Why digital skews media

The whole discussion around media consumption and growth is dangerously biased towards digital

MEDIASCOPE

VANITA KOHLI KHANDEKAR

Do only some consumers matter? It is a question I frequently ask of researchers, media firms, marketers and analysts. For example, 31 per cent of Indian voters had chosen the ruling Bharatiya Janata Party or BJP in 2014. Why then does more than 90 per cent of news media talk only to that 31 per cent?

Similarly, 836 million Indians watched TV, more than 385 million people read a newspaper, more than a billion film tickets were sold in 2018 but most discussions and research on media focusses on digital audiences.

The Reuters Institute for Study of Journalism's (RISJ) India Digital News Report was released last week. Online news generally (56 per cent), and social media specifically (28 per cent), have outpaced print (16 per cent) as the main source of news among respondents under 35. Trust in news sources is low are among its varied findings. Many of these are in line with anecdotal evidence. The survey was conducted by YouGov using an online questionnaire in early January 2019. The sample size remains undisclosed. "The sample is reflective of the English-speaking population in India that has access to the internet. As a result, it is skewed towards male, affluent, and educated respondents. As an online survey, the results will further under-represent the consumption habits of people who are not online (typically older, less affluent and with limited formal education)," says the report.

To be fair — it is the 'Digital News Report', RISJ does put caveats all over the report on language and internet access and this is an honest effort.

But reports like these or even the last two years' FICCI-Frames reports are part of a skewed narrative about online media being this ubiquitous, omnipotent force that is killing TV, print and other media. It is not.

Of India's 480 odd million broadband users, 279 million consume news and information online says comScore. There is some duplication between a reader of *The Times of India* online and offline, much of this is corrected by agencies like comScore that tabulate this data. So far, except for English, readership is not significantly affected for most of the large language groups.

TV has been facing the same kind of negative discourse. Netflix, MX Player and Voot are about to kill TV it would seem. The reality — Indians spent three hours and 45 minutes watching TV every day, a figure that has risen year on year. They spent 50 minutes a day watching streaming video in 2018. It was also one of the best years for the film industry that actually saw ticket sales rise.

The point is all media co-exists. Look at the US. In the 1940s, the fear that vinyl records would ruin the live concert business led to a strike by musicians. In the 1970's, it was a war against analogue tapes, in the 80s against blank CDs, in the 90s against music compression technologies — remember Napster. Live music bounced back, the music industry is having a great time thanks to digital. And radio and podcasting continue. Every new technology comes, reshapes things and then settles down to co-exist. Tomorrow if something better than digital comes along; it will wedge itself in too.

In the US each media — newspapers, radio, TV — had its day in the sun, it matured, consumers explored it and then went to another new technology long after. India was, technically, a media dark market till the mid-80s when the first cable channels (showing pirated video films) came. It really opened up in 1991 with the first private satellite channels and economic liberalisation. It took off only in the late 90s when everything — private TV, radio, newspapers — started expanding madly. That explains why print and TV consumption continue to grow. We just haven't had enough of these.

There is a whole India out there reading newspapers, watching films or listening to radio in Malayalam, Tamil, and Marathi among a host of languages — and a bulk of this is not online. It is embracing digital too, with as much enthusiasm. On revenue, profits and every other parameter, digital is still catching up. Even if it overtakes print or TV or any other media, it will co-exist.

Can we have some sense of balance and reality on this one please?

Twitter: @vanitakohlik

Discharging batteries to energise Khaitan group

The sale of Eveready is a crucial step to putting its house in order

ISHITA AYAN DUTT

In 1993, Brij Mohan Khaitan snapped up Union Carbide India (now known as Eveready Industries India), pipping the Wadias of Bombay Dyeing in a \$96.5-million deal or about ₹300 crore, in what was the biggest corporate takeover in India at that time. More than two decades later, that prized asset has been put on the block to deleverage group debt.

As on September, the debt within the group with interests ranging from batteries, tea and engineering, was at around ₹4,500 crore.

To put the house in order, McLeod Russel India, the bulk tea producer from the Khaitan stable, has been selling gardens; 12 deals have been sealed so far and with another eight memoranda signed in September, McLeod is set to rake in a shade less than ₹800 crore from the sale of gardens in Assam and Dooars. Add to it the sale of interest in the profitable Rwanda operations, and the amount goes up to ₹940 crore.

That might not be enough to take the Khaitans to the target of retiring debt to a level of ₹1,500 crore by September. But if lenders agree to debt resolution under Project Sashakt for McNally Bharat Engineering, the problem child within the group, then a lot of the burden would be taken care of.

Engineering has been a drag for the group. McNally's debt in FY18 stood at ₹3,500 crore.

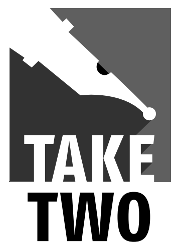
"The proposal for resolution of debt has been placed before the lenders. That would bring down the group level debt to ₹3,000 crore," sources pointed out.

Support was extended by Eveready and McLeod, which added to the debt burdens of those companies. Sometime around 2015, Toshniwal-owned EMC was brought in as a co-promoter in McNally but that didn't quite help and the debt kept mounting. The two eventually decided to part ways.

"If the whole restructuring goes through, change of ownership for McNally could also be an option," said sources. McNally then would be the second company to consider a change in ownership after Eveready.

The battery maker has seen interest from the likes of global battery majors Duracell and Energizer, apart from a clutch of private equity players, for a majority stake in the company. The bids are expected shortly.

The Khaitans, ideally, would like to retain a minority stake. The enterprise valuation is around ₹2,000 crore and a premium on that is expected.



So what would the group look like post-stake sale in Eveready? The substantial focus naturally would be on tea. That would mean a return to the roots.

The Khaitan story started with tea. Or, fertilisers, to be precise. Brij Mohan Khaitan used to supply packaging materials and fertilisers to Williamson Magor & Company, one of India's top managing agency firms, at one point.

In 1961, when one of the Magor tea companies, Bishnauth, was close to becoming a target for a hostile acquisition, Khaitan, was brought in as the white knight. That taken care of, Khaitan was invited to join the board of directors in 1963 and by 1964 he assumed the role of managing director.

By 1995, according to Gita Piramal's *Business Maharajas*, the group consisted of 25 companies with interests apart from tea in batteries (Eveready Industries, Standard Batteries), engineering (Macneill Engineering, McNally Bharat, Kilburn Engineering, Worthington Pumps, Deutsche Babcock), packaging (India Foils), financial services (Willimason Financial Service). But between early and mid-2000, the businesses that took centre stage in the Khaitan scheme of things were tea (primarily consolidated under McLeod Russel), batteries (Eveready) and engineering (McNally Bharat Engineering and Kilburn Engineering).

Battling debt problems is not exactly new for the group. In 2000, Eveready had run up a debt of more than ₹600 crore on a turnover in excess of ₹800 crore. To tide over the situation, the company resorted to selling tea gardens. Amid the din, in 2001, the Khaitans and Magor split.

But the wheel turned a full circle when Brij Mohan Khaitan's elder son, Deepak Khaitan, managed to stitch a deal to buy out Magor-held Williamson Tea Assam four years later.

The deal, one of the biggest in the industry, was clinched in 10 days flat. Khaitan was on a holiday with his wife in London. For those who know Deepak Khaitan, it was hardly a surprise; he was known for his persuasive skills.

The transaction became a turning point for the group. Other acquisitions followed. McLeod went on to acquire Doom Dooma Tea Company from Hindustan Unilever and Moran Tea Company from its UK parent.

In 2015, Deepak Khaitan died. His son, Amritanshu Khaitan, and brother Aditya Khaitan, are at the helm.Prior to the split with Magors, the tea business was vested in Bishnauth Tea Company and Eveready Industries India. Subsequently, Bishnauth was merged into Eveready and thereafter, the tea business was demerged from Eveready into McLeod Russel.

Acquisitions in India and abroad took McLeod's production to 118 million kg. Apart from Rwanda, McLeod has a presence in Uganda and Vietnam. After the sale of gardens, production will stand reduced to 80 million kg.

Insiders said the decision was to exit marginal gardens or non-profitable ones. Some more exits from marginal gardens could be in the offing. But a lot would be riding on the sale of the batteries business. How soon and how much would be the determining factors for the road ahead for the group.

DEBT OVERHANG

Year end	Total debt (₹ crore)	Net sales (₹ crore)	PAT (₹ crore)
EVEREADY INDS			
FY16	200.4	1,323.7	69.0
FY17	216.1	1,357.2	93.5
FY18	264.0	1,456.4	53.2
9MFY19	319.6	1,146.0	43.2
WILLIAMSON MAGOR			
FY16	378.4	33.9	-8.2
FY17	500.5	51.0	-14.0
FY18	579.1	48.1	-49.9
9MFY19	701.2	30.8	-47.24
WILLIMASON FIN			
FY16	178.4	29.3	-6.5
FY17	281.0	30.0	-14.6
FY18	458.1	35.3	-29.6
9MFY19	552.7	29.9	-33.5
MCNALLY BHARAT			
FY16	2,497.1	2,693.7	-368.7
FY17	3,095.3	2,171.8	-56.9
FY18	3,510.4	1,682.5	-461.0
9MFY19	1,480.0	1,321.5	-293.66
KILBURN ENGG			
FY16	16.5	135.1	7.9
FY17	132.7	136.0	9.3
FY18	114.4	105.1	3.4
9MFY19	103.6	97.7	4.62
MCLEOD RUSSEL			
FY16	836.0	1,926.3	28.0
FY17	935.8	1,870.8	58.6
FY18	1,090.8	2,055.3	207.9
9MFY19	1,360.3	1,134.2	314.04

Source: Capitaline Compiled by BS Research Bureau

CHINESE WHISPERS

Thundery talk

The Congress infighting has just got worse. A group of Congress leaders is accusing another group that it is trying to finish off the career of senior party leader Digvijaya Singh. That's the reason Singh has been asked to contest from the Bhopal Lok Sabha seat, they allege. Bhopal is a saffron citadel and the Congress had last won the seat in 1984. Singh's son and the cabinet minister of urban administration and housing, Jaivardhan Singh, is there to support his father. Singh (junior) tweeted, "*Falak ko zid hai jahan bijliyan girane ki, hume bhi zid hai wahin aashiyan banane ki! Sarvatra Digvijaya, sarvada Digvijaya*" (loosely translated, it means "we will build a home where the lightning bolt strikes").

Apple surprises

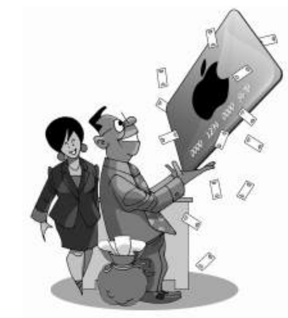


ILLUSTRATION BY BINAY SINHA

Many found it paradoxical that Apple would launch a branded credit card for iPhone users. While Apple said the Apple Card, launched on Monday for the US only at present, was "designed to help customers lead a healthier financial life", some analysts said the launch was aimed primarily to improve the health of Apple's financial life". Interestingly, four years ago the company introduced Apple Pay, a payment service aimed to kill physical cards and wallets. "After mocking credit cards, Apple has launched one. Slowing growth makes companies do surprising things," said a fund manager.

Family fights

This Lok Sabha elections will see many members of the same families pitted against one another. In Tamil Nadu, the Bharatiya Janata Party's state unit head, Tamilisai Soundararajan *(pictured)*, is campaigning against her uncle (father's brother) Vasanthakumar (representing the Congress) in Kanniyakumari. She is contesting the Thoothukudi seat. For the Andipatti seat, two brothers — Logirajan and Maharajan — are contesting on the Dravida Munnetra Kazhagam and All India Anna Dravida Munnetra Kazhagam tickets, respectively. Vishnu Prasad of the Congress will be taking on his wife's brother-in-law, Anbumani Ramadoss, representing the Pattali Makkal Katchi (part of the National Democratic Alliance) in the Arani constituency.

INSIGHT

Digitally-enabled India: 2019 can be the year

The challenge will lie in preparing the new workforce with the skills and work culture they need to participate with the digital natives

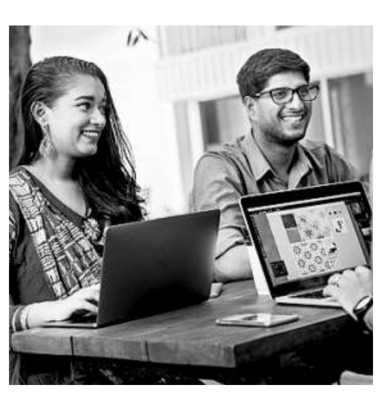
GANESH NATARAJAN

Digital India was just a dream a few years ago and given the hype and hoopla in the last few months over farmer stress and loan waivers, anemic industrial growth, banking NPAs, many start-up failures and the alarming rise of joblessness, a cynical citizen could be forgiven for believing that all the missions we have heard about — Skills India, Start-Up India, Make in India and even Digital India — will have to press a reset button to have any hope of succeeding by the time India is 75 years old. But this would not do justice to several successes we have seen in the realm of digital and the real hope that many of us have that a digitally-enabled India could be the secret sauce for cooking up a more optimistic future for many of our countrymen. The year when we see real results could well be 2019.

Research conducted by McKinsey Global Institute in collaboration with the IT ministry a year ago had optimistically projected a trillion-dollar opportunity that beckons if we address all the possibilities of digital enablement. This will mean not just the tech sector contributing \$300 billion or more by 2025 but many sectors — health care, manufacturing, agriculture, tourism and education — using the enabling power of the national optical fibre network and an array of digital technologies will transform product design, optimise processes and enable new consumer and citizen journeys. The good news is that India's pace of digital adoption has been among the best in the world with more than a quarter billion Indians having gone online in the last five years and smart phone penetration — which grew from six per hundred people in 2013 to 23 in 2017 — is expected to continue its breathtaking growth rate in the foreseeable future.

What gives more confidence is the number of use cases that are emerging in key economic sectors that assure us that digital transformation is real and happening. Our own ecosystem of entrepreneurial investments at 5F World with the thesis of "Digital for India" have seen seven profitable companies emerge. The success of this ecosystem has attracted investments from companies in Tokyo, Los Angeles and New York and is a true representation of the opportunities that lie ahead for players in digital India.

The secret to success in the creation of a digitally-enabled India is not to rush in with digital technologies without preparing the processes and culture for assimilation of new ideas and capabilities. In every manufacturing company, from the very large to the micro SME, it has been seen time and time again that spraying IoT sensors on the shop floor is no formula to ensure smart manufacturing. It is important to build a data usage culture and move from a descriptive post-mortem analysis of production and maintenance to a predictive and eventually prescriptive capability for shop floor output, supply and demand chain responsiveness, customer buying behaviour and employee willingness to be digitally responsive. The interplay of cyber with physical, whether it is humans working with robots or artificial intelligence used as an assistive and augmenting tool rather than for autonomous AI replacing humans, mixed reality — augmented and virtual capabilities to enhance production and warehousing productivity and "digital twins" to model every process and simulate outcomes before putting it into large scale deployment are all capabilities which the fourth industrial revolution is demanding. The very same principles, with some necessary tweaks can transform agriculture, health care, logistics and enable the true creation of e-government and smart cities and villages across the length and breadth of the country. Even the social sector is seeing the value of digital technology deployment and impact investment monies are seeking the intersection of technology and social upliftment to fund new models of development.



GEARING UP **India's pace of digital adoption has been among the best in the world**

The McKinsey report pointed out that while IT and IT-enabled services, electronics manufacturing, e-commerce, telecom services and e-payments would contribute half of the trillion dollar digital economy, the other half would be made up of new and emerging digital ecosystems — digital product and service creation and delivery, smart grids and digital power distribution, e-marketplaces for private and government services and larger participation of shared economy players not just in transportation and hotel rooms but every segment of the services economy. The challenge of course will lie in preparing the new workforces with the skills and work culture they need to participate with the digital natives to create new economic models and benefit from them. The nation is approaching a state of readiness to take up the digital challenge and convert it into national and global opportunities.

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LETTERS

Change in narrative

With hyper-nationalism dominating the national narrative since the Balakot airstrike a month ago, other significant issues affecting the livelihood of millions had been pushed into the background. Congress President Rahul Gandhi's *(pictured)* announcement of ensuring a minimum income of ₹6,000 per month to 20 per cent of the poorest of poor households on Monday has refreshingly shifted the national debate back to those issues.

Amelioration of poverty would now dominate the narrative without compromising the imperatives of national security. Not surprisingly, a rattled Union Finance Minister Arun Jaitley, sensing a possible electoral gain for the Congress in the ensuing Lok Sabha election, was quick to accuse the Congress of "bluffing" the people citing a galaxy of statistics to prove his point. If Rahul Gandhi's promise is indeed a "bluff", what does Jaitley have to say about his party's promise of bringing back black money stashed abroad and to distribute ₹15 lakh to each household in the country? Similarly, how about the tall promises of providing two crore jobs a year? Weren't these promises also election time *jumla*? Those sitting in glass housees should not throw stones at others. The Congress, on its part, must come out with details of its scheme in the days to come for an informed national debate. It would be premature to rubbish the scheme outright.

S K Choudhury Bengaluru

Pro-poor move

The Nyuntam Aay Yojana (NYAY) (minimum income guarantee scheme) or Garibi Hatao 2.0 announced by Congress President Rahul Gandhi is an idea whose time has come. When implemented, millions of our compatriots will escape poverty. Described as the final assault on poverty, the scheme implicitly acknowledges every citizen's right to a minimum income to lead a decent life and asserts the state's responsibility to intervene to ensure minimum income to each household.

Additionally, the scheme has shifted the focus from Bharatiya Janata Party's (BJP) nationalism plank and brought back the improvement in the material circumstances as the main election issue. The 25 crore prospective beneficiaries is no small number for anyone to say that it won't pay rich electoral dividends to the Congress.

In dismissing the scheme as a "bluff", the BJP runs the risk of being seen as anti-poor. It cannot afford to be seen as stymieing a sweeping welfare scheme as NYAY. When it comes to the implementation of promises, the reliability quotient of Congress is higher than BJP's. The scheme could prove to be a gamechanger for the Congress. It is an elitist way of looking at the persistence of poverty and to dub the scheme "fiscally irresponsible". When the loans of corporate giants to the tune of thousands of crores of rupees are written off, they are justified as incentives for growth. But when a pro-poor scheme is conceived, it is denounced as populist and economically infeasible. This time the impoverished multitudes might use the power of their vote to improve their lot.

G David Milton Maruthancode

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Business Standard
Volume XXIII Number 159
MUMBAI | WEDNESDAY, 27 MARCH 2019

Unaffordable welfarism

Congress' NYAY can be a fiscal killer

Congress President Rahul Gandhi has come up with the latest instalment of welfarism with the promise of depositing ₹6,000 per month in the accounts of 20 per cent of the poorest households in the country. The targeted beneficiaries of the proposed Nyuntam Aay Yojana (NYAY) will be 250 million individuals, or roughly 50 million families. The proposed scheme is significantly different from the party's earlier plan of topping up the gap between a poor household's income to bring it to ₹12,000. Instead of a top-up plan, the fresh proposal is a flat allowance of ₹72,000 a year if a family's income is below ₹12,000. The broad assumption is that even the poorest families earn roughly ₹6,000 per month; so by providing another ₹6,000 in the form of government support, such families will be brought up to an income level that alleviates poverty. It is hardly surprising that the Congress's chief political opponent — the ruling Bharatiya Janata Party (BJP) — has sought to rubbish the NYAY scheme. Regardless of the political arguments, the fact is that the NYAY is a very poor policy prescription.

To begin with, the logic of choosing 20 per cent of the poorest families may be faulty since it is clearly not based on the national poverty line. India's own poverty level was 21.9 per cent of the population in 2011, which means it should be under 15 per cent today. The cut-off is way too high and there will be much more than 20 per cent of families below that line, creating selection problems. Second, it has been hinted that this payout will be in substitution for some existing schemes, but this is a non-starter, as it will create a lot of dissonance and protest because the beneficiaries will not completely overlap for different schemes, and there will be losers. This will be true of the scheme per se. An artificial cut-off is problematic, given that very little separates those under it and those unfortunate enough to fall just above that. For instance, someone who earns ₹11,000 will get ₹6,000 but someone who earns ₹12,000 will get nothing. This leaves immense scope for social strife among those who lose out. Another headache will be the identification of the beneficiaries because there is no foolproof method.

Moreover, there is no differentiation for variations in family size, and between urban and rural households even though the cost of living is very different. Lastly, there is the question of fiscal affordability. The Congress claims that the NYAY will cost 1.2 per cent of gross domestic product (GDP). But this calculation seems over-optimistic. On current GDP, the bill will be close to 2 per cent of GDP. Three years down the line, with economic growth, it will be 1.5 per cent of expanded GDP. But even at 1.2 per cent of additional spending, the NYAY will be a fiscal killer.

All such proposals flow from the basic notion of a uniform basic income (UBI), which has simplicity as an advantage but is essentially unaffordable because — no matter what armchair economists may say — in the real world no government can withdraw existing benefits. To keep the costs down, the simple UBI gets distorted with selection criteria, but these, in turn, create identification problems that have no easy solutions and, therefore, lead to messy execution.

Over the top regulation

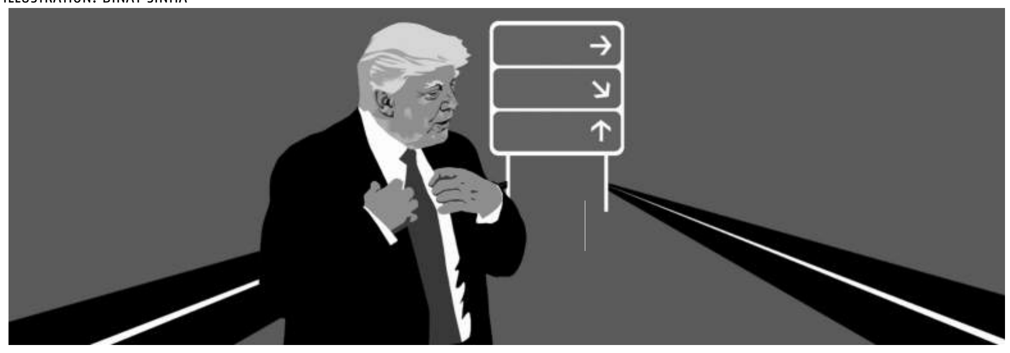
Classifying OTTs as e-commerce firms is a bad idea

Over-the-top (OTT) platforms such as Netflix, Hotstar and Amazon Prime are worried because they may have to scout for ways to comply with the proposed e-commerce policy if the current draft is accepted. At the centre of the problem is the definition of goods and services to be covered by the e-commerce policy as envisaged by the Department for Promotion of Industry and Internal Trade (DPIIT). The recently issued draft policy defines e-commerce as "buying, selling, marketing or distribution of goods, including digital products and services, through electronic network".

Once this definition is taken in conjunction with the foreign direct investment (FDI) rules, the complexity of the situation becomes clear. Press Note 2 of the FDI policy, also issued by the DPIIT, states that an e-commerce platform with FDI cannot exercise ownership or control over the inventory sold on its platform. It is precisely for the reason specified by the FDI rules that Amazon, which is primarily an inventory-based e-commerce company in the US and other big markets, had to change its business model to become a marketplace player in India. Flipkart, also controlled by foreign investors and now majority-owned by American firm Walmart, was also forced to convert from an inventory-based to a marketplace model. The government should look closely at how pure play e-commerce firms have taken the back-door channel to reroute investments and ownership to skirt the complex FDI rules from time to time. That lesson should prevent authorities from imposing similar complex guidelines on OTT players. It's well known what happened in the case of e-commerce firms. They changed their essential business models on paper while finding imaginative ways to bypass the rules. For instance, these firms created sellers, with significant ownership and control, on their marketplace platforms. These sellers emerged to be the dominant ones till the government took note of the aberration and again tweaked the rules.

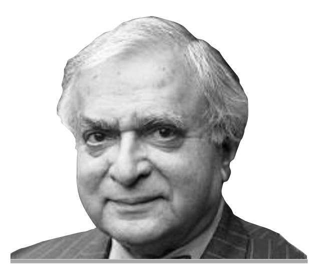
Distorting well-established business models is not a good idea and policymakers must not repeat the e-commerce mistake in another high-growth area — OTT. At a time when Netflix, Hotstar and Amazon Prime are turning out to be household names, the government should not play spoilsport by micromanaging ownership and control issues in the sector. OTTs may license some content from different production houses, but original content gives them better control over their intellectual property. Classifying OTTs as e-commerce firms will open a Pandora's box, and the DPIIT should be mindful of that. Also, the temptation of protecting a domestic lobby while making and tweaking policies must be resisted at all cost. In the case of e-commerce, the government has often been guided by the Indian traders' lobby protesting the deep discounts offered by the foreign-owned online firms. If a similar stance is taken for the digital content streamed by OTTs, it will be a retrograde step. All the OTT majors have planned heavy investments to produce original content focused on Indian audiences. Original content, a concept introduced by Netflix in 2011, has become the key to success in the online video-streaming industry. Any move to stop that would send a wrong signal to the multinationals and also deprive millions in India of their favourite shows. Policymakers would do good to revisit the concept of the inventory model, which was barred to have uniformity between online and offline commerce.

ILLUSTRATION: BINAY SINHA



The disuniting of the United States?

There is a deep ideological economic divide between Democrats and Republicans for the first time since the Great Depression



DEEPAK LAL

For most of January and February I was in Los Angeles, California. This is the centre of the "Trump resistance" and California played a significant role in the Democrats winning control of the House of Representatives. In his State of the Union address, President Trump gave an emollient account of the US' economic progress — with a higher economic growth rate, the lower unemployment rate for African Americans and Hispanics; the benefits from deregulation and the tax cuts (but not the failure to deal with the burgeoning fiscal deficit) — and his foreign policy successes. But, this was met by stony silence on the Democratic seats, except when he congratulated their white blazered women for being the largest feminine contingent in US congressional history.

But as Joseph Epstein ("The state of the union..., *WSJ*, 1 February) pointed out, the President's rosy scenario was repudiated by the reality of an utterly divided country, with the "so-called aisle between the two parties in both houses a more effective wall than any the Homeland Security Department could devise". This reflects, he argues, the lack of consensus on fundamental values like family, education, security, fairness and decency on which there was agreement not so long ago. "What union", he concludes, "one might ask about a country so divided within itself, so vastly, so radically, so sadly at loggerheads". How has this come about?

The proximate cause is the post traumatic stress the Trump resistance is still suffering from the loss of the Presidency which they had assumed was in the bag for Hilary Clinton. Nothing illustrates this better than the recent revelations by the former deputy director of the FBI, Andrew McCabe, that he and the Deputy Attorney General Rod Rosenstein, after President Trump fired James Comey as the FBI director in May 2017, discussed using the 25th amendment of the constitution to depose him. As the *WSJ* commented ("The FBI's Trump Panic", February 19). "This is extraordinary, and as far as we know unprecedented. A President exercises his constitutional prerogative to fire the FBI director, and Mr Comey's associates immediately talked about deposing him in what amounted to a coup." As McCabe has been fired for lying to FBI investigators, it is difficult to know the truth. The whole mess, including Rosenstein's appointment of Robert Mueller as the special counsel to investigate Trump-Russia ties "after Mr Comey arranged a media leak" after his firing, is now on the desk of the new attorney general William Barr, and we will have to wait and see if, as "Mr Trump's enemies still claim, he is a Russian agent" or "as millions of his supporters think there is a 'deep state' conspiracy against him".

The deeper reason for the current political divide is the growing repudiation by the Democrats of many aspects of what had been the traditional US method of assimilation through the 'melting pot', whereby diverse individual identities were transformed into a distinctive American identity, as observers from De Tocqueville onwards had noted. The only shameful exception were the descendants of the slaves who did not get equal rights as citizens till the Civil Rights movement of the 1960s.

With the accession of a black President one would have thought that Martin Luther King's dream — of individuals not being judged by the colour of their skin but their character— had come to fruition. Ironically, the radical Black Power movement's assertion of different cultural identities had led to the embrace of multiculturalism by many ethnic groups. The Democrats embraced multiculturalism and its identity politics. They "unleashed race, gender, sexual orientation and class as the defining issues of American politics".("The Democrats' Identity Meltdown", *WSJ*, 11 February).

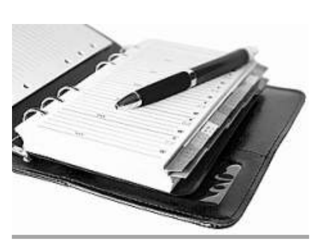
The weaponisation of identity issues was shamefully demonstrated in the confirmation hearings of Justice Kavanaugh for the Supreme Court, when he was labelled a gang rapist with no evidence. In January, the tables were turned with the turmoil in Virginia with the Democratic Governor and Attorney General being asked to resign by Democrats for having 'blacked' their faces when they were at college, and the Lt Governor (Justin Fairfax) being accused of rape, which he denied. The *WSJ* commented "imagine the cognitive Democratic dissonance if Mr Fairfax who is black is forced to resign" because of unproven accusations whilst "the two white men survive despite racial offenses they admit".

There is furthermore a new divide which has opened up with the recent Green New Deal promoted by the Democrat's latest star, the 29-year-old New York Rep Alexandria Ocasio- Cortez (AOC), who calls herself a 'democratic socialist'. She is considered by the media as second only to Speaker Pelosi in the House and is already known by her initials. The large number of prospective Democrat Presidential aspirants have all embraced the leftward swing of AOC. She wants to raise the top income tax rate to 70 per cent from 37 per cent. Elizabeth Warren wants a wealth tax on multimillionaires. Bernie Sanders wants the death duty top rate to rise to 77 per cent. But it is AOC's New Green Deal which is the most ambitious socialist measure, which as AOC acknowledges would require massive government intervention. "On one estimate, her proposed new entitlements and public works would cost $6.6 trillion a year which is two thirds larger than America's $4 trillion federal budget". (Edward Luce "Green New Deal..." *FT,* 15 February). Apart from proposals to eliminate air travel, cows (for the methane in their bowel emissions) and of course fossil fuels.

For the first time since the Great Depression there is a deep ideological economic divide between the parties: Socialist Democrats and capitalist Republicans. Mitch McConnell, the Senate majority leader acknowledges this as reopening debates of the 1930s when socialist and communist ideologies were discredited. He has asked for a vote on the New Green Deal in the Senate to smoke out the socialists. He noted that Gallup found for the first time that Democrats have a more "positive view" of socialism than capitalism. (Fred Barnes: "Ocasio-Cortez heralds a new political era", *WSJ*, 19 February.)

The revival of the divide between the supporters of capitalism and socialism will be settled at the 2020 election. If America's character has not changed, I would be very surprised if the newly found socialism of AOC and her Democratic fellow travellers are endorsed by the electorate. Hopefully, this may also end the various forms of identity politics promoted by the Democrats which are disuniting America.

The curse of handout politics



NEW DELHI DIARY

A K BHATTACHARYA

Whatever may be its impact on the forthcoming general elections, Congress President Rahul Gandhi's poll promise on Monday to offer up to ₹72,000 of annual income support to almost 50 million poor families is an inflexion point for India's electoral politics. Make no mistake about it. Just as in February 2006, when the Congress had inaugurated the politics of entitlement with its national rural employment guarantee programme, it has now given a big push to the politics of handouts, triggering a possible chain reaction from other political parties and seriously constraining the state's fiscal capacity.

There is of course a big difference between 2006 and now. Then, the Congress was in power at the Centre while launching the job guarantee scheme (Mahatma Gandhi National Rural Employment Guarantee Act). And now its promise of financial handouts to the poor has come as an instrument for wooing voters in the run-up to the general elections.

The job guarantee scheme was followed up with a couple of more such entitlement schemes, namely the right to food and the right to education, although their real impact — financial or otherwise — was not very significant. And now there is the promise of a cash handout to the bottom 20 per cent households, which could result in as heavy an annual financial burden on the central exchequer as ₹3.6 trillion or about 1.9 per cent of India's gross domestic product or GDP.

But just as the BJP government formed in 2014 saw no merit in rolling back those entitlement schemes and instead endorsed them with increased financial outlays, there is every likelihood that Mr Gandhi's income support scheme, if ever implemented in any form or by anyone else, would get a thumbs up from other political parties, whether in power or not. Such is the charm and power of handout politics.

To be fair, the race for handout politics was started by the Bharatiya Janata Party-led government of Narendra Modi. In its Budget this year, the Modi government announced that farmers with less than two hectares of cultivable land would be entitled to an annual income support of ₹6,000. This meant an annual financial burden of ₹75,000 crore on the central exchequer. That promise too was to secure votes in the forthcoming elections. What the Congress has promised now is to widen the scope of such an income support scheme.

Why is this bad news for the Indian economy? You might argue that meeting the income needs of the poorest 20 per cent of the population should help address concerns over growing income inequalities. After all, the state must do something to ameliorate the problem of chronic poverty afflicting its people even after 70 years of the country gaining freedom. The simple answer to that is the problem of poverty or income inequality cannot be tackled by just handing out the dole, but by creating necessary state capacity to provide facilities in the areas of health, hygiene, education, water, housing and food.

That the Indian government in the past seven decades failed to create these facilities for all is a shame. But that shame cannot be overcome by providing an income support scheme at this stage of India's economic development for two specific reasons. One, this would constrain the state's capacity to provide basic social welfare facilities to people. Two, it might lull the state into wrongly believing that its responsibilities would be over if it were to provide that dole.

Income support schemes are all right, but having them before creating the basic infrastructure facilities in the country would result in a sequencing flaw. As it happened in many developed countries, the basic ingredients of social and economic infrastructure in India too should be created before the income support schemes are introduced to address concerns of the relatively weaker sections of society.

There are two other adverse outcomes if the politics of handouts gains ascendancy at this stage of India's economic development. It is a no-brainer that the pre-election promise of an income support scheme like the one announced by the Congress will improve the electoral prospects of the party. This might encourage other political parties, and indeed even the ruling BJP, to come up with something similar, but more attractive, which again will imply a bigger drain on the exchequer's resources. If this race begins, as it well might, then India's developmental goals would be seriously compromised, widening the government's resources gap.

A bigger problem would be the state's tendency to meet the consequent resources gap through steps that might mean a new direction to India's taxation policy. An additional annual burden of ₹3.6 trillion can be met only partially by paring down other subsidies that the government doles out, admittedly through schemes that are largely porous and often poorly targeted. The government's total bill on account of explicit subsidies is about ₹3 trillion or 1.6 per cent of GDP. Most governments in the past have been either reluctant or slow in phasing out subsidies. Even the BJP government rolled out its marginal farmers' income support scheme without even touching any part of the fertiliser subsidy that goes out in the name of farmers. There is virtually no hope that the governments of the future would roll out the income support scheme for the poor and would phase out the existing subsidies in lieu.

So, where will the resources come from? Although improving tax collections through greater compliance and expanded coverage is a desirable goal, governments under pressure to meet the huge financial burden of an income support scheme could be tempted to raise tax rates in the hope of garnering more resources. The real danger here is that governments might settle for this option which is likely to be counterproductive.

That could be a dangerous path. If the country is pushed towards such a path, the blame for that should be shared by both the BJP and the Congress. Income support schemes need a more mature polity and a stage of economic development where the basic needs of social and economic infrastructure have already been met. India is as yet far from meeting those two conditions.

Distorted criticisms on GST

BOOK REVIEW

SUKUMAR MUKHOPADHYAY

The title of the book, the cover photo showing a rupee sign in a tangle of barbed wire and the approving reference to the Congress president's description of "Gabbar Singh Tax" all demonstrate the author's obsessive bias against the Goods and Services Tax (GST). But his logic for opposing it is all too shaky. The author appears to be a typical compulsive contrarian. The major part of this book is devoted to proving that GST is a highly complicated tax, that it is inflationary, has seriously harmed the unorganised sector, has led to marginalisation of the marginalised and so on. I shall examine each one of his propositions.

Regarding the GST's complexities, the author has made no mention of the degree of complication in the previous tax regime. GST has amalgamated nearly 16 taxes, for which he does not give it any credit. The previous tax regime also had a highly complicated concept of manufacture based on marketability on which there were literally more than a hundred Supreme Court and High Court judgments. The entry tax used to detain trucks carrying goods at state borders made the journey very long. The central sales tax of 4 per cent was not allowed input credit, which had made inter-state trade unprofitable to that extent and encouraged manufacturers to buy from the same state even though better goods were available in another state. There were many rates of sales tax in the states, which have now been merged into the GST. The zero rating of export was not comprehensive before, but is now possible with the GST. A common market for the whole country has been achieved as a result. Earlier, the definition of a taxable event was complicated because it differed for excise, sales tax and service tax. That controversy no longer exists because under the GST, the new taxable event is the supply of goods and services, not manufacture or sale and so on.

The present tax is so simple to operate. I have made some extensive market enquiries to judge the impact of the GST. If I buy medicine, the shopkeeper simply writes the names of the medicines and the invoice with the appropriate classification, showing 6 per cent Central tax and 6 per cent state tax, comes out in a jiffy. When I go for a swim, the receptionist presses a button on a small machine, producing a receipt showing 9 per cent central tax and 9 per cent state tax.

There is a high threshold now for small-scale units and a compounded levy for the unorganised sector. The author points out that they do not get input credit. Since the tax is 1 per cent (as he himself says), what is the need for input credit? The unorganised sector must have adopted the new tax because there have been no protests.

The author says the GST is inflationary. Then he admits that the official statistics of wholesale price index and consumer price index do not support this notion. But he doubts the price indices on the ground that services are not included. The only service he could name is school fees, which has not been included in the consumer price index. I cannot comment on this argument if the author does not believe the price indices, which even the Reserve Bank of India accepts.

The author's favourite theory is that black money cannot be removed by the GST. He rightly admits that this can only be solved if politicians, executives and businesspeople change their attitudes. I agree, but the GST cannot be blamed for this. All I can assert is that with the GST the possibility of evasion is much less than before.

The author suggests we scrap the GST and introduce retail sales tax. Had he studied the subject more thoroughly, he would know that states did experiment with this but gave it up because of the high level of evasion. There was no discussion of this beyond a bland statement.

Mr Kumar has not consulted the best authorities on the subject such as Butterworths, Alan A Tait, Richard M Bird and Milka Casanegra De Jantscher, Malcolm Gills, Carl S Shoup, Gerardo P Sicat, and books written by the International Monetary Fund and the World Bank. He has even avoided referring to several authentic reports from the National Institute of Public Finance and Policy by Raja Chelliah, Amaresh Bagchi or Parthasarathi Shome. He has made no effort to study the world's best magazines on GST , namely, the *VAT Monitor* and *Asia Pacific Tax Bulletin*. The result is that his knowledge base is very limited. He has not read what does not suit him. He is given to sloganeering — such as "marginalisation of the marginalised" (echoing the Marxian slogan of immiseration of the proletariat) which he has repeated innumerable times without proving it. This reflects only his entrenched belief. The best part of the book is the appendix, which contains an impressive collection of long-term series on taxes.

The reviewer is former member, Central Board of Excise and Customs

GROUND SCORCHING TAX
Arun Kumar
Penguin Portfolio; 295 pages, ₹499