Pruning schemes

With government expenditure under squeeze, many central schemes will come under scrutiny and a few of them may be wound up

RAISINA HILL

A K BHATTACHARYA

There is now a broad recognition within the government that its finances are tight and its ability to offer any fiscal stimulus or to increase expenditure is extremely limited. This realisation will, therefore, influence the package of measures the government wishes to announce in the coming weeks to revive the economy.

The government's unaudited provisional accounts for the first quarter of the current financial year show that its gross tax revenues grew by just 1.3 per cent over the same period of 2018-19. This is woefully short of the full year's gross tax revenue growth target of about 18 per cent, projected in the July Budget for 2019-20. This comparison is based on the tax revenue collections in 2018-19 as per the provisional accounts, and not the revised estimates put out in the July Budget. Hence, the growth figures reflect a more appropriate measure of the revenue efforts that will have to be made in the current year.

Thus, corporation tax collections in April-June 2019 were up by just 6 per cent. The growth in revenues from individual income tax and customs duty, however, was slightly higher at 12 per cent and 16 per cent respectively. The central goods and services tax recovered smartly in the first quarter by clocking a growth rate of 28 per cent. But excise collections, which broadly indicate the consumption of petrol and diesel in the country and, therefore, the pace of economic activity, declined by close to 8 per cent. This contraction is a cause for concern.

Not surprisingly, the government has applied the brakes on its expenditure. Already, in the first three months of the current financial year, the government's revenue expenditure has been reined in to grow by just 6 per cent. This is much lower than the 22 per cent growth projected for the full year's revenue expenditure.

A bigger squeeze has been applied on capital expenditure. It was expected to grow by about 11 per cent in the full year of 2019-20. But in the April-June period, capital expenditure has shrunk by over 27 per cent over what was spent in the same time of 2018-19.

If the current mood in North Block, headquarters of the finance ministry, is anything to go by, the government will now keep a closer watch on all kinds of schemes and projects undertaken by different central ministries. An old circular on appraisal and approval of public-funded schemes and projects was uploaded on the website of the department of expenditure a few weeks ago.

Two directives of the notification stand out as they reveal its underlying objectives in no uncertain terms. One, it bars all central ministries from taking up any new schemes or projects without obtaining a prior in-principle clearance from the department of expenditure. This effectively rules out fresh expenditure on any new scheme that a minister or a secretary may like to implement under its administrative jurisdiction.

Simultaneously, the finance ministry has also asked the central ministries to actively consider merging, restructuring or dropping schemes or projects that have become redundant or ineffective. What must be noted here is that while the in-principle clearance of the finance ministry has to be obtained for launching a new scheme, a closure or restructuring of redundant schemes could be initiated by any central ministry without obtaining North Block's prior permission.

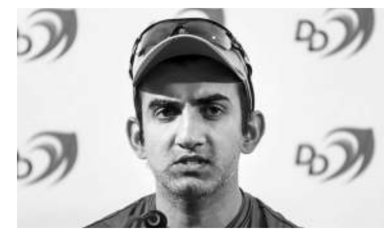
The second directive has important ramifications for the future of many schemes. In 2016, the total number of central sector schemes were pruned to 300 and that exercise to streamline them further has been going on in the last three years. Similarly, the number of centrally sponsored schemes with the Centre's participation, was whittled down to just 30. The first deadline for deciding on the future of such schemes after a review was March 2017, which coincided with the end of the 12th Five-year Plan. The second and final deadline for completing such a review happens to be March 2020, when the applicability of the recommendations of the 14th Finance Commission will come to an end.

The finance ministry has just about six months at its disposal before it can ensure that all the remaining central sector projects and centrally sponsored schemes are reviewed to ascertain if they are redundant or have become ineffective. The second directive reiterates that the sunset clause will be applied to all such schemes whose continuation cannot be justified beyond March 2020. The argument is that the 15th Finance Commission's recommendations would become effective from April 2020 and only those schemes, whose continuation can be justified on the ground of funds availability, can escape the sunset clause.

The next six months will determine which central schemes will have to be wound up and which ones will survive the axe. Lobbying for and against these schemes will also become intense in the coming months.

CHINESE WHISPERS

Gambhir's new pitch

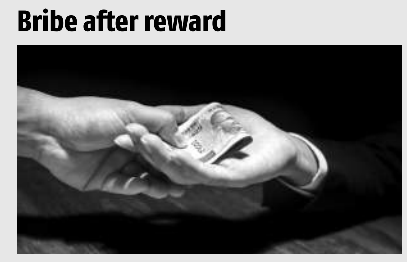


Cricketer-turned-politician Gautam Gambhir *(pictured)* is learnt to have roped in the services of a digital agency to help him establish his political credentials online. Apart from managing his digital footprint, the agency will help him prepare his strategy for the Delhi assembly elections, due next year. Though a tad early, his party colleagues suggested the East Delhi MP be projected as the chief ministerial candidate for the BJP in the pre-poll campaign. The agency has worked with sports and film personalities; this would be its first big break in the political domain.

Speculation... and some more

President Ramnath Kovind hosted the "at home" reception on Independence Day last Thursday. With Prime Minister Narendra Modi announcing the creation of the post of chief of defence staff, or CDS, those attending the event speculated which one of the three defence chiefs would get the job. The consensus candidate was Army Chief Bipin Rawat, and many present at the event queued up to get their photographs clicked with the general. The president's press advisor, Ashok Malik, who has announced that he would soon leave his current job, tweeted that the crucial question was where the CDS would figure in the Indian warrant of precedence. "I am guessing cabinet secretary equivalent or minister of state equivalent," he said. Some at Kovind's reception also speculated about Malik's possible successor as the president's press advisor.

Bribe after reward



A day after he received the "Best Police" award from his district collector on Independence Day, a constable in Telangana was nabbed by the Anti-Corruption Bureau (ACB) for demanding and receiving a bribe. Constable Tirupati Reddy of Mahabubnagar district was caught by the ACB accepting a bribe of ₹17,000 from a sand tractor owner. While the tractor owner had a valid permit to transport sand, Reddy demanded ₹20,000. The driver approached the ACB and officials laid a trap. Reddy was arrested after the driver handed in ₹17,000 to him on their next meeting.

The importance of being Acharya's successor

There have been many instances of the deputy governor in charge of monetary policy moving into the corner room in RBI

BANKER'S TRUST

TAMAL BANDYOPADHYAY

Those who are eyeing the position of a deputy governor at the Reserve Bank of India (RBI) have not much time left to make up their minds as the deadline for submission of applications expires today. Early August, the government invited applications for the post, which fell vacant after Viral Acharya decided to step down, roughly six months before the scheduled end of his term. Ahead of him, Urjit Patel resigned little less than a year before his three-year term as governor would have come to an end.

Candidates below 60 years of age (as on July 24, 2019) with at least 25 years of work experience in public administration, including experience at the secretary level or equivalent in the government of India, or in an Indian or international public financial institution, can apply for the position, says a finance ministry notification. Persons with exceptional merit and track record at the national or international level in the relevant field can also be considered. The appointment is for a period of three years but the person will be eligible for re-appointment. The post carries the pay scale of ₹2.25 lakh per month.

While 25 years' work experience is a tangible condition, "exceptional merit" is something subjective and up to the discretion of the appointment committee of the Cabinet of which the RBI governor is a member. Besides, the notification also makes it clear that the Financial Sector Regulatory Appointment Search Committee is "free to identify and recommend any other person also", based on merit, who has not applied for the post. This keeps it wide open.

Interestingly, the RBI governor does not have the last word when it comes to the appointment of this particular deputy governor who oversees the markets and the monetary policy departments, among other things. In the past, governor D Subbarao pitched for the continuation of deputy governor Subir Gokarn for another term but the late Gokarn did not get it. He was asked to hold fort till his successor was identified. Similarly, people in the know say that Raghuram Rajan was not exactly excited about Patel, who later succeeded Rajan as governor, getting a second term as deputy governor but he got that.

Who will succeed Acharya? The two names doing the rounds are Sanjeev Sanyal, principal economic adviser in the ministry of finance, and Michael Patra, executive director of the RBI and a member of the Monetary Policy Committee.

Sanyal was Deutsche Bank AG's global strategist in Singapore until 2015. A career central banker, Patra earlier had applied for this post. Many see JP Morgan Chief India Economist Sajjid Chinoy also as a likely contender.

BIG SHOES TO FILL File picture of Viral Acharya *(above)*. The post of deputy governor is a key position in the central bank considering the responsibilities the person will have to fulfil

I am sure many will throw their hats in the ring, including people from the bureaucracy. Going by an *Indian Express* report, the last time this position was advertised, 91 applications were received, including from social workers, former bureaucrats and economists. Acharya, RBI's youngest deputy governor post-economic liberalisation, the CV Starr Professor of Economics at New York University Stern School of Business (NYU-Stern), had first sent his CV to Rajan for an opening at the RBI and also asked Patel whether he should apply. His interview was conducted through video conferencing.

Under the RBI Act, the central bank can have up to four deputy governors. While insiders assume two positions, following the observations of the Joint Parliamentary Committee in the wake of the 1992 securities scam, one post goes to a commercial banker who looks after inspection and supervision, among other things (currently M K Jain, former IDBI Bank chief, is holding that post), and another, by convention, is meant for an economist. Incidentally, when it comes to promoting an insider, the governor seems to have a bigger say.

The "economist" deputy governor does not necessarily need to be an outsider. For instance, between January 1992 and September 1996, home-bred SS Tarapore was the deputy governor in charge of monetary policy. Since then, this position has been held by economists picked up from outside — Y V Reddy (also a bureaucrat), Rakesh Mohan, Subir Gokarn, Patel and Acharya, in that order.

Reddy, Mohan and Patel got their second terms as deputy governors; both Reddy and Patel also later became governor. The last deputy governor to leave before the end of his (second) term was Mohan. He moved to Stanford University in May 2009, a year before his tenure was due to end. Mohan, considered a frontrunner to succeed Reddy as RBI governor, lost out to then finance secretary Subbarao who took over just a week before the collapse of the US investment bank Lehman Brothers in September 2008.

Even though RBI's monetary policy is no longer the policy of the country's chief money man and a six-member rate setting body decides on it every two months, with a clear mandate to contain inflation within a band, the position of this deputy governor is important for many reasons. Beside the markets and the monetary policy departments, economic and policy research and statistics and information management are also typically handled by this person.

Among all deputy governors, the person holding this position probably needs to coordinate the most with the governor because of the portfolio handled. Reddy was a close confidant of governor Bimal Jalan, Mohan played the same role to Reddy and Subbarao had Gokarn by his side. No wonder there have been many instances of this deputy governor moving into the corner room in RBI's central office in Mumbai. Before Patel, Reddy and C Rangarajan became governors after handling the monetary policy department as deputy governors.

With recession staring at many of the global economies amid heightened trade tensions and geo-political uncertainties, foreign investors pulling money out of India and local currency losing its value against the greenback, this is a key position in the Indian central bank. No one will envy Acharya's successor at this juncture.

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INSIGHT

Rhetoric, reform, reformers

We require a drastic change in rhetoric backed by major policy change. Policy must reward enterprise and assume honesty. And we need reformers in government who can make this happen, says the author in the concluding part of the series

NAUSHAD FORBES

In Part 1 of this column (*Reviving animal spirits*, August 15), I argued that 1991 holds many lessons on reviving animal spirits. The reality today is far better, yet, in 1991, within 100 days, the government had set the country on a new path, and animal spirits were soaring. The right rhetoric was backed by major policy change driven by a committed team of reformers. We need that combination again today.

Changing the rhetoric

An essential change since 1991 has been faith in industry and encouragement of private enterprise. Manmohan Singh's 1991 Budget speech said that "our entrepreneurs are second to none". Chidambaram brought down corporate taxes. Jaswant Singh in 2003 drastically reduced the discretionary powers of tax officials, as T N Ninan pointed out (*Business Standard*, August 3). In the new Company Law in 2012, companies were mandated to spend 2 per cent of net profits on CSR, and if they didn't, to explain why in their annual report. The message was one of trust, the expectation one of responsibility. Finally, in 2015, Arun Jaitley removed wealth tax.

Over the last three years, several strands have emerged which add up to a change in the rhetoric. While the PM's concern about black money is appreciated, that concern has been used by bureaucrats to legitimise what the PM himself calls tax terrorism. In November 2016, a little-noticed change increased the powers of lower level tax inspectors. When GST came into force, the GST Council set up an anti-profiteering authority — the name itself a throwback to Indira Gandhi — instead of relying on competition to control firms. The consequences have been dire.

The chairman of Bank of Maharashtra spends a month in jail after a Pune builder goes bust — and is then released without ever having been charged. A businessman in Mumbai is arrested for a 14 L customs claim (the claim is fine, the arrest is not). Dozens of such stories make the headlines and circulate over our social media. Instead of business failure being seen as a consequence of risk-taking, it is portrayed as evidence of criminality. And finally, the change in the CSR law two weeks ago holds officers of a company culpable for not meeting the 2 per cent of profit norm, absurdly providing for penal action for non-compliance.

Against this, Finance Minister Nirmala Sitharaman's comment on Siddhartha's tragic death is welcome: "Business failures in the country should not be tabooed or looked down. On the contrary, we should give an honourable exit or resolution to the problem in the letter and spirit of the IBC." This must be translated into policy, and in the formal and legal reduction of tax authority powers — a mere assurance they won't be misused will not do.

NEW AVENUES An essential change since 1991 has been faith in industry and encouragement of private enterprise

In the last weeks, I've been escaping our grim economic reality by rereading R K Laxman's cartoons. Although Laxman produced a cartoon every day for over 50 years, his heyday was in the 70s and 80s. Under Indira Gandhi, our ministers and bureaucrats made for wonderful cartoons. In one such cartoon, a dejected-looking fellow in a suit is walking away from the industry minister's desk: "Did you see how depressed and miserable that businessman looked? That shows our industrial policy is working." Another has a bureaucrat in discussion with a businessman: "Patience, gentlemen, patience. We announced our policy just a few days ago. Give us some time to understand it." In the third, a minister in a palatial home is saying: "Of course I believe in socialism. But we promised it to the people, and we must give it to them first." These gems will still be funny a hundred years from now. We should worry that they again bite as canny observation of the present.

So the first change we need is in the rhetoric. Let comments about business not be about penal provisions, lookout notices, and criminal penalties, and let them be replaced by comments about trust, enterprise, expansion, and respect. And — I know I'm stretching things here — let us all speak out without being trolled on social media, with personal abuse substituting for ideas and rational argument. In brief, let's have the rhetoric and public debate worthy of one of the world's leading countries, with the broadness of shoulder to toss off slights.

Changing the reality

As in 1991, a change in rhetoric must be accompanied by a change in reality. The recent tax increases can be understood if they indeed provided a major source of revenue. But the super-rich tax will raise a tiny amount, with all tax surcharges raising ₹12,000 crore. Compared with the Budget, this is a tiny sum: 0.06 per cent of GDP, almost lost in the round-off error. The bigger concern is calling it a super-rich tax. One is giving the sense that wealth is bad. Wealth is neither bad nor good, how you use it can be bad or good. So let's have a road map for the reduction of personal income tax back to the 30 per cent rate that we had. And fulfill the commitment Arun Jaitley made in 2015 of reducing corporate taxes for all companies to 25 per cent.

Second, let us use the imminent Direct Tax Code to comprehensively address the powers of tax inspectors, removing all penal provisions for economic offences. Ensure that an arrest can only follow criminality proven in a court of law.

Third, let's act as an open and engaged India. Let us reduce tariffs (instead of increasing them), address our over-valued rupee, and let exporters stand for the future of Indian industry instead of importers.

And fourth, let's get down to the hard work of addressing those major policy reforms — in land, labour and finance — as this newspaper has long argued.

Hiring reformers

To a new rhetoric and major policy changes, we must add the third and indispensable element: reformers. Reform happens because people make it happen. In 1991, Manmohan Singh could not have been effective without the support of Prime Minister Narasimha Rao, and a few other ministers like P Chidambaram (as commerce minister). But even more critical was a team of reformers who made things happen: Montek Singh Ahluwalia, Ashok Desai and N K Singh in the finance ministry, Rakesh Mohan in industry and A N Verma in the PMO constituted a dream team of reformers, of international calibre. We must eagerly seek out and attract the world's best economists and scientists to make India their home. We need the intellect of the world's leading institutions to point our hard work in the right direction.

Reviving animal spirits requires this comprehensive package — the right rhetoric that assumes honesty in industry, the right policies that reward enterprise and entrepreneurs, and the right reformers to set us on a growth trajectory for the next 25 years.

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LETTERS

Hope for a better tomorrow

This refers to the wonderful article "Reviving animal spirits" (August 15). Positive action requires animal spirit. The author has drawn a nice comparative picture between the economic scenario in August 15, 2019 and 1991, 28 years apart. The re-elected NDA government holds absolute majority which ensures political stability. But it needs to demonstrate the animal spirit to revive the economy.

Creating wealth by removing the roadblocks in the way of foreign investment, rising the competitiveness of our industry and increasing trade should be the primary objectives of the government. Innovative thinking and animal spirit are the need of the hour. We can take India to greater heights only by taking sustained measures that guide the economy in the right direction.

Partha Sarathi Mukhopadhyay Nagpur

Who killed Pehlu Khan?

Everyone — from the witnesses, the viewers of the video footage and the police and the courts — know who lynched Pehlu Khan to death. Still the dairy farmer's killers were acquitted in a clear case of sabotage of justice. When an open-and-shut case like this does not result in conviction, it can make targeted slayings appear normal. Nevertheless, it is to be hoped that the appellate court (Rajasthan High Court or the Supreme Court) will reverse the flawed judgment of the sessions court.

G David Milton Maruthancode

Correction

Contrary to what was mentioned in "A different fundamentalism" published on August 17, Sheikh Abdullah was released while Jawaharlal Nehru was alive. After being released in 1964 Abdullah spent five nights in Teen Murti House as Nehru's house guest. Abdullah then went on to Pakistan and Nehru died while Abdullah was in Pakistan discussing the future for Kashmir with Ayub Khan. The error is regretted.

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Decriminalising corporate law

Good move, but a more holistic approach needed

Taking forward the idea of reducing government interference and improving the ease of doing business, as reiterated by Prime Minister Narendra Modi in his Independence Day speech last week, the government is planning to decriminalise 65 Sections of the Companies Act where the offence is not of a serious nature. As reported by this newspaper, the corporate affairs ministry's committee on decriminalisation will work in two phases. In the next phase, it will study the Sections involving frauds, and possibly reduce punishment for offences that are not serious and do not affect the public interest. The government is also reportedly creating provisions for a compromise settlement in cases where the public interest is not affected.

The idea to review the Companies Act and decriminalise it to the extent possible was long overdue and should be welcomed. This will not only improve the operating legal environment for firms but will also reduce litigation. It is important to keep reviewing outdated laws to address the problems. But the government should take a holistic approach in this context so that it doesn't end up having an effect opposite to what it intended to achieve. The Section regarding corporate social responsibility (CSR) in the Companies Act is a case in point. The law was recently amended to introduce provisions that could send company executives to jail for not implementing CSR rules as mandated. Now a committee chaired by Corporate Affairs Secretary Injeti Srinivas has recommended making non-compliance a civil offence. This will save executives from going to jail. It is not clear why the government was in a hurry to amend the law and introduce harsh provisions even before the high-level committee set up to study the issue submitted its report.

However, the committee has also made recommendations that will complicate matters further. For instance, it has suggested that CSR expenditure should be made tax-deductible. The idea is to incentivise companies. But, in reality, it will result in disputes and litigation. Further, the committee has recommended that companies spending above a certain level undertake impact assessment studies of their CSR programme. There are several other recommendations that will only make life difficult for firms and should be avoided.

It is important to recognise that the idea of mandatory CSR is fundamentally flawed. The recent amendment has made it even more damaging. It is wrong to assume that companies not spending on CSR do not contribute to society. They produce goods and services, generate employment, and pay taxes. Spending on CSR should be voluntary and not mandated by law. Making it mandatory increases the burden on both the corporate sector and the government. Firms have to divert managerial resources and the state has to monitor every minute compliance detail, leading to possibilities of harassment. Further, in terms of impact, CSR spending is biased in favour of areas that are comparatively developed. This will add to regional disparities.

Overall, it is heartening to see that the government is open to the idea of reviewing parts of the Companies Act. But it would be better advised to take a more comprehensive view if it intends to improve the business environment and attract investment.

Boost for start-ups

DVRs will encourage listing in India

Several key amendments in the Shares and Debentures Rules of the Companies Act, 2013, including a hike in the limits for the issue of shares with differential voting rights (DVR), could energise the start-up ecosystem. Tech start-ups now have the option of issuing DVR shares for up to 74 per cent of their paid-up capital. Moreover, they need not show distribution of profits for three years in doing so. They may also continue to issue employee stock options (Esops) for up to 10 years to executives even after listing.

This aligns with requests from the start-up community, which has also received a huge retrospective relief from the so-called "angel tax" enquiries by the Income-Tax Department. Under the new regulations, entrepreneurs launching tech start-ups should be able to raise capital, while retaining operational control. This should also embolden new concerns to list in India rather than seeking listings abroad.

DVRs are a standard instrument in many hi-tech environments such as Silicon Valley. Tech start-ups often raise several rounds of venture capital financing, diluting the stakes of the original entrepreneurs. This can lead to the investors taking control of operations even before the company's listing and, later, it leaves the company vulnerable to hostile takeover bids.

One way around this is to issue DVR shares. In such cases, some shares have superior rights (SR) in terms of voting rights, while in other respects, the rights of shareholders remain equal. Indeed, DVRs can be structured so as to give owners of shares lower voting rights, and higher dividend payouts as compensation.

Until the recent amendments, corporates seeking to list in India could not issue DVR shares, nor could they launch an IPO until they had demonstrated three years of distributable profits. This forced Indian entrepreneurs to seek capital abroad, and to go abroad for listing. This, in turn, meant that ordinary Indian investors could not participate in the wealth creation process, by buying shares at an IPO, or off the secondary market. Moreover, Esops could only be issued for a period of five years after an IPO.

The new amendments allow issues of DVRs where the SR shares hold between twice and 10 times the voting rights by ratio. Corporates also need not have demonstrated distributable profits. This is a big relief because many tech companies endure years of loss before establishing themselves.

