Walking a tightrope

Is a low-inflation, low-growth environment the new normal?

B PRASANNA

Globally, policy circles are now debating the reducing efficacy of unconventional monetary policies being used by global central banks to support growth and the need for other levers, including counter-cyclical fiscal policies. The rise in such activism is on account of the fact that these unconventional policies have not been able to generate inflation despite very low rates across the yield curve, often moving to negative territory. This limits the space of monetary policy to deal with a future slowdown.

Proponents of counter-cyclical fiscal policies advocate putting more money into the hands of those who would spend it, thus improving aggregate demand and in turn leading to improved inflationary impulses, through tools like tax cuts. However, any such policy needs to be implemented within the contours of maintaining central bank independence without relying on excessive debt monetisation, through close coordination with the central bank and a well-defined exit strategy when inflation returns to medium-term trend levels. Moreover, one needs to understand that reliance on fiscal policy would possibly offset to some extent the work done by monetary policy in lowering interest rates. Rates could rise as expansionary fiscal policies could lead to reducing the global savings glut along with an increased risk perception of government bonds, which could lead to an outflow of funds from debt instruments.

Another school of thought gaining ground is the approach supported by modern monetary theorists (MMT), which radicalises policy making by transferring the burden of economic stabilisation to fiscal policy alone. This could be done by reducing the role of monetary policy to fund the government through debt monetisation with taxation taking a secondary role. While quantitative easing (QE) in part does defer to debt monetisation, it is only temporary as the QE debt is not rolled over but needs to be repaid by the government on maturity. In contrast, the MMTs propose rolling the debt in perpetuity to a point where markets move beyond the liquidity trap (an environment of low interest rates and high savings rate). Proponents of modern monetary theory would theorise this to be non-inflationary under the premise that governments would roll back this "helicopter money" as economies reach full potential by increasing taxes. In practice, however, this could be misleading as governments might not have the ability or the political willingness to retract, eventually leading to the unintended consequences of overheating of the economy.

Other tools to improve inflation and inflationary expectations include raising the inflation target, price level targeting or through raising the average inflation targeting. These policies, if considered credible, could eventually lead to an increase in inflation levels, providing more ammunition to central banks during downturns. However, these policies might lead to increased costs through higher inflation, increased transaction costs and redistribution of wealth from holders of cash (mostly the poor) which cannot be ignored.

These discussions lead us to think that the policy prescription for this low-inflation, low-growth environment might be more esoteric than one would like to believe. However, one might need to step back and assess the need or the urgency to move out of this milieu. Neutral rates have come down on account of changing demographics, technology and globalisation. These are structural changes that could be considered outside the purview of influence of monetary policy. One could argue that the low-inflation, low-growth environment is the new normal and any attempts to distort this could lead to unhealthy pressures on credit and asset price increases. Moreover, should we concentrate on growth rates, when in most of the developed world, metrics of per capita income levels and social and human development indicators are robust? The jury is still out there, in our view.

The author is group head, global markets, sales, trading and research, ICICI Bank

CHINESE WHISPERS

No to Congress and NCP

The Vanchit Bahujan Aghadi (VBA), which had queered the pitch for some candidates of the Congress and the Nationalist Congress Party (NCP) in the Lok Sabha polls in Maharashtra, on Monday ruled out an alliance with these parties for the Assembly elections scheduled for next month. VBA leader Prakash Ambedkar (*pictured*) said his party, the Bharipa Bahujan Mahasangh (BBM), was open to a seat-sharing dialogue with the All India Majlis-e-Ittehad-ul-Muslimeen, the estranged ally with which it had contested the Lok Sabha polls. Talks between the AIMIM and the VBA had hit a roadblock recently over seat sharing. Ambedkar said the VBA would contest all the 288 seats in the state, and that the names of the candidates and the alliance partners would be declared before September 26. The BBM chief said he had offered 144 seats to the Congress for next month's polls but it did not respond to the offer. "They were calling the VBA the B-team of the Bharatiya Janata Party (BJP). But they (Congress) were dealing with the BJP to get relief from government agencies probing cases," Ambedkar alleged.

