where public APIs allow various developers to build apps on top of them—haven't worked better than perhaps an AliPay kind of system. With all manner of players from Paytm to Flipkart (PhonePe) and various banks offering UPI and competing payment products, India has amongst the most robust—and fast-growing—payment systems in the world; transaction volumes on UPI rose from ₹3 crore in August 2016 to ₹109,923 crore in January 2019. Interestingly, RBI wants to develop competitors to even NPCI—that developed UPI—so that there can be even more innovation once there is more competition.

If Modi's policy towards creating national champions is unclear, it is also not clear what criterion is used to select industries that need protection. The classic example here is steel and telecom. Import duties on steel were raised sharply once there were complaints about dumping and how this was hitting the steel industry and the banks to who they owed money. While this hit user industries, who would have got more competitive with lower steel prices, the government hasn't shown anywhere near the same concern for the telecom industry which continues to haemorrhage. Interestingly, as this newspaper has pointed out on various occasions, unlike the steel industry, the telecom industry is not looking for favours, it is just looking for an end to government rapaciousness. First, the government rigs auctions to keep bids high, and then it charges the industry an annual revenue-share levy that was charged in lieu of paid-for spectrum in the days when spectrum was free (*goo.gl/z8aB8M*). Apart from this, the telecom regulator's policies have, by and large, been seen as hitting the older telecom companies.

Should the Modi government get re-elected, an important lesson for it is that selecting winners is not a strategy that pays off. Apart from India benefitting from its strategy of not trying to curb the growth of global tech giants—with a view to promoting local players—the fact is that picking winners implies stifling competition and innovation that, in even the medium-term, hurts the economy and also opens the government to charges of cronyism. Indeed, in the recent Rafale controversy, the UPA tried to pick winners—in the form of HAL—and we all know how that went as well as its long-term implications of not allowing the defence production industry to take off.

ForVACCINATION

Facebook is right in considering demoting/removing anti-vaccination posts

THE ANTI-VAXXERS (people opposing vaccination) 'movement' is fast emerging as a major challenge for public health worldwide. Though the study anti-vaxxers cite has been thoroughly discredited, the belief that vaccination has harmful effects is taking root quite surely in the developed world. This has happened to such an extent that cases of measles have risen by 50% and a measles outbreak is raging in the Pacific North West. Thus, Facebook considering demoting or even removal of anti-vaccination posts and groups on its platform is an important move in the fight for sanity and science with regards to vaccination.

To be sure, Facebook and other social media and search services have helped the anti-vaxxers' cause by providing them a platform to churn out propaganda to recruit naïve, uninformed parents to their cause. The Guardian reports that Facebook search results "for groups and pages with information about vaccines" threw up mostly anti-vaccination propaganda, and YouTube's recommendation algorithm "steers viewers from fact-based medical information toward anti-vaccine misinformation." In 2015, Facebook founder Mark Zuckerberg had called out anti-vaxxers, stating in a Facebook post, "The science is clear: vaccinations work and are important for the health of every one in our community." Though studies show vaccine refusal isn't as virulent as widely believed—Samantha Vaderslott, a post-doctoral researcher at Oxford, pegs this at 2% in the US—nipping the evil in the bud, as Facebook is setting out to, is desirable.

FROM PLATE TO PLOUGH

DESPITE LAST DITCH ATTEMPTS BY ELECTION-MINDED POLITICAL PARTIES TO ATONE FOR FARMERS' LOSSES, THESE ARE NOT A SUBSTITUTE FOR THE STRUCTURAL REFORMS THAT ARE NEEDED

A race to compensate farmers for their losses

ASHOK GULATI

Infosys chair professor for agriculture at ICRIER

WITH ELECTIONS APPROACHING, every party is swearing by farmers and trying to woo them for their votes. The Modi government has already announced a package of ₹75,000 crore for about 12.6 crore small and marginal farmers. While in absolute terms it looks sizeable, when it is divided by the number of farm families to be covered, it is miniscule—just ₹6,000 per family per year, which is about 6% of their annual income. This level of support, unless augmented further, may not go far to win farmers' confidence. Majority would agree that farmers have been under stress for quite some time, and have not got justice so far.