There is an upper limit to net worth in that holders of SR shares must be from the core promoter group, and not possess a collective net worth of above ₹500 crore. Also SR shares cannot be pledged or transferred. The SRs must be held for at least six months before the issue of a draft red herring prospectus for an IPO. Eventually, a sunset clause should kick in wherein the SR shares revert to normal voting rights.

These changes should encourage listings in India because they make the processes of raising capital and listing easier. In turn, start-up activity should attract more capital and, thus, lift sentiment. One caveat is that it will be more difficult for investors to seek redress by ousting founders in cases of gross mismanagement. But this possibility is outweighed by the practical need for entrepreneurs to raise capital while retaining operational control.

ILLUSTRATION: AJAY MOHANTY

Improving supply of animal products

The provisional data from the livestock census shows improving productivity and geographical spread

TESSELLATUM

NEELKANTH MISHRA

The government, once every five years or so, conducts a livestock census, counting all domesticated animals. The 20th livestock census was conducted last year (the 19th was in 2012, and the first in 1919), and some provisional data is now available. Even as we await the final report, the provisional numbers, though sketchy, are useful to improve our understanding of the agricultural economy. Livestock, after all, is now well over a third of agricultural output, and accounted for nearly half the incremental output between 2012 and 2016.

Growth in the number of animals for each of the livestock categories was significantly lower than the output growth reported by the Central Statistical Organisation (CSO) between these two censuses. For example, the number of cattle was nearly unchanged in this period, but milk continued to grow at an annualised rate of well above 5 per cent. Similarly, the annual pace of growth in mutton output (4 per cent) was higher than the rate of growth in the number of goats and sheep (up only 1 per cent annually), and pork output grew faster than the number of pigs (which fell 20 per cent from the 2012 level).

Given the recent debate on the accuracy of GDP statistics, many would be tempted to again question the CSO's output assessments. But this discrepancy has a somewhat more credible and meaningfully more positive explanation, in our view. In milk, for instance, the bovine population (cows and buffaloes) has been nearly unchanged since 1997, but the number of males has been falling, and that of females has been going up: In the 2017 census, the number of male cattle declined by 31 per cent to 47 million, the highest ever, and that of females increased by 18 per cent to 145 million, an increase of 22 million, also the largest ever. The number of milch cattle (that is, female cows and buffaloes excluding young ones that have not calved yet, or the older ones that are beyond breeding age) was 5 per cent more than in 2012. With the number of higher milk-yielding cross-breeds up by nearly 30 per cent, average output per animal increased substantially too (by nearly 5 per cent annually), explaining the 33 per cent growth in milk output in this period.

Given that human efforts in livestock rearing generally move in proportion with the number of animals, this means an improvement in efficiency and incomes when looked at on a "per person" basis, and partly explains the resilience in milk supply despite price growth slowing sharply: It has been less than 5 per cent for nearly four years now. The drop in the number of male cattle points to greater farm mechanisation (and thus more output per worker): The fodder that was earlier consumed by 21 million males for ploughing and transportation, which are no longer needed, is now being converted into milk by the 22 million females that have replaced them.

There is another fascinating trend that suggests a lowering of the cost of production. Whereas livestock in India increased by only 4 per cent between the 19th and 20th censuses, the numbers in Jharkhand increased by 31 per cent, and in Odisha, Bihar, Telangana, and West Bengal by between 24 per cent and 26 per cent. The livestock count in other states declined by 3 per cent over this five-year period.

The increase in Telangana is likely due to the recent state government scheme to distribute 8.4 million sheep to herder families. But the increase in Bihar, Jharkhand, West Bengal, and Odisha, in our view, is primarily due to a substantial improvement in last-mile infrastructure, in the form of better rural roads, electricity, phones, and credit. These improve awareness and affordability, as well as market access to sell the output. A few years back, in my hometown of Bokaro, Jharkhand, I noticed eggs placed in two different trays and priced differently. When I asked why, the shopkeeper said (in Hindi) "this is Jharkhand egg, and this other is Tamil Nadu egg", pointing to the origins of these eggs. For years, I learnt, eggs used to come from Tamil Nadu, but it was only recently that local commercial egg production had started. In our view, the increase in livestock numbers in states that have significantly lower per capita incomes than the national average also points to a decline in the average cost of production, and suggests that inflation in these products could remain low.

There are also some numbers that we had expected would resolve what we think is an inconsistency, but did not: The number of buffaloes remained unchanged when we had expected them to go up. As reported by the APEDA (Agricultural and Processed Food Products Export Development Authority), growth in carabeef (buffalo meat) export volumes between 2011-12 and 2016-17 was 34 per cent, translating into about 11 million buffaloes. This is in the same ballpark as the 43 per cent increase in the number of buffaloes slaughtered during this period as reported by the Animal Husbandry Department. But both these are inconsistent with the unchanged number of buffaloes in the livestock census. While the details for 2018 are not available to us, in 2012 only 16 million of the 109 million buffalo population were males, and of those nearly 11 million were less than two years old, when their use for meat would be sub-optimal. We have been unable to model where the 10-12 million buffaloes slaughtered annually come from.

Continued dietary changes with improving incomes, particularly due to the improving affordability of output sourced from livestock (milk, meat, eggs), means steady demand growth. The higher efficiency of livestock production that this provisional data points to, as well as the development of a livestock industry in the erstwhile less developed (that is, low-cost) states, suggests an adequate capacity build-up to meet this demand. Geographical diversification also provides some resilience to local supply disruptions that can emerge from disease- or weather-related events. The combined weight of animal products in the consumer price index is about 11 per cent, and while the inflation rate in these products has risen slightly in recent months after falling to all-time lows late last year, it is unlikely to stay elevated.

That said, productivity needs to rise much more for generating surpluses at a cost that increases domestic demand and is also globally competitive, so that the sector generates more export income.

The writer is co-head of Asia-Pacific Strategy and India Strategist for Credit Suisse

Tax terrorism: Embedded in laws & practice

IRRATIONAL CHOICE

DEBASHIS BASU

In March last year, Ashok Singh (name changed), a former employee of a multinational company, was slapped with a prosecution notice under Section 276CC of the Income-Tax Act for failing to file his income-tax return for 2011-12 (assessment year 2012-13) in time. The possible punishment? If the tax amount is more than ₹1 lakh, rigorous imprisonment for at least six months and a maximum of seven years, and a fine. Ashok had quit his job to start a consulting company in 2012. In 2011-12 he got his salary for the period of employment (tax was deducted at source and paid by his employer) and for the rest of the year he earned a consulting income. In 2012, he had a serious health crisis in the family apart from the pressure of setting up his consultancy. This led him to miss the due date — August 31, 2012 — for filing his 2011-12 (AY2012-13) tax return. Since filing the return was time-barred, he filed his return in February 2015 after paying tax and interest.

Clearly, he was not a tax evader and the I-T department didn't bother about him for three years. He acted voluntarily by paying both tax and interest. Still, the prosecution summons mentions that he wilfully evaded tax. He explained the reasons for his slip and requested the prosecution proceedings be dropped. The department still went ahead and arrested him. After all, we live in a new *Swachch Bharat,* where netas and babus are pure and pristine and the rest of us have to be taught hard lessons for failing to follow hundreds of different kinds of draconian rules everyday.

In July this year, Ashok appeared in the metropolitan magistrate's court with trepidation. Fortunately, his lawyer secured bail for him. What are his options now? Before I come to that, let me go to the broader issue of taxtortion or tax terrorism, which is getting a lot of media attention these days. Most people, including Mohandas Pai, a strong supporter of the government and a former board member of Infosys, believe that overzealous tax officials are responsible for taxpayers' problems.

This is the dominant narrative. When Prime Minister Narendra Modi was recently asked about tax terrorism, he said: "It is a fact that some black sheep in the tax administration may have misused their powers and harassed taxpayers, either by targeting honest assessees or by taking excessive action for minor or procedural violations ... I have also instructed ... to ensure that honest taxpayers are not harassed and those who commit minor or procedural violations are not subjected to disproportionate or excessive action."

The real source of the problems

Blaming tax officials will not help us get to the root of the issue. The problem is government itself, in two important ways. One, tax laws and circulars are draconian, and getting more and more so everyday. Officials are merely enforcing them. Two, the bigger problem is stiff revenue collection targets the ministry sets for tax officials, forcing them to take "excessive action", or face harassment for letting go of a single rupee of tax claimed. To understand the first, let's go back to Ashok's condition and what he can do to avoid a jail term. For his delay he can "compound" his offence, that is, pay money to the government. Guess how much?

On June 14 this year, the government announced compounding fees under Section 276CC. For failure to furnish returns of income, the default period will be computed from the due date to the date of filing of returns or completion of assessment, whichever is earlier, and the compounding fees will be ₹2,000 per day. On a rough calculation, in Ashok's case, this works out to more than ₹16 lakh in addition to other charges.

The same is the story of another finance consultant. She inadvertently missed a small part of other income. She voluntarily disclosed it and paid the dues. Some 10 years later, she was slapped a prosecution notice with a jail term. She paid ₹12 lakh as compounding fees. The chief income-tax commissioner agreed that it was unfair but he couldn't do anything about it. It's the law. Space constraints prevent me from giving more examples of such unfairness but any tax consultant has a list of them. The second issue — stiff revenue targets — is an old one. P Chidambaram as finance minister was notorious for setting difficult targets and thereby unleashing tax terrorism. This government is more focused and determined than the previous one. You can imagine the consequences.

The solution to both is not merely to rein in "overzealous" tax officials. If you have a damp wall, you don't paint it. You go deeper and locate where the dampness is coming from. In this case, the deeper problem is big government — a giant monster with a giant appetite, which requires it to put more and more pressure on tax officials to extort. And the monster is getting bigger by the day. But then, Mr Modi too knows this. Remember the 2014 pre-election slogan "minimum government, maximum governance"? If there is less pressure on raising resources, honest taxpayers can be spared taxtortion. How difficult is this to understand?

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Internet-speak isn't a bad thing

BOOK REVIEW

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The internet has greatly expanded the volume and visibility of informal writing. (Duh.) In "Because Internet," the linguist Gretchen McCulloch reviews the ways the online environment is changing how we communicate. If you are concerned about digital tools dumbing down written English, or leaving young people with lazier syntactic habits, this is definitely not the book for you. If, on the other hand, you are interested in how language actually works (the rules are just collective agreements, constantly renegotiated), and how the internet is changing those rules, it definitely is.

Ms McCulloch is doubly suited to this subject, as a scholar and part of the first generation to grow up with social media (her capsule bio: "I'm a linguist, and I live on the internet"). Her grand theme is linguistic inventiveness in the expanded field of digital communication. While verbal discourse has always ranged in formality from TED Talk to pillow talk, writing has long been associated with a stricter style Ms McCulloch usefully labels "edited English." Unedited English, the stuff of notes on the refrigerator and high school yearbooks, was once both sparse and ephemeral.

No more. Even the meanest online conversationalist writes more in a day than most 20th-century folk did in a week, and all that practice is producing new complexity. One researcher, studying writing on a social network, concluded that "15-year-old users in 2016 wrote more complex posts than users of any age in 2008." All that practice also produces new linguistic rules. Ms McCulloch shows how even the keysmash — pounding the keyboard when you just can't even — has been regularised. Online conversationalists will tell you "agdj;kasgjk" is more keysmashish than "₹Iw=L2/Bl_W." Some people even edit keysmashes if they come out looking wrong. Similarly, some people remove autocorrected capital letters, to preserve the lowercase-means-casual format. When people expend extra effort to make their messages look spontaneous, they're not lazy. They are invested in getting informal communications right.

But what is "right" anyway? Where does this sense of linguistic correctness come from? The message of *Because Internet* is that language is correct when sender and receiver understand a message in their shared context. That's it. It's social agreement all the way down. There is no ultimate authority, no unambiguously appropriate form, no way an outsider can correctly say other people are doing it wrong. Ideology camouflages self-interest as principle; language policing is snobbery disguised as diligence.

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This pattern is as old as dictionaries, and as new as lolcats: When meme-making was partially automated in the late 2000s, the old guard, who'd made their lolcats by hand, thank you very much, began to complain that the newcomers had things too easy. (When it comes to communication, even kids today complain about kids today.)

Ms McCulloch expands her exploration to include visible symbols like emojis. She mentions "Emoji Dick," the translation of "Moby-Dick" into emojis (by a former student of mine, as it happens), then shows why trying to translate sentences into emoji is like, well, like some big literary metaphor for a futile pursuit. Emojis don't replace words; no one says "sunglasses fire 100" out loud. Instead, they indicate gestures (thumbs up, facepalm) or context (laughing, crying, crying laughing) or mood. ("Sometimes an eggplant is not just an eggplant," as Freud famously didn't say.)

Through all the linguistic interpretations and contemporary examples, Ms McCulloch builds an argument that the internet isn't just changing the way we use language, it's changing the way we think about it. When the most visible medium for written English was print, our metaphor for language was the book: fixed, authoritative, slow to change. Now that most written English is informal and online, our collective metaphor is shifting to language as a network: fluid, collectively negotiated, constantly altered. Language is, as Ms McCulloch puts it, humankind's largest open-source project; and the internet makes it much easier for all of us to see, and be, contributors.

BECAUSE INTERNET
Understanding the New Rules of Language
Gretchen McCulloch
Riverhead Books; $26; 326 pages