Hard bargaining

Five of Bihar's 243 Assembly seats will have byelection on October 21. The grand alliance, comprising the Rashtriya Janata Dal, the Congress, and others, is yet to decide seat allotment for the Assembly seats and the Samastipur Lok Sabha constituency. Hindustani Awam Morcha (HAM) President Jitan Ram Manjhi, a constituent of the grand alliance, on Monday said, come what may, his party would contest the Nathnagar Vidhan Sabha seat in Bhagalpur. Manjhi had recently threatened to pull out of the five-party grand alliance. The Bhagalpur seat had fallen vacant after sitting Janata Dal (United) MLA Ajay Mandal's election to the Lok Sabha. Manjhi's latest outburst comes less than two months after he had accused the grand alliance of having underestimated his party and threatened to go it alone in the Assembly polls next year.

Congress talent hunt in UP

Facing a leadership crisis in Uttar Pradesh, the Congress party held a "Talent Hunt" to identify a new team for the state minority cell. The day-long exercise, held at the UP Congress Committee headquarters in Lucknow, saw the participation of nearly 600 aspirants from 40 eastern and central districts of UP. The exercise was started at the behest of the All India Congress Committee general secretary in charge of eastern UP, Priyanka Gandhi. Congress sources said a similar "Talent Hunt" was being planned for the western districts of UP as well.

Underestimates & overreactions

Why the impact of the corporation tax cut may not be as substantial on the fisc or on India Inc

A K BHATTACHARYA

The big question that has arisen after Finance Minister Nirmala Sitharaman's corporation tax rate cut decision last Friday is what its actual impact would be on the government's fiscal situation. On Friday, Sitharaman said the measures (see table) would result in forgone revenues worth ₹1.45 trillion.

This was a huge amount — almost 19 per cent of the total corporation tax the government was to collect during the current year. This would have also meant a widening of the fiscal deficit by about 0.7 per cent of gross domestic product (GDP). In other words, the government's fiscal deficit would have increased from the budgeted 3.3 per cent of GDP to 4 per cent.

But on Sunday, Sitharaman told media people that she was expecting improved compliance after the tax cut and that would help her stick to the fiscal deficit target. She also said she had no plans to cut government expenditure either.

What has given Sitharaman the confidence to claim that there would be no fiscal slippage or expenditure squeeze?

If you dig a little deeper into the manner in which the finance minister has changed the corporation tax rates, you may get a sense of what lies behind her confidence. She is banking on many tax-paying companies giving up their tax exemptions and incentives and opting for the new lower tax rate of 25 per cent. Remember that the lower tax rate of 25 per cent can be enjoyed only by those who give up the existing tax exemptions and incentives. And once you give them up, there is no way you can return to the earlier regime of enjoying those exemptions!

How much did the government give up by way of revenues on account of these exemptions and incentives? In 2018-19, revenues worth ₹1.08 trillion were forgone by the government owing to as many as 28 different types of tax exemptions and incentives. These are exemptions and incentives for exports, accelerated depreciation, setting up of units in special economic zones and investments in specific states. Over 80 per cent of the revenues forgone by the government are on account of export benefits and accelerated depreciation.

Hypothetically, therefore, if all companies opt for the 25 per cent tax rate and give up their exemptions, the government stands to save an amount equivalent to ₹1.08 trillion. This is the actual amount of revenues forgone in 2018-19 on account of these exemptions; there is no estimate yet of how much revenue would be forgone on this account in the current year. It is possible that the entire tax amount forgone on such incentives will not be saved — because some companies may prefer to continue with these exemptions — but certainly, a large portion of the savings will not be required to be spent. So a part of the revenues forgone by Sitharaman's decision to reduce the corporation tax rate would be made good.

Remember that the effective tax rate for Indian companies (the actual incidence of taxes on companies after taking into account the benefits from tax exemptions) was about 29 per cent in 2018-19, compared to the actual tax rate of 35 per cent. Thus in the aggregate, the net tax benefit for India Inc would be four percentage points (down from the effective rate of 29 per cent to the new rate of 25 per cent).

Sitharaman has said she is expecting improved compliance after the tax cut and that it would help her stick to the fiscal deficit target

THE MATH BEHIND THE TAX CUTS AND REVENUE LOSS

The cause			The effect	
	Old rate	New rate	FM's estimate of forgone revenue, 2019-20	Notional savings on revenue foregone on exemptions and incentives, 2018-19
Corporation tax rate	35	25*	**₹1.45 trillion**	**₹1.08 trillion**
New manufacturing firms**	29	17	–	–
Minimum Alternate Tax	22	17	**Impact on fiscal deficit** 0.7 % of GDP	**Savings impact** 0.5 % of GDP

Net impact of tax giveaway
0.2 % of GDP#

**Set up after October 1, 2019 and manufacturing before March 2023

*On the condition that companies give up tax holidays and exemptions

Tax rates in per cent inclusive of 10% surcharge and 4% cess

GDP estimates for 2019-20: ₹211 trillion

#Based on the assumption that govt saves the entire expenditure on tax exemptions

But the impact of the tax rate change, taken together with the loss of exemption benefits, would vary from company to company. Financial services companies like banks would hugely benefit because they do not enjoy any tax exemption benefits at present. But a large number of infrastructure, public sector and information technology companies enjoy the tax exemption benefits in a big way. If they too opt for the new tax rates, then the government will be able to forgo less revenue on tax exemptions.

