Opinion

THURSDAY, JULY 25, 2019

KARNATAKA TRUST VOTE

Congress leader, Rahul Gandhi

From its first day, the Cong-JDS alliance in Karnataka was a target for vested interests, both within & outside... Their greed won today. Democracy, honesty & the people of Karnataka lost

Even a 7% growth looks a bit of a stretch now

Private consumption & investment are flagging, govt alone can't revive growth; need a big reforms push for that

THE IMF ON Tuesday lowered its growth forecast for India in FY20 to 7%. But, given how private sector capex has been sluggish for nearly four years now and consumption demand has slowed sharply over the past year, most economists expect GDP to grow at just 6.7-6.8% or even more slowly. There are, however, no quick-fixes; sustainable growth comes from big, game-changing reforms, not populist measures. Simply lowering interest rates does not mean businesses will start borrowing. The current slowdown must be viewed against the backdrop of the twin-balance sheet crisis, never easy to recover from in the best of times. The revival is all the more difficult because industry is still grappling with GST and the disruption from demonetisation. While consumption demand has held up the economy in the last few years, having fallen off now, it is unlikely to revive meaningfully without investment picking up. The slowdown in consumption spends are being attributed to stagnant or falling farm incomes, the lack of new jobs and large job losses in industry. Spends are also subdued because consumers aren't seeing any significant rise in their incomes. ACMA said, on Wednesday, ten lakh jobs were in jeopardy in the auto components sector. In fact, the higher surcharge imposed on high net worth individuals could dampen demand for housing, a key sector for the economy, and one that could have catalysed growth.

The government has not increased the allocation for capital expenditure meaningfully, hamstrung as it is by high revenue expenditure and deficits. The FY20 allocation is ₹3.4 lakh crore, up 12% over FY19, but the total capex, together with PSUs, is smaller than in 2018-19. Also, the government's share of total capex has been falling over the years and, with several PSUs unable to generate adequate internal accruals, there has been a tendency to resort to extra-budgetary borrowings, which are pressuring their balance sheets. At the end of the day, though, the government's investment accounts for a relatively small proportion of India's investment, it is the private sector that needs to invest, and the key to encouraging more private sector investment lies in reforms in the areas of land, labour, regulation, enforcement of contracts, taxation and FDI. It must be recognised that much of the private sector remains over-leveraged and, as the corporate results show, cash flows are weakening. Those industrialists that have the ability to leverage have used this to buy stressed assets via the IBC route. To be sure, routine capex will continue, but given that there is adequate capacity across most sectors, there is no real urgency to create more. Indeed, as R Shankar Raman, CFO at Larsen & Toubro observed, a revival in private sector capex is a good 12-18 months away. As he pointed out, it is as hard to raise money in the capital markets as it is in the debt markets unless companies are highly rated. While the reckless lending by NBFCs needed to be curbed, it has reduced the available liquidity in the system especially for the second- and third-tier borrowers. At the same time, banks have become risk averse, not surprising since the NPA cycle doesn't seem to have ended yet. Even as it eases regulation for labour and land, the government must worry about credit flow to weaker companies. Without that, a recovery could take years.

Auditors must answer

Sebi proposals will bring transparency, boost investor confidence

IN THE WAKE of IL&FS auditors, Deloitte Haskins & Sells and BSR & Associates, facing regulatory action after the company started defaulting on its debt—IL&FS has a total debt of ₹106,000 crore—and it was found that the auditors didn't red-flag the problems in time, there have been a spate of resignations by auditors from a host of companies where the ability to service borrowings has come under cloud. Auditors have walked out abruptly from their contracts with Reliance Capital, Manpasand Beverages, Fortis, and Bhushan Steel, among others, recently. While, in many cases, auditors have cited preoccupation with other work, primarily, as the reason for this, it does seem as if the resignations are related to the authorities turning up the heat on auditors. In some cases, it is true, auditors have flagged entries in the books that don't look *kosher* or even cited the hindrances in accessing relevant information to audit the financial statements of a company. But, largely, auditors haven't been forthcoming about the real reason for resigning, and this has left investors in the lurch.

The Securities and Exchange Board of India (Sebi) has done well to propose a regime in which auditors can't resign without spelling out the real reasons for such a decision. Sebi, in a consultation paper, recommends that if an auditor of a listed company wishes to resign, and has completed the audit for all quarters of a financial year except the last, then the auditor will have to finalise the audit report for the entire financial year before walking out. In case the auditor wants to walk out during any quarter other than the last, a limited audit for that quarter has to be submitted. These provisions will also hold for any unlisted subsidiary of the listed entity. And, if the auditor is resigning because the entity isn't providing the required information, the auditor must provide a disclaimer in the report and, more important, give details of what information was sought—in which case, investors will have a better idea of just how bad things are in the organisation. The auditor also has to give detailed reasons for resignation and state that there are no material reasons other than those provided. Sebi has done well to bring the company's audit committee into the process; so, if an auditor is not getting information, this has to be brought to the attention of the audit committee.

The financial jugglery that firms with dodgy accounting indulge in, it is true, makes gleaning of facts extremely difficult—a recent report by REDD details how such hard-to-detect masking has been done in some cases—but, the role of the auditors is to uncover this and report it; and, if that is not possible, then at least to flag potential problem areas. That said, meaningful action against corporate fraud will also need the regulators to up their surveillance game and also to bring to book lapses in corporate governance of the kind that happened at IL&FS; the company's risk-management committee, for instance, met just once in four years (the consolidated debt around doubled during this period). Not allowing the auditor to evade its responsibility is welcome, but more needs be done to prevent another IL&FS. In that matter, both RBI and Sebi were caught napping.

WastedLIVES

Sewer workers continue to work under dangerous and dehumanising, even illegal, conditions

ACCORDING TO DATA from the National Commission for Safai Karamcharis (NCSK), as many as 50 sewer workers, a subset of manual scavengers who almost exclusively belong to the Scheduled Caste, have died between January and June 2019. Being based on reports submitted by only eight states and UTs, this number is a gross underestimation. Further, based on data reported by 20 states and UTs, 814 deaths related to manual scavenging have occurred since 1993 when the central government outlawed the practice nation-wide by enacting The Employment of Manual Scavengers and Construction of Dry Latrines (Prohibition) Act, 1993. The Socio-Economic and Caste Census of 2011 found that 1,80,657 Indian households are involved in manual scavenging, despite legal sanctions against it.

Sewer workers in India, more often than not, receive no gear for personal protection, making their working conditions dehumanising and dangerous. Worse, marginalised castes are forced to undertake sewer work despite the availability of machines that perform the same function more efficiently and the majority of sewer workers are employed indirectly by state government agencies and urban local bodies. This employment is not strictly illegal since the law allows *safai karamcharis* to work only if they have proper protective gear, but how many actually have these? Sanitation being a state subject, the blame for the deplorable working conditions of sewer workers lies squarely with state governments. Except, maybe, for Delhi, not many states have moved to equip sanitation workers with mechanised/safer/more sanitary cleaning tools. Even if not complicit, the Centre, too, is to blame—at the very least, for its complacency, when it comes to protecting the lives of one of India's most marginalised groups.

AILING HEALTHCARE

THE FAULT LINES OF THE INDIAN HEALTHCARE SYSTEM, ESPECIALLY THOSE OF OUR UNDERSTAFFED AND UNDER-SKILLED HEALTH WORKFORCE, ARE IN URGENT NEED OF REPAIR

Health needs more healing hands

K SRINATH REDDY

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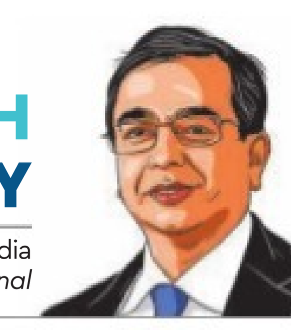
Views are personal



THE SUPREME COURT has averred that health is a human right, while expressing its anguish at the spate of child deaths in Muzaffarpur. The tragedy in Bihar comes at a time when doctors and patients are locked in an aggressively adversarial relationship across the country. These are searing reminders that we need to urgently repair the fault lines in our health system.

One of those fault lines lies in the state of our health workforce, which is woefully short in numbers and skill to meet the mounting demands on sagging health services. There are far less healthcare providers than needed and those available are severely maldistributed across states, and between rural and urban areas.

How many health workers do we need? The World Health Organisation (WHO) had previously estimated that 23 health workers (doctors, nurses and midwives) would be required per 1,000 population to deliver health services related to the Millennium Development Goals (MDGs). Those services covered maternal and child health as well as major infectious diseases. India's National Health Mission too pursued the restricted MDG agenda, in which nearly 80% of population health needs were unaddressed.

The Sustainable Development Goals (SDGs) of 2015 expanded the health agenda to include non-communicable diseases, mental health and other conditions that did not feature in the MDGs. Recognising that this full plate of services needed more health workers, WHO in 2016 raised the minimum number of health workers needed per 1,000 population to 44.5. This was based on 12 health indicators and the need to deliver universal health coverage (UHC). The same year, a High Level Commission of the United Nations strongly recommended higher investment in a larger global health workforce, as a potent stimulus for economic growth.

If only qualified health workers are counted, based on appropriate educational qualifications, India has 16 health workers per 1,000 population according to a recent analysis of data from the National Sample Survey of 2016. Qualified allopathic doctors are overall 4.5 per 10,000 population, but only 1 per 11,000 in the public sector. While we are short of both basic and specialist doctors, the number of nurses is even lower than needed. The ratio of nurses and midwives to doctors is 1.7, while it should be at least 3:1. Midwifery has been subsumed under general nursing, after independence. While it has been estimated that India needs 2.5 million midwives, there are a total of only 1.3 million nurses overall, with many of them lacking adequate midwifery skills.

How do we overcome these challenges? The reconstituted Medical Council of India, with a nominated Board of Governors, is doing a commendable job in reforming a moribund regulatory system of medical education. While doing so, it has recently increased the number of medical undergraduate seats by 15,000 to reach 75,000. Since it has been estimated that we need 100,000 undergraduate seats, it proposes now to permit consortia of large private institutions of repute to start medical colleges or even partner with existing medical colleges to train more undergraduate students. Many such hospitals already run postgraduate medical courses affiliated to the National Board of Examinations (NBE).

Even this may not solve the problem of maldistribution, where several states have few medical colleges and not many large hospitals. It is necessary to upgrade district hospitals in these states and make them robust training facilities for undergraduate and postgraduate medical and nursing education as well as allied health professional training. New medical colleges can be started in linkage with such district hospitals for undergraduate training, and postgraduate training can be affiliated to the NBE. The National Health Mission should consider recruiting fresh medical graduates into a 3-year short service commission to provide for flexibility in posting to underserved states and areas.

> **It is necessary to upgrade district hospitals in these states and make them robust training facilities for undergraduate and postgraduate medical and nursing education**

There is a need to revive midwifery training programmes while continuing to develop the strength of nursing to full potential by enhancing scale, skills, scope, social status and salaries. Nurse practitioners can become the heart and hands of comprehensive primary healthcare in both rural and urban settings. Digital technology, with decision support systems, management algorithms and tele-consulting, can greatly amplify their effectiveness. Along with community health workers, nurses and other categories of mid-level healthcare providers will be the main service delivery resources in primary care, especially in areas where doctors are scarce. People will not need to travel far to distant hospitals, if primary care needs are met closer to home.

Advanced clinical nursing, needed for multiple specialities, can be developed by starting diplomas and fellowships affiliated to the NBE which already has a wide array of such programmes for sub-speciality training in postgraduate medical disciplines. This will ensure that teamwork, whether in intensive care or surgical theatres, is nurtured through connected and complementary training programmes in common clinical settings. Nurse researchers too must emerge through public health and clinical nursing programmes.

These measures will generate jobs in the many categories of the health workforce, for millions of young persons yearning for productive employment. From the current 6.75 million, the workforce can expand to 11.4 million by 2025. Each year, nearly 3 million youth pass the 12th standard exam in the science stream. A sizeable segment of that group can be channelled into a skilled health workforce. As the numbers swell and the country's health system needs are saturated, the surplus may also invigorate the global health workforce as countries with ageing populations and shrinking workforce stretch their hands to seek support from India's demographic bounty. But till then, India and Bihar first!

Is it time to impose a carbon tax?

The tax can be an effective policy instrument for realising India's Paris commitments and can substitute the current Clean Environment Cess

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Views are personal

IN THE RECENT Union Budget, a major initiative has been taken by the government to promote e-vehicles. However, the initiative is only a small step to curb pollution effectively and give pace to the emissions reduction targets announced in the Intended Nationally Determined Contributions (INDC) during the Paris Climate meet. Other measures, such as a carbon tax, could have been instrumental in this regard.

Local pollutants, particularly particulate matter, cause many health-related problems such as breathing, wheezing, asthma, and aggravation of existing respiratory and cardiac conditions. It has been found recently that air pollution may lead to hypertension risk, particularly in women in India. Further, life expectancy, due to this, has reduced by 2.6 years. Worldwide, more deaths per year are linked to air contamination, particularly from the industrial and transport sectors. The situation is getting worse, particularly in megacities, including Delhi.

As per statistics, India is the world's fourth-largest emitter of Greenhouse Gases (GHGs) though per capita emission is low due to a large population. Rapid economic growth with little concern for the environment makes this a serious threat. India's total GHG emissions are more than 3,200 million metric tonnes, which constitute around 7% of the world's total GHG emissions, with an average growth of 6.3% in 2018. The energy sector has a major role in this and contributes 68.7% of total emissions. Over a span of 24 years from 1990, this emission has increased by 180%.

The growing energy demand and consumption have led to an emergent need to put a price on emissions, directly reducing the exploitation of natural resources and pollution. Putting a price on carbon and taxing it directly is considered far better than deciding the limit of emissions through the 'cap and trade' system, under which maximum emission limits are decided for the firms. Firms are required to buy permits if they pollute more than the prescribed limit. Similarly, firms can sell their permits to others if they pollute less than the limit. Obviously, the carbon tax system has advantages over the 'cap and trade' system due to its simplicity, affordability, revenue recycling and predictability of carbon prices. Further, the tax has price certainty, transparency and focuses on direct response as it checks unintended incidence of certain taxes on labour and capital, leading to employment generation, increased output and productivity.