While the Modi government claims that its record of overall growth (GDP) is better than the UPA government (notwithstanding the suspicion that many have on the GDP revised series), the nature of growth matters as well. In a country where 47% of the workforce is engaged in agriculture, it is the growth of agri-GDP that is even more critical for the alleviation of poverty and providing nutritious food. The average annual agri-GDP growth in the first four years of Modi government, for which data is available, is just 2.5% compared to 5.2% in the last four years of Manmohan Singh's government. The exports of agri-produce have fallen since the peak of $42.5 billion achieved in 2013-14, giving a negative growth in agri-exports during the Modi period.

On the other hand, agri-imports have consistently increased, reducing the net export surplus (exports minus imports) from about $25 billion in 2013-14 to less than $10 billion in 2017-18. This has led to a glut of agri-produce at home and, consequently, agri-prices have fallen, reducing profitability ratios significantly across most of the crops since 2013-14. And so is the case in dairy. The government is saddled with massive stocks of grains, way above the buffer stock norms. For example, rice stocks with government agencies touched about 37 million metric tonnes (MMTs) on January 1, 2019, as against a buffer norm of only 7.6 MMTs for that date. This speaks of massive inefficiency in the grain management system.

Needless to say that agriculture has been crying for wholesale structural reforms, especially in agri-marketing, from abolition/pruning of the Essential Commodities Act, to reforming the APMC, to futures trading, to negotiable warehouse receipt systems, to building commodity-specific value chains on the lines of Amul's milk model, etc. But the time for structural reforms has run out. And, now there is a race to compensate farmers for their losses, an admission of the failure of the agriculture policy followed so far, which has a massive in-built consumer bias.

India wants to compete with China and become a force in the world. It cannot do so, unless it supports its farmers in a systematic manner. The Producer Support Estimates (PSEs) of India, China and OECD clearly show that India has been implicitly taxing its farmers through restrictive trade and marketing policies. On the contrary, China supported its farmers to the tune of $232 billion and OECD countries by $235 billion in 2016-17 alone (*see graphic*). No wonder that China produces more than triple of India's agri-output from a lesser cropped area.

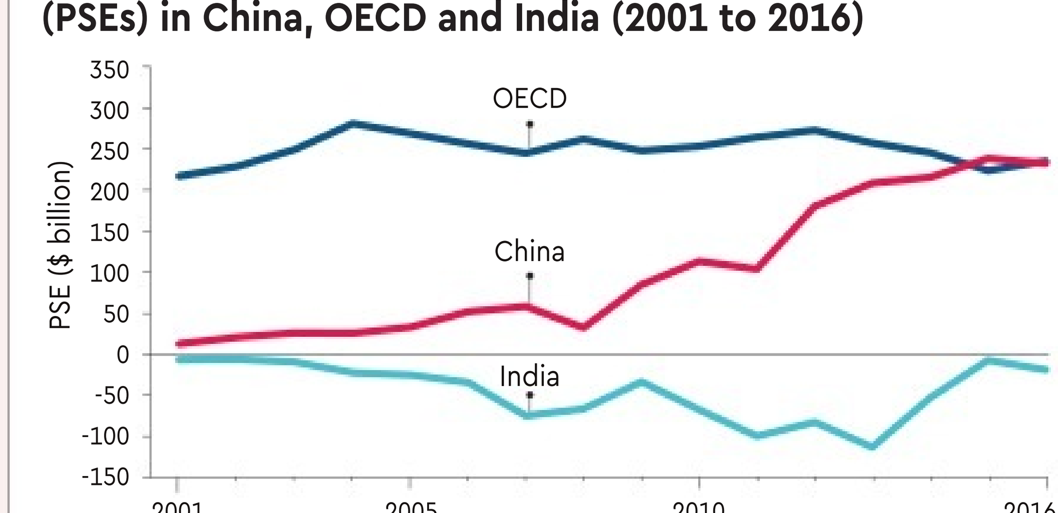
Congress president Rahul Gandhi is going around the country promising loan waivers to farmers, even higher MSPs (in Chhattisgarh, he raised MSP of paddy from ₹1,750/quintal to ₹2,500/quintal), and, now, a minimum monthly income for the poor. He has not spelt out yet what would be its size, and who all would be covered under it. Loan waivers and higher MSPs have serious limitations in terms of their reach. They cannot reach more than 30% of the peasantry. Direct income support has much better reach but will also cost more. My guess is that the package could be anywhere between ₹2-3 lakh crore, almost three to four times higher than the package announced by the Modi government. And this can swing farmers' votes.

If the fisc has to be kept within reasonable bounds, money has to be found by rationalising some other programmes. My two penny unsolicited advice to all political parties is that it is time to revisit the food subsidy and MGNREGA programmes and rationalise them.

Food subsidy for consumers is ₹184,220 crore and MGNREGA is budgeted for ₹60,000 crore in the current Union budget. On top of this, there are pending bills of the Food Corporation of India, which totalled to about ₹1.35 lakh crore in April 2018, and may not be much less in April 2019. So, in a way, for the so-called 'poor', the safety nets cost anywhere between ₹3.5-4 lakh crore. The problem is that food subsidy covers 67% of the population with massive leakages.

This needs restructuring and rationalisation. For example, if one restricts food subsidy to the bottom 20-25% of the population, and link the issue price to at least half of the economic cost of FCI, give cash in lieu of grains to farmers, and restrict MGNREGA to drought years and/or merge with agri-operations, it can easily save more than ₹1 lakh crore per annum. This can be diverted to farmers. Similarly, put fertiliser subsidy directly into the accounts of farmers, and let them choose whether they want to do organic farming or use chemicals. DBT through cash into farmers' accounts with linkage to Aadhaar, their bank accounts, geo-tagging of farms, and updation of land records is a better way to support farmers than loan waivers and higher MSPs. It may be noted that they are not a substitute of either structural reforms or investments that are needed in agriculture. In fact, it is a sort of atonement for not acting on those fronts.

Level and composition of producer support estimates (PSEs) in China, OECD and India (2001 to 2016)



Source: OECD Monitoring and Evaluation Report, 2017

What will the election be about?

The difference between the two sides is not so much in economic ideology but in execution of programmes. Modi has been criticised for over-promising but he has not underachieved relative to the UPA-II

MEGHNAD DESAI

Prominent economist and labour peer

The election is only months away. All sorts of issues are generating noise. It is not clear, however, what would the economic issues be at the next election. There are the 'talking issues' such as farmers' distress, jobs, Rafale, triple-talaq (TT), etc. I have already written earlier in this column my concern about the jobs data and my total opposition to loan waivers for farmers. Rafale is a fake issue in my view and I do believe the Central government is right on TT.

That said, ask yourself how would the economic programmes of the current ruling government and the 'Grand Coalition' differ. There is a virtual consensus in Indian politics on economic ideas. All parties are statist, prone to giving away consumption subsidies no questions asked, granting reservations to any group which can burn a few buses and are anti-business. They are not-market friendly and have to be made to avoid being fiscally irresponsible which they would love to be. All governments have bullied RBI at all times, preferring low interest to low inflation.

The 'Grand Coalition' will no doubt form itself and issue a 'common minimum programme'. We can take it that it will be similar to what the UPA did. The UPA had a good first four years while the global economy was booming. But after 2008, its efforts at stimulating the economy resulted in cyclical fluctuations in the GDP growth rate and rampant inflation. Inflation was not an accident. It was the result of a deliberate policy of skewing the terms-of-trade between rural and urban regions in favour of the rural sector. (I wrote about this as and when it was happening). NREGA was one plank of this policy as was generous MSPs and PDS. In addition, the Land Acquisition Act 2013 made acquiring land almost impossible for any projects except for the government ones.

There was also active credit creation via the PSU banks for infrastructure builders for which land acquisition was difficult. There was also a stringent Green policy and investors did not get permission to proceed without a long delay. These policies led to the NPA crisis. UPA-II was genuinely conflicted about growth vs environment (remember Rahul Gandhi at Nayamgiri promising the tribes that he would prevent growth from disrupting their lives) and subsidy vs efficiency. There is no need to remind readers about the corruption scams.

> **While the UPA concentrated on consumption subsidies for the rural sector and the poor, Modi has done more for human development**

We have no reason to think that the 'Grand Coalition' will have a policy distinctly different from what UPA-II had. Rahul Gandhi has already promised a minimum income for the lowest 20% and unlimited loan waivers for farmers. The behaviour of the major allies, many of whom have been chief ministers of states, does not inspire confidence about fiscal responsibility. Even so, if the 'Grand Coalition' were to come to power (a low probability outcome in my view), the only serious fear is inflation. GDP growth in India has now reached the 7% plateau. It is mainly the services sector and MSMEs which deliver this growth and, unless economic policy is seriously bad, they should continue to grow.

As far as the incumbent party is concerned, the remarkable thing is that its economic ideology was not different but the scale of the initiatives launched and the speed of execution were unlike anything seen since the first ten years after independence, when Nehru was in charge. Modi has also paid more attention to productivity-enhancing policies which are also human development friendly. Thus, Swachh Bharat with its implications for health, the toilets built, the outdoor defecation removed, the completion of rural electrification and housing which were pending from earlier decades, and the vast rail, road and port infrastructure projects, will be the calling card of the current government.

The difference between the two sides is not so much in economic ideology but in execution of programmes. Modi has been criticised for over-promising but he has not under-achieved relative to the UPA-II. While the UPA concentrated on consumption subsidies for the rural sector and the poor, Modi has done more for human development areas such as health, digitisation and education, electrification and housing, which denotes a production-based approach.

LETTERS TO THE EDITOR

Cutting a sorry figure

The organisers of the national badminton championships, currently underway in Guwahati, deserve brickbats for providing a substandard playing surface at the premier domestic competition. Ace players like Saina Nehwal, Sai Praneeth and Parupalli Kashyap, irked by the bad condition at the TRP Indoor Stadium, rightly refused to take to the court fearing for the worst. Besides, with the All England Championships just around the corner, it was a pragmatic decision. The organisers would do well to avoid courting controversy in future and strive to provide badminton courts that are on par with international standards

— Ravi Chander, Bengaluru

Reservation for Gujjars

The Rajasthan government has succumbed to the pressure of the Gujjars by according 5% reservation to them. The reservation mania has reached its crescendo. As time passes, the reservation system should be phased out gradually. What has been happening is exactly its opposite. Pro-reservationists have very well understood that they can blackmail any government and get their demand enacted. If any government determinedly pursues the right path in some aspects, it would be doing so at its own peril. Every party must include in their manifestoes that they will not increase the percentage of reservation beyond 50% with due regard to the directions issued by the Supreme Court. But, if such a declaration or promise is made in the manifesto, no party can have the edge over the other in terms of electoral prospects. A constitutional amendment to this effect is necessary

— KV Seetharamaiah, Hassan

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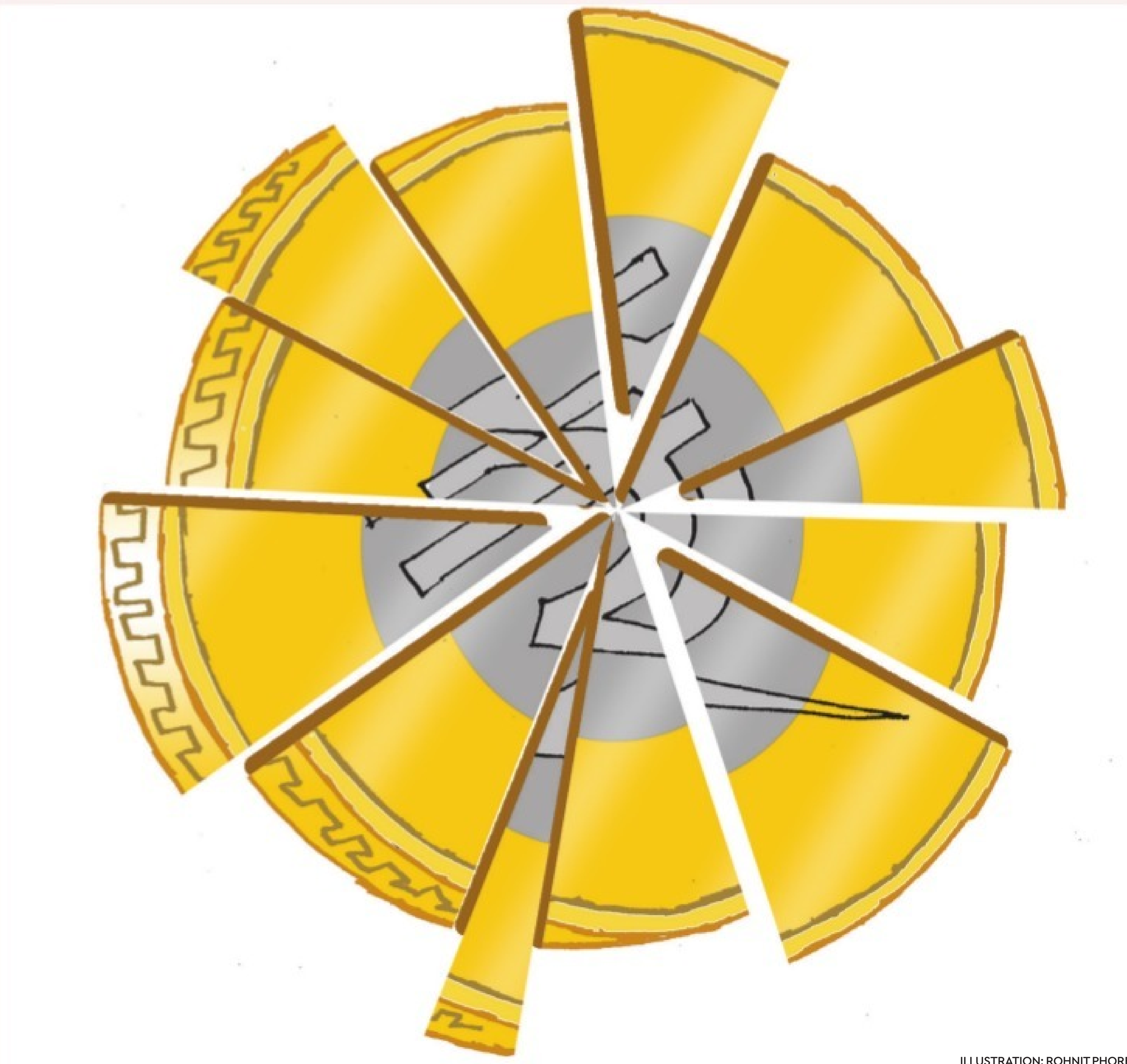
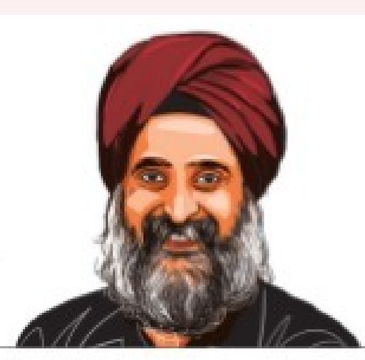


ILLUSTRATION: ROHIT PHORE

Lessons of India's Budget

The Budget displayed a maturity and rationality of thought and action in terms of basic public finance policies. Within the economic sphere, what India still needs is careful rethinking of the balances and boundaries between public and private; centralised and decentralised; economics and politics; and rich, poor and middle



NIRVIKAR SINGH

The author is professor of Economics, University of California, Santa Cruz

LIFE IS NEVER PERFECT, and Union Budgets are just one example. But in the case of this year's Interim Budget, it does seem like the glass is at least half-full in the sphere of economic governance at the Centre, even if broader concerns about India's direction remain. The Budget has been described as populist, but one could alternatively characterise it as providing a mild fiscal stimulus, which may not be a bad thing at this juncture, when India's economy is still struggling to get out from under the overhang of bad debt accumulated in prior years.

The slight slippage in the FRBM (Fiscal Responsibility and Budget Management) target is not too much of a concern, and the transfers—implicit and explicit—that will lead to this slippage have been designed relatively well. The key idea here is that transfers are being achieved through cash payments into bank accounts, and through income tax rebates (an example of what economists call "tax expenditures").

A greater concern is what is happening fiscally at the level of the states, and in the realm of state-owned enterprises. Problems there are contingent liabilities of the central government, and need policy attention, in the form of improved budgeting practices by the states, continued privatisation, and strengthening of the tax administration and tax capacity for states and for cities. But those issues could not be part of an Interim Budget.

The Budget also included measures to update and streamline archaic transaction taxes that come under the head of "stamp duty." Further measures provided some tax relief in the real estate sector.

Prior to the Budget, there had been steps to rationalise and simplify the GST structure. The introduction of GST had involved complex political calculations and negotiations, and it is interesting to see how, once an imperfect tax structure was in place, it could be evaluated and improved relatively rapidly. The lesson here may be that this government, in particular, seems to have an eye for tweaks to the economic system that are "pro-commerce" (perhaps drawing on aspects of being "pro-market" as well as "pro-business," as some academics have described two possible alternative policy stances).

One has to keep in mind, however, that the slow progress we keep seeing on many fronts in India is the result of a broadly shared vision of "economic reform." The Budget speech touted liberalisation of FDI as one of its achievements, but this has been an ongoing process begun decades ago. Coming to grips with the immediate and the longer-term problems of the banking sector, and creating a modern framework for the conduct of monetary policy also have roots in the efforts of previous governments, even if there was a problem of a credit boom and associated corruption in the final years of the last government.

It is important to realise that credit and blame have to be adjusted for external factors, and that should lead one to upgrade the performance of the previous government, as well as not go overboard in praising the current one's economic policies. It is fair to say, however, that the past few years seem to have seen an attempt to stem the rot that was creeping in from excesses of crony capitalism. What remains to be seen is if the approach to governance going into the future can strengthen state institutions so that they do not involve the exercise of arbitrary power, and are more even-handed in how the rich and the poor are treated.

The Union Budget continued the practice of bailing out farmers, which seems to be a perennial issue for India. Of course, the real problems are structural—inefficient and distortionary policies with respect to agriculture, whether in input markets, production or output markets. Pricing, insurance, procurement, credit, marketing and technology choices all need serious policy attention. And underlying it all is the failure to create jobs off the farm and away from the rural areas.

The Budget also touted India's digital strategy. Digitisation can reduce harassment of taxpayers, improve collection efficiency, reduce transaction costs to make small business finance more effective, improve access to health and education services, and so on. It is not difficult to see that what is happening as a "Fourth Industrial Revolution." The central government has realised the importance of these trends, but its vision and its detailed strategy seem to be inadequate, as I have argued in previous columns. Unlike health, sanitation and education, where it may make sense to push down implementation to cities and states, the creation of a national digital infrastructure may properly be a central goal. It is important, in this respect, to not rely too much reliance on large private actors for this infrastructure (implied pun intended), while pushing aggressively and intelligently for a robust 21st century digital infrastructure to support myriad new applications.

> **It will be interesting to see if the rhetoric of the election campaign debates sheds any light on how politicians think of the fundamental issues that need attention**

The Union Budget displayed a maturity and rationality of thought and action in terms of basic public finance policies. Within the economic sphere, what India still needs is careful rethinking of the balances and boundaries between public and private; centralised and decentralised; economics and politics; and rich, poor and middle. It will be interesting to see if the rhetoric of the election campaign debates sheds any light on how politicians think of these fundamental underlying issues.

Measuring life beyond GDP

RAGHU DAYAL

The author is senior fellow, Asian Institute of Transport Development, New Delhi. Views are personal

GDP and productivity statistics are viewed overlooking much of what we truly value

AT A SESSION on 'More than GDP' at the 2019 World Economic Forum in Davos, New Zealand PM Jacinda Ardern argued what, of late, has been advocated by many leading economists that, while countries measure their economic growth, several other factors impacting quality of life go unmeasured. "We need to address the societal well-being of our nation, not just the economic well-being," Ardern said.

Someone in China recently wrote a musical tribute 'In the name of GDP'. Germany had a similar song in the 1980s—a satire on the consumption frenzy. A view has been gathering steam that progress is not measured merely in terms of GDP graphs, BOP tables or swelling foreign exchange, that GDP and productivity growth are important, but they are a means to an end, not ends in themselves.

Today, GDP and productivity statistics are viewed overlooking much of what we value, even when using a narrow economic lens. In a March 1968 oration, Robert F Kennedy decried idolatrous belief in GDP which, he lamented, did not capture "the beauty of our poetry or the intelligence of our public debate. It measures neither our wit nor our courage, neither our wisdom nor our learning. It measures everything, in short, except that which makes life worthwhile."

Nobel laureate Joseph Stiglitz called for an end to 'GDP fetishism'. The OECD-hosted High-Level Group convened by then President Nicolas Sarkozy in 2008, the Stiglitz-Sen-Fitoussi Commission led to '*OECD: Beyond GDP: Measuring What Counts for Economic and Social Performance*' report. To capture not only aggregate economic performance, but also people's quality of life, it adopted a new motto 'Better Policies for Better Lives' and launched OECD Better Life Initiative, resulting in advancing the 'beyond GDP' agenda.

OECD Better Life Index Country Reports contains metrics (housing, income, jobs, education, health and environment, community and public engagement, life satisfaction, safety, and work-life balance) that, it is claimed, better reflect what leads to well-being. While 23 countries scored higher than the OECD average of 80%, Denmark at the top, 13 others fared below the average, with Turkey at the bottom.

> **GDP, productivity growth are important, but they are a means to an end, but not ends in themselves**

It was the king of Bhutan, Jigme Singye Wangchuck, who in 1972 noted that GDP alone did not measure what people want and that "gross national happiness is more important than gross national product." The UN General Assembly placed the concept on the global development agenda in 2011, and declared March 20 as International Day of Happiness.

The World Happiness Report (WHR) 2018 finds India 133rd amongst 156 countries, sliding from 122nd position in 2017, based on parameters like GDP per capita, inequality, life expectancy, public trust (lack of corruption in government and business), social freedom and generosity. India was among the countries that recorded sharpest decline in the score from 2005-07 to 2013-15. In 2018, most SAARC countries rank ahead of India: Pakistan (75th), Bhutan (97th), Nepal (101st), Bangladesh (115th), Sri Lanka (116th).

A similar project aimed at overcoming limitations of GDP is the Social Progress Index (SPI) launched by Michael Porter, Scott Stern, Roberto Loria and colleagues. It was evolved as a "better measure of a country's level of development."

While it would be unrealistic to put a dollar value on stirring oratory like Kennedy's, it is relevant to understand our basic economic progress by considering seminal changes in the goods and services we consume.

As Erik Brynjolfsson and Andrew McAfee explain in '*The Second Machine Age*', much of our increased welfare over the past century has come not just from making existing goods more cheaply. Digitisation brings a related but subtler benefit to the vast array of goods and services. E-retailing has expanded the set of goods available to consumers.

In a way, like Daniel Bell elicited the debate half a century ago by questioning the validity of humanistic ideologies, repudiating youthful idealism and baring 'the ambiguities of theory', 'the complexities of life' and 'the exhaustion of utopia', the concept of GDP as a criterion of a nation's well-being is under the lens. Not irrelevant it is to beckon India's ancient, classical notion of *Trivarga* (*artha*, *dharma*, *kama*) defining the goal of life, seeking a balance between them.

The rate effect on GST collections

Lower rates, moderate revenues, higher compliance

G GOKUL KISHORE

The author is an advocate with Lakshmikumaran & Sridharan. Views are personal

COMPLIANCE ISSUES UNDER GST do not dominate public debate to the extent revenue collections do. Discussions in GST Council meetings indicate that both the Centre and states are concerned over lower GST collections. The causes and concerns deserve an analysis with certain caveats.

The budget estimate of GST collections for FY19 is ₹13.48 lakh crore, with a monthly target of ₹1.12 lakh crore. Since implementation, GST revenues have crossed ₹1 lakh mark only thrice. A logical reason attributable to lower GST collections vis-à-vis the projections is constant reduction of rates. Two of the meetings of the GST Council were Budget-like, considering the sweep of tariff changes.

The tax rate on hundreds of items was reduced from November 15, 2017. The number of items under 28% tax slab was drastically pruned from 224 to just 50. If the commodity base of the highest tax bracket shrinks by one-fourth, then revenue consequences are unavoidable even if non-impacted high revenue items like cement are taken into account.

GST revenue for inaugural month July 2017 was ₹94,063 crore. With increased registrations, revenue was ₹93,141 crore in August and ₹95,131 crore in September 2017. Utilisation of pre-GST credits carried forward through TRAN-1 form gained momentum, reducing cash payment for taxes and October and November 2017 revenues went down to ₹83,346 crore and ₹80,808 crore, respectively. December 2017 was the first full month after massive rate changes of November and GST collections stood at ₹86,703 crore, a trend maintained with January 2018 collections at ₹86,318 crore. Despite full-fledged TRAN-1 credit utilisation and wider and deeper rate reduction, GST collections did not become erratic. The dent was modest compared to the potential impact the changes could have caused. Similar trend was witnessed when rates were reduced on several items in July 2018 as GST revenue went down from ₹96,960 crore in July to ₹93,960 crore in August.

The reason behind revenue shortfall was officially explained as IGST being paid on intra-company, but interstate supplies and later when final supplies fructified, credit of the same was utilised, reducing net tax collection. The fall in overall incidence on most commodities and increase in ITC claims were also cited. As per a press release issued in September 2018, one of the main factors for the dip in revenues was probable postponement of sale of items for which tax rate was reduced in July; the time taken for the market to pass on the benefit and postponement of buying decision by consumers expecting the rate reduction benefit.

Going forward, the top slab of 28% will cover only luxury and sin goods, and rates of 12% and 18% may be merged and brought to 15%. All services attract uniform single rate of 18% and if the rate is brought down to 15% across the board, a significant impact on revenues is not ruled out. Tweaking tariffs alone may not help in pushing revenues beyond ₹1 lakh crore month after month consistently.

Liberalising credit availability in certain situations as per recent amendments will effectively reduce payment of tax by cash and pull down growth in revenues further. However, non-GST revenues like excise and VAT on crude, petrol, diesel, natural gas and ATF, along with stamp duty on real property, also need to be reckoned when tax revenues are analysed. When rates are reduced coupled with procedural relaxations, compliance tends to improve. This, along with higher consumption, can have a positive effect on growth of tax revenues as well. Tax revenue is a function of tax rates, taxpayer base and enforcement.

Widening the base

In February 2018, registrations under GST were 1.03 crore comprising of 87.03 lakh normal taxpayers and 16.42 lakh composition taxpayers. This represented a good increase vis-à-vis those who migrated from pre-GST regime, which stood at 64.42 lakh. As on December 2018, 1.16 crore taxpayers have obtained registration. If one were to reckon 17 lakh voluntary registrants despite being below threshold limit, the increase in the number of taxpayers reflects success in mainstreaming the unorganised.

As per return filing data, there was 50% increase in the number of indirect taxpayers (January 2018). As per Economic Survey 2017-18, there were 98 lakh unique GST registrants (slightly more than those under pre-GST regime). However, the percentage of those who obtained registration but did not file return and did not pay tax stood at 14.21% in July 2017, jumping to 28.75% in November 2018. Among composition taxpayers, 15.03% were non-filers in July-September 2017 as compared to 25.37% in July-September 2018.

Cessation of business could be a reason for default in filing returns and tax payment. Compulsory migration of VAT dealers with a meagre turnover could be another reason. The decision to increase threshold limit to ₹40 lakh will mean contraction of the base but without major impact on revenues. Resolving issues like technical glitches, lack of exposure of trade to IT systems and absence of robust offline utility, along with preference for purchases from registered vendors for ITC benefit and voluntary registration of small business, can be the drivers to widen the base.

Tax evasion

During April-October 2018, evasion of ₹38,896 crore was reportedly unearthed. Availing input tax credit without receipt of goods continues to be widely reported. Non-reporting of supply resulting in outright evasion, under-reporting of supply by mis-declaration and undervaluation leading to lesser revenue and fraudulent reporting to confer undue ITC benefit to recipient are not new. Such *modus operandi* was prevalent in earlier regimes as well. But GST being a new tax, avoidance is being looked at with new eyes.

As compliances are online, access to data is seen as the reason for the higher figure of revenue leakage getting reported. When tax rates converge towards the median rate, incentive to evade shrinks. System-based verification, matching between parties for ITC and making recipient also liable to tax if supplier defaults may check evasion. Scrutiny of returns and audit of records by the department have not yet started. These checks aided by data analytics can be effective in deterrence. Use of data on tax compliance behaviour may also bring moderate success in plugging revenue leakage.