If the stock markets have risen sharply, it is largely because of the preponderance of the financial sector companies in the benchmark indices of the Bombay Stock Exchange and the National Stock Exchange. This may also be why a CRISIL Research study of top 1,000 listed companies shows that their total tax gains on account of Sitharaman's tax bonanza would be only about ₹37,000 crore.

In the end, a bigger question arises. If the actual gain for India Inc is so little and the government's revenue loss will be much less than the feared ₹1.45 trillion, is the actual tax stimulus far less than estimated and have the stock markets reacted prematurely?

To be sure, the government's fiscal woes are not going to be over even if the impact of the corporation tax cuts on its fiscal deficit turns out to be lower than ₹1.45 trillion. The gross tax collection shortfalls in the first four months of the current financial year (they are growing by just 6 per cent, compared to the budgeted goal of 18 per cent) will mean that the fiscal deficit target of 3.3 per cent of GDP would be difficult to achieve in any case.

ON THE JOB

Understanding the concept of employment

MAHESH VYAS

I have always found the official definition of employment to be extraordinarily lax. A person is considered to be employed if she has been employed for at least one hour during a week. The person could be desperately looking for a real job during the rest of the week but the one hour she worked supersedes.

This is a global norm, a recommendation of the International Labour Organization. India follows this global practice.

But, how can a person who has worked merely for an hour in a week be considered as an employed person?

In India, where the unorganised sector dominates and where people are engaged in work largely informally, a large proportion of people can get classified as employed even if they do not consider themselves to be employed in any sense of the term.

Imagine the household of a typical tea vendor. He sets up shop on the street and negotiates deals with the formal and informal enforcement agencies to allow him to do business. He organises raw materials and fuel, sets up the stove to brew the sugarshot, runs the production operations, solicits customers and is the sales manager-cum-accountant. He spends a good 12 hour a day of hard work for six days of the week to earn a living and to ensure he does not lose his spot on the street to a potential competitor.

On the seventh day he replenishes stocks and cleans. On this day, his wife helps in the cleaning of the cloth used as the sieve in the operations, gives a wash to the equipment and refills stocks. If she spends an hour or more on that day on these activities and for the rest of week is fully occupied only taking care of the house, she is still considered to be employed.

If a surveyor asked the wife whether she was employed, her answer would be in the negative. And, it would be an honest answer. But, the official statistical machinery would dig deeper and discover that the wife should also be considered as employed.

We believe that this stretches the common-sense understanding of the term employment.

The tea vendor's household is not a rare phenomenon in a place like India. If the Ola cabby's brother who is still trying to find a job gives his brother's car a good wash every weekend, he could be classified as an employed person. If the village grocer's daughter who is still studying spends an hour a week tallying stocks she could be considered employed. If the milkman's wife washes the milk cans she could be classified as employed.

By classifying these occasional stints at work as employment, we could be overestimating the number of really employed people in the country. All of them did work but, it is debatable that all of them are employed.

It is easy to classify the salaried classes as employed. For the non-salaried classes, perhaps, it makes sense to classify a person as employed only if she has worked adequately to make her feel that she is indeed employed. I guess such a feeling would emerge only if a person works sufficiently to contribute meaningfully to the economic well-being of the family. It is this feeling that should be central to counting a person as employed.

We need not be judgemental about the minimum number of hours a person should work to be considered employed.

If a modern-day gig worker feels that a couple of hours of work a day is sufficient to feel employed, so be it. If another one feels its important to work six or even eight hours to feel employed, who are we to lower the bar?

There could be differences in perceptions of employment across gender, age, education and most of all, need. Culture and evolution can shape perceptions regarding employment. These differences offer a rich insight into the nature of employment. Incorporating these into the definition of employment is a challenge worth picking up. To leave the definition at a ridiculously low level is to mock the importance of real meaningful employment and abandon the diversity in its interpretation.