Clearly, the carbon tax has three benefits. It—a) reduces emissions; b) stimulates innovations; and c) raises government revenue. In fact, a carbon tax is the most basic economic instrument which can be used to price carbon and combat CO_2 emissions, and correct negative externalities. It works on the principle of 'the polluter pays'.

The principle has been adapted globally and many countries have successfully introduced a carbon tax. In Europe, a large number of countries, such as Denmark, Finland, Germany, Ireland, Italy, Netherlands, Norway, Slovenia, Sweden, Switzerland, and the UK, had already imposed the tax in the nineties. Among them, Scandinavian countries were the first. Finland initiated this in 1990, followed by Sweden in the subsequent year. Sweden and Norway imposed a comparatively higher rate of a carbon tax at \$27 and \$15 per ton of CO_2, respectively. Data shows that these countries generate revenue up to \$1.7 billion annually from the tax. Carbon tax in Finland is based on the energy content of fuels and CO_2 emissions. Great Britain, which introduced the tax in 2001, used the revenue on energy efficiency improvements and renewable energy support program. In other countries, it is used to finance public expenditure.

In the case of the United States of America, there is no nationwide tax, but few states-California, Colorado, Maryland and New York-use a carbon tax as an integral part of their strategies to reduce emissions. In Canada, Quebec and British Columbia are two popular provinces which impose the carbon tax. British Columbia's carbon tax model is considered as a benchmark for many countries. It is estimated that from 2007 to 2015, CO_2 emissions reduced by 4.7% and real GDP grew more than 17%. Early this year, Singapore imposed a carbon tax of \$5 per ton of GHG emissions and is planning to increase the rate in the range of \$10 to \$15 per ton of emissions by 2030. Among the developing countries, South Africa has planned to introduce the tax in this year.

It can be argued that a carbon tax can easily be an effective policy instrument in reducing different local pollutants and achieving INDC targets for India. Moreover, the tax can substitute the current Clean Environment Cess, which serves little to no purpose as the it is subsumed under GST. Tax proceeds may be used to a) subsidies clean fuels and fuels used in the agriculture sector, b) promote electric vehicles through subsidy, c) improve public transport, and d) build infrastructure.

The primary aim of the tax is to discourage environment unfriendly production and consumer practices by making the polluting sources costlier without any negative effect on overall employment and output levels. The imposition of a carbon tax with revenue recycling, in terms of earmarking the revenue for related purposes, will help develop synergies and win-win situations. The revenue so generated will also contribute to the dwindling tax revenue, and reduce the fiscal deficit, which is targeted at 3.3% for 2019-20. Time has come when India has to become a pioneer among emerging economies and impose an explicit carbon tax, and let the *polluters pay*.

LETTERS TO THE EDITOR

Trump mediation row

It is widely known that the incumbent US President Donald Trump is given to uttering barefaced lies, falsehoods and half-truths. But then the perception of Donald Trump as a habitual and pathological liar alone does not suffice to dismiss his startling revelation that PM Narendra Modi implored him to mediate on the Kashmir issue. It now lies with PM Modi to clarify that the request for mediation was never made. Since it was a 'confidential' discussion in a one-to-one meeting at Osaka, it is only proper and right that PM Modi himself puts the record straight and establish that the so-called most powerful man on the planet lied. Those who ask him to clarify and nail Trump's lie are not 'Pakistani proxies'. Nevertheless, it is intriguing that Prime Minister Narendra Modi did not deem it necessary to divulge that the Kashmir issue figured in his talks with Donald Trump. Or it did not crop up at all. It is possible that Trump made the 'false' claim to project himself as a big leader and massage his ego. Nevertheless, Trump's claim and India's refutation should not be allowed to mar the 'personal chemistry' between the two world leaders. Looked at the row at another level, it can be asked why a shift in New Delhi's Kashmir policy from 'bilateral engagement only' top external mediation if the intention and goal is to bring peace to the sub-continent. If Narendra Modi is 'personally convinced' that the US can play a mediator or arbitrator to resolve the dispute, he can, given the political capital invested in him, easily convince his compatriots of its rightness. One fifth of humanity cannot live in hostility for all time to come. An amicable settlement of the intractable and thorny Kashmir problem could fetch Narendra Modi the Nobel Prize for Peace despite his chequered political career.

— G David Milton, Maruthancode

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R.N.I. Reg. No. 6188/61 Printed for the proprietors, The Indian Express (P) Ltd by Vaidehi Chintaman Thakar at The Indian Express (P) Ltd Press, Plot No. EL-208, TTC Industrial Area, Mahape, Navi Mumbai-400 710 and published from Express Towers, Nariman Point, Mumbai-400 021. Editorial & Administrative Offices: Express Towers, Nariman Point, Mumbai-400 021. Phone: 22022627/67440000. Fax: 022-22856323.
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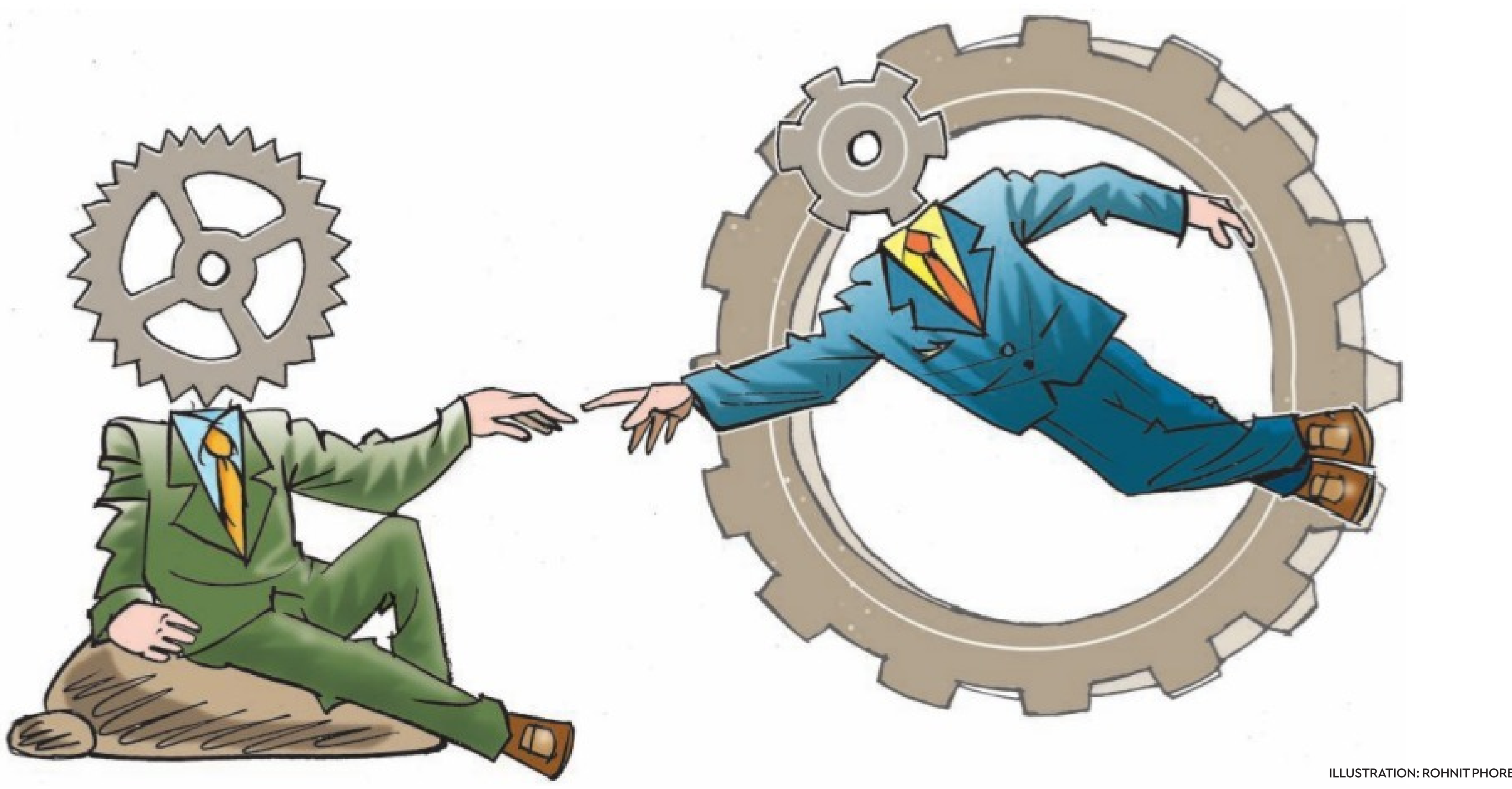

ILLUSTRATION: ROHNIT PHORE

VK SARASWAT, PRACHI PRIYA & ANIRUDDHA GHOSH

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Manufacturing sector's RCEP inhibitions

While our negotiators bargain hard for an inclusive and balanced RCEP, we must focus on eliminating the niggling problems our manufacturing sector and exports are facing. India's plans for the manufacturing sector need support in the form of a new industrial policy that creates incentives for key sectors

WITH A STABLE and full majority government back to power at the Centre, the Prime Minister has already hit the ground running by setting up two key Cabinet panels on growth & investment and employment & skill development. The focus on the manufacturing sector is critical for sustainable economic growth. Manufacturing not only creates strong positive backward and forward linkages in the economy, but, according to estimates, every job created in manufacturing has a multiplier effect of 2-3x additional jobs in other sectors. Industrial revolutions don't happen overnight. They require careful planning, policy interventions, regular upgrades, and innovations and investments at every stage of development.

The contribution of the manufacturing sector to India's GDP has remained stagnant at around 17% since the 1990s, and the sector needs a big push in order to drive potential GDP growth. In the current context of rising trade war tensions and slowing global growth, most countries are cushioning their domestic industry from trade diversion. According to WTO data, trade protectionism has been on the rise both in terms of the number of global trade-restrictive initiations and import coverage of these measures. In the current scenario, a two-pronged strategy of raising domestic competitiveness (via a carefully-planned and targeted Industrial Policy) and cushioning the industry from surge in imports due to trade diversion (via carefully-negotiated FTAs) is the need of the hour.

In this regard, India needs to take a cautious approach towards FTAs. A NITI Aayog note (‘*A Note on Free Trade Agreements and Their Costs*’, Dr Saraswat, Priya, Ghosh 2018) had earlier highlighted that India's combined trade deficit with FTA partners like the ASEAN, Japan and South Korea has almost doubled in the last eight years. India's trade deficit with the Regional Comprehensive Economic Partnership (RCEP) bloc of over $100 billion is almost 64% of its total trade deficit, of which China alone accounts for over 60% of the deficit. The report also highlighted that the quality of trade has deteriorated under the ASEAN-India FTA. As per UN's Harmonised System of product classification, products can be grouped into 99 chapters and further into 21 sections like textiles, chemicals, vegetable products, base metals, gems and jewellery, etc (similar to sector classification). The analysis shows that trade balance has worsened (deficit increased or surplus reduced) for 13 out of 21 sectors. This also includes value-added sectors like chemicals and allied, plastics and rubber, minerals, leather, textiles, gems and jewellery, metals, vehicles, medical instruments, and miscellaneous manufactured items. Sectors where trade deficit has worsened account for about 75% of India's exports to the ASEAN.

Having said that, the RCEP—the 16-country mega Asian FTA—has been viewed with caution by Indian policymakers. Commerce minister Piyush Goyal has held industry consultations over the last few days to ensure all industry issues are considered before the deal is sealed. It should be realised that reciprocity is the key to FTAs. The biggest driver for trading partner countries to sign an FTA with India is the access to a big and booming consumer market. So it's quite logical for India also to assess what it gets in return. That's probably the reason why India has received a lot of backlash at various rounds of RCEP negotiations from other trading partners. As per media reports, in the latest meeting in Bangkok, India's proposal for strict rules of origin requirements was not welcomed by other FTA partner countries. Rules of origin are critical as they determine the source of a product for it to qualify for preferential treatment. India has been demanding a stricter rule of origin criteria for its domestic industry (40-60% of value-add) as it fears that China can easily misuse lax rules of origin, like the 35% value-added rule in order to dump goods into India. The fear is not unwarranted as rerouting of Chinese goods into Indian markets via India's FTA partner countries is quite common. Previously, too, under the India-Sri Lanka FTA, Sri Lanka had started exporting copper to India by under-invoicing of imported scrap in order to show higher value-addition for its goods to qualify for preferential rates under the FTA. Thus, rules of origin norms can easily be circumvented by simple accounting manipulation.

Moreover, the domestic industry has been vocal about its discomfort with respect to opening up of the domestic market to Chinese exports. This is understandable given the massive Chinese overcapacity in key manufacturing industries, and major support programmes in the form of financial, non-financial and trade measures for the domestic industry that give an edge to Chinese producers over other trade partners. China's manufacturing surplus and dumping of goods across the world is well known. China is the recipient of the highest number of anti-dumping duty (ADD) measures in the world, with 926 ADD measures against it (1995-2017), which amounts to almost a quarter of all ADD measures globally.

Policymakers should also be cognisant of the use of non-tariff barriers (NTBs) by China. As per reports, even though China has agreed to open almost 92% of their tariff lines, expecting India to reciprocate in the same manner, India's concerns over China's NTBs merit serious attention. China's usage of NTBs like complex product certification process, labelling standards, customs clearance, pre-shipment inspection and import licensing have hindered India's access to their markets. Dealing with NTBs is costly and, therefore, we must factor in this associated barrier before we move ahead with trade pacts, the RCEP in particular. Thus, in terms of reciprocity in an FTA, India's exports access to Chinese markets will be limited given China's overcapacity, use of NTBs, and significant financial and non-financial support available to its domestic industry.

Dealing with NTBs is costly and, therefore, we must factor in this associated barrier before we move ahead with trade pacts, the RCEP in particular

Against this backdrop, India must have a plan to deal with the massive support that China offers its industries, leading to overcapacity and price undercutting post-RCEP. Therefore, we suggest that appropriate safeguard clauses must be put in place within the RCEP in case injury to domestic industry is found. A clause on provisional safeguard measures should also be introduced. Within the FTA, a provision should be made for safeguard measures to be invoked if a volume or price trigger for the concerned products is reached.

Given the current state of Indian industry, phased elimination of tariffs is necessary especially with respect to some key manufacturing industries that have long gestation periods until they start running on full capacity. An example of this kind of negotiation was the India-Japan FTA where India negotiated for most of its tariff lines under sensitive track (almost 63% under sensitive track, 14% under exclusion). This was in contrast to the ASEAN-India FTA wherein 76% of tariff lines were opened up for complete duty elimination. Therefore, at least a 15-25 years' tariff elimination schedule should be negotiated for key sectors like chemicals, metals, automobiles, machinery, food products and textiles, which individually contribute more than 5% to India's manufacturing GDP and employment. Thus, as suggested, phased elimination of few key manufacturing industries is absolutely essential with respect to China, and last but not the least, a rules of origin criteria that ensures a fair amount of value-addition to determine the source of a product.

While our negotiators bargain hard for an inclusive and balanced RCEP, domestically we must fiercely focus on eliminating the niggles our manufacturing sector and exports are facing. India's transformational plans for the manufacturing sector will require support in the form of a new industrial policy that creates the necessary incentives for key sectors to be an active part of this process. These are necessary complements for ensuring maximum leverage out of our trade deals, and especially the RCEP.

Taxes should not be taxing

JAGVIR SINGH

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(Ir)rationale of tax on buyback and dividend distribution

THERE ARE TWO ways of return of money to shareholders by a company as a going concern—dividend and buyback—and both use tax paid profits of a company. So, it's important to understand the mechanism of arriving at the taxable profit of a company. A quick glance at the P&L account of a company will reveal that income of a company is used to meet the legitimate dues to several stakeholders, in a set hierarchy, before profits can be said to have been generated.

First, the operating cost is met, which involves remuneration to employees, payment to third-party vendors for purchase of goods and services, and indirect tax on goods or services sold. Then comes the financial cost—the payment of interest to lenders. Then come depreciation and amortisation, which, though not payouts, yet are treated as expenses in the profit computation process. What remains thereafter is the profit. This residual income should be the rightful share of its shareholders, and none else, after tax incidence has been met, because they remain the only stakeholders who still have their indulgence in the company unrewarded. The company law permits the return of this cash to shareholders in the shape of dividends and as consideration for shareholders' shares if the company offers to buy the same.

A similar, but not identical, hierarchy of priorities is prescribed in a liquidation event when shareholders statutorily participate in the distribution of whatever is left of liquidation proceeds after meeting the dues to different stakeholders. But tax treatment of the two sets of shareholders' receipts ends this similarity. Post-liquidation, asset sales proceeds are not subject to tax in the hands of the company, but only to a capital gains tax from the receiving shareholder. However, the company pays the dividend distribution tax (DDT) on proceeds out of the free reserves (read, accumulated tax paid profits) distributed amongst shareholders.

If we remove all other stakeholders from reckoning, after dues to them are met, shareholders are almost akin to owners of remaining profit (both current and free reserves) and liquidation proceeds, respectively. By this logic, they should be taxed only once, either at company's hands or the shareholders. DDT on the already tax paid (dividend) amount is essentially double taxation and should not be imposed, though India is not the only major country succumbing to the lure of augmenting her tax revenue by resorting to such onerous impositions. Similarly, the tax on buyback amount, extended to listed companies as well in an otherwise forward-looking Budget, is a dampener.

DDT on the already tax paid (dividend) amount is essentially double taxation and should not be imposed

Taxing is tempting, as they say. This government's intent to usher in brisk economic growth is indubitable. It wants investors, both foreign and domestic, to invest heavily in its Make-in-India initiative and boosting infrastructure development. However, if more than 40% of their hard-earned profits are likely to be evaporated owing to the swindling double tax, it daunts the otherwise fervent investors eyeing to harvest a reasonable fortune from a giant economy buoyed by recent reforms and a large demography.

Despite a leap in the ease of doing business, also recognised by the World Bank, a complex federal structure in India resulting in copious rules still has a labyrinthine and difficult-to-negotiate business regulatory system, especially to a foreign investor. In an era when nations compete for global investments, investors need to be offered something differentially rewarding that offsets the impact of an intricate legal system. Amidst the China-US trade tensions and due to geopolitical reasons, foreign capital, especially Japanese and Korean, is flying out of China, but has not been landing in India. East Asian nations like Vietnam, Thailand, the Philippines and Indonesia have attracted the bulk of it. The government may do an assessment of the contribution of DDT and tax on buyback to total direct tax collection. If it is not that significant, it will be ingenious of the government to do away with these unsavoury fiscal millstones. It does not take a clairvoyant to predict an imminent surge in inflows of foreign capital only on this count and also a stop to Indian capital's flight to foreign lands. This will help India stand out as an attractive investment destination and help it in garnering the capital it requires for infrastructure development and Make-in-India, which should, in turn, generate employment for the millions entering the workforce every year.

India needs a ‘care economy’ policy

A comprehensive care economy infrastructure can support women to participate in economic activity

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THE ‘CARE ECONOMY’ is statistically invisible. No effective macro policy coherence is there to ensure and support care economy in India. More often, women as primary caregivers leave the job market to perform the responsibilities, at the peak of their career. This, in turn, can affect economic growth of the country due to productivity loss, emanating from the loss of insights and talent they did bring on board. This also affects the ‘potential output’ of a country.

Unemployment rate in India reached a 45-year high of 6.1% in 2017-18, as per the recent NSS estimates. The IMF has also highlighted the widening gender gap in labour force participation rates in India. We must explore reasons why the female labour force participation is in India is one of the lowest in the world. The lack of a comprehensive care economy policy is the single-most significant reason for the falling rate of female labour force participation. If we want to reap the demographic dividend before it vanishes, designing a comprehensive care economy policy in India should be the policy mantra.

If the objective of public policy is ‘leaving no one behind’ as an economy progresses, then designing an intelligent care economy policy should be the first charge on the exchequer. This policy is relevant from an ‘efficiency and equity’ perspective and also from ‘human rights’ perspective.

If India is unable to fully attract the talented educated women to the job market by ensuring the care economy infrastructure, then will the next best policy be to provide universal basic income (UBI) to the primary caregivers in the economy? UBI to a primary caregiver can enhance their dignity, remove their ‘unfreedom’, and can ensure social justice to their contribution to the economic growth by supporting the care economy. However, all what I want to highlight here is that UBI to a primary caregiver should not be a tradeoff to designing a comprehensive care economy infrastructure that can support women to participate in economic activity. Here, the basic norm is to give the freedom of choice to a woman ‘to work’ or ‘not to work’, but she should not be constrained to work.

The point we miss often is why care economy is core to macroeconomic policy frameworks. The macro policy decisions—say, fiscal austerity measures—impact men and women differently. For instance, if the fiscal austerity is by reducing the health spending in a country, the reduction in hospitalisation days or in-patient days can directly impact women as they are the primary caregivers in a household. Women, thus, bear the brunt of macroeconomic policy decisions. At the same time, more often, macro policy is not designed to integrate household caregiver's perspectives, which otherwise needs an enormous attention as we cannot take the support from the care economy system as infinite. If public expenditure compression is the path to achieve fiscal austerity, it can lead to ‘humanitarian crisis’ through cutbacks in spending on employment, pensions and social security support.

India has designed a fully-paid child-care leave policy for two years—a leading example of such policies in the world. But a ‘comprehensive care economy policy’ is absent in India. India should be leading the world in designing a comprehensive care economy policy by taking into account all the elements of care. We need innovative statistics like time-use survey to capture the extent of care economy, which is otherwise absent in the existing Employment-Unemployment Survey rounds.

In Canada, a ‘compassionate care leave’ policy has been introduced to take care of one's ailing relative, up to six months in discrete or in continuum. Such policies can help the primary caregivers, often women, not to leave workforce when their parent or spouse or a close relative falls ill. If public policy takes it for granted (increasing trend of women leaving the labour market), they are missing the big picture.

Women face huge challenges to earn a living and live peacefully during retirement years. In India, especially when social security benefits are not well-designed, the permanent or temporary exit of a woman from the job market to take care of small child or an elderly parent enormously reduces her earning potential and her savings for retirement. To add, if the woman is a single parent or divorced, unless the public policy addresses this vulnerability, as a country we are missing the big picture of how the loss of such human capital can affect the economic growth. Kerala is almost there to design a care economy support structure by the government, which can provide highly-efficient caregivers to the households. This authentic care economy support by the government can increase economic growth.

It is interesting to recall the documentary ‘*The Swedish Theory of Love*’, which encapsulates the public policy revolution in Sweden, when policymakers decided ‘autonomous individual’ (not the ‘household’) as the unit of analysis of a public policy. The Swedish theory emphasises that when an individual is not dependent on another individual for existence, true love happens, and public policy has a role to ensure this. But when we design a comprehensive care economy policy, country ‘context’ matters. India has begun designing such policies based on the notion of ‘autonomous individual’ by providing job guarantee or financial inclusion or cash transfers to an ‘individual’ rather than a ‘household’. However, a public finance revolution in India to support a comprehensive care economy policy is what is needed.