CMIE's Consumer Pyramids Household Survey gives importance to the perception of the respondent regarding employment/unemployment status. Beginning September 1, 2019, it has also started capturing two additional pieces of information. First, it would distinguish between work and employment. And second, it seeks to capture the utilisation of time. These two additional pieces of information along with the perceptions-based responses on employment could help us unravel the nature of the perception of employment.

The author is the MD & CEO of CMIE

LETTERS

Baseless criticism

This refers to "Impetus to Make in India, claims PM; Oppn says it's timed for US visit" (September 21). The government's decision to slash the corporate tax rate has come in for wide praise from various quarters. However, the Opposition has not been generous to the government and believes that the decision has been timed for the US visit of the Prime Minister. A few things need to be appreciated in this regard. Slashing of corporate tax has not come all too sudden. There has been gradual reduction over the years and this big slash would not have come now had there been no slowdown.

So, the current economic slowdown has prompted the government to go in for this huge cut in corporate tax rate now. Also, the rate cut is aimed at luring foreign companies that are winding up their facilities in China as a result of US-China trade war, to set up manufacturing facilities in India. Clearly, the decision to cut the corporate tax rate could not have been postponed till the next Budget as delaying it any further would not have been useful in arresting the slowdown or attracting foreign firms to set up their facilities in India. The Opposition is well within its rights to criticise the government but the criticism needs to be based on sound rationale and it should not lack conviction.

Sanjeev Kumar Singh Jabalpur

More NPAs?

This refers to the editorial "Phone banking, again" (September 23). I agree with the views expressed in the editorial. Pushing up and encouraging lending to small businesses and retail borrowers by holding loan *melas* is not a wise move. The public sector banks (PSBs) have barely started recovering from the non-performing assets (NPAs) loans mess and to again force them to lend will set the clock back. The PSBs need to lend based on risk assessment of the borrower and his/her ability to repay the loan. The hard earned money of the depositors and the capital paid for by the tax payers cannot be blown away recklessly, like the loan *melas* pushed by Janardhana Poojary in the Congress era.

Forcing banks not to declare loans to small businesses as NPAs till March 2020 will enable PSBs to cover up their growing NPAs to this segment for a much longer period of time. Economic development happens when banks lend wisely, borrowers invest in businesses, production of goods and services increases and loans are repaid on time. Lending in *melas* and then not repaying does not create a perception of economic well-being. It only shows the pitfalls of political interference and patronage. We are creating the setting for the next phase of the big NPA mess. This happens every few years. But the difference is that this time it will come too soon after the previous phase.

Arun Pasricha New Delhi

PM Modi in Houston

From all appearances, the "Howdy, Modi!" event in Houston was a big success. It was a visual treat. Prime Minister Narendra Modi delivered his address to the rapturous applause of the audience. The bromance between Modi and US President Donald Trump was in full display in Houston. They made a mutual admiration club heaping praise on each other. With his words "Abki baar Trump sarkar", Modi has endorsed Trump's candidacy, apart from certifying that Trump "made America great again". It was a deviation from the hitherto followed policy of non-partisanship vis-a-vis the Republican Party and the Democratic Party. The PM opined that Article 370 "benefitted separatists and terrorists". He proclaimed that "discrimination against Dalits is now past history". We couldn't agree more with Modi when he said, "Diversity is the strength of our democracy".

G David Milton Maruthancode

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HAMBONE

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Hope for manufacturing

Govt must follow up tax cuts with administrative reform

The global supply chain for goods is in a state of flux, and this is the time for India to take advantage of it. Costs are increasing in China, for long the hub of global manufacturing, and the Sino-US trade war is disrupting existing supply arrangements. Many companies are looking to set up plants elsewhere in the emerging world — and India should be high on their list of possible destinations. So far, however, domestic risk factors and a high-cost environment have rendered Indian manufacturing relatively uncompetitive and locating in India is thus unattractive. But recent moves from the government can reverse this trend. Most notable among these is the slashing of the corporate income tax rate to 25.17 per cent for large companies, announced last week by Union Finance Minister Nirmala Sitharaman. What was perhaps lost in the middle of the euphoria induced by this step was the fact that new manufacturing firms will be taxed at an even lower concessional rate of 17 per cent including surcharge and cess. This is a sensible attempt to induce new investment in the manufacturing sector.

A major tax cut of this nature for new investment should significantly alter the return on equity for new investment. Importantly, it is also in the spirit of the larger corporate income tax cut, which intended to make India competitive with peer nations in Southeast Asia. Countries such as Thailand and Vietnam have concessional rates for new investment — which are, however, even lower than India's new rates. For example, companies that move their regional operating headquarters to Thailand would receive corporate tax rates below 10 per cent, and their foreign employees would be taxed at only 15 per cent.

The tax cut for new manufacturing companies should be seen in the context of other moves to make the environment more hospitable to new investment. For example, the wage code has been streamlined and some export-oriented sectors have been permitted more substantial use of contract labour. The government also recently provided clarity on foreign investment in contract manufacturing, which is permitted at the 100 per cent level through the automatic route. The finance minister also announced in the last fortnight a package for exporters that would be compliant with Indian obligations at the World Trade Organization, and also promised that refunds of input tax credits would be processed in a time-bound manner. Credit-constrained export-oriented sectors might also benefit from a relaxation of priority sector lending norms for banks. The larger attempt here is clearly to create an environment that is friendlier to those willing to expend capital on the risks that Indian manufacturing entails. Threats to risk capital include high taxes, now being addressed, and high interest rates, which too are being lowered consistently by the Reserve Bank of India, now that inflationary expectations are under control. But more needs to be done. Comprehensive central labour and land law reform is a long-pending demand of the manufacturing sector and cannot be evaded forever. It is also necessary to consider the question of administrative and regulatory risk. Access to international arbitration, clear advance tax rulings, more capacity in the judicial sector, and an independent and apolitical regulatory cadre are a must. Only then will a sustained increase in manufacturing's share in gross domestic product be visible.

Substantial ambiguity

A broader RTI Act needs sharper definitions

The Supreme Court's judgment last week bringing non-governmental organisations (NGOs) "substantially funded" by the government under the Right to Information Act raises several critical questions. The two-judge Bench of Justice Deepak Gupta and Justice Aniruddha Bose based their judgement in the case *D A V College Trust and Management Society vs Director of Public Instructions* on an interpretation of "inclusive" sub-clauses defining the categories of eligible institutions under the Act. In addition to four categories, one clause stated that the Act would be applicable to bodies that were owned, controlled, or substantially financed by the appropriate government, and not necessarily formed under the Constitution, an Act of Parliament or a state legislature, or by a notification. This definition, the judges concluded, brought NGOs funded, directly or indirectly, by the appropriate government squarely within the ambit of the Act. Potentially, thousands of private trusts and institutions that work with government funding to varying degrees could now be open to public scrutiny.

In terms of the broad purpose of the RTI Act, the judgment appears unexceptionable. If public money is being expended on a private initiative, the taxpayer has the right to know how it is being spent. This is relevant in the case of hospitals and educational institutions for which governments extend land grants and related subsidies. Most of this aid typically comes with conditions attached, such as reserving a certain percentage of beds/seats for the poor. There has long been a suspicion that the mushrooming "five-star" hospitals and educational facilities in 21st century India, built on government land and tax breaks, observe these conditions more in the breach. The Supreme Court's latest judgment would bring them under public scrutiny.

The attractions of such transparency must be weighed against the ambiguity on the key definition of "substantially funded". In 2015, the Central Information Commission had defined substantial funding thus: If a body receives ₹5 lakh from the government and if this amounts to 10 per cent of the annual income of the NGO concerned. Though this ruling has the virtue of specificity, it appears to set the threshold rather low. The Supreme Court in its September 17 ruling stated the term "substantial" meant "a large portion". It added that "[i]t does not necessarily have to mean a major portion or more than 50 per cent. No hard and fast rule can be laid down in this regard". The issue had to be determined on "the facts of each case". The judgment has offered some guiding examples — for instance, if the grant amount is small (say, ₹5,000) or whether the NGO concerned can function without it and so on. But this still leaves the door wide open for interpretation and adds to NGO costs in terms of lawyers' fees. As it is, NGOs that receive government funding are required to appoint information officers to service RTI requests, which is likely to put disproportionate pressure on smaller NGOs rather than the bigger, well-funded ones. The government would do well to include a specific definition of "substantial funding" in the RTI Act so that the overburdened courts are not loaded with more cases on this count.

ILLUSTRATION: AJAY MOHANTY

Big bang steps

With fiscal and monetary levers being pulled simultaneously, expect economic growth and corporate profit to accelerate

AKASH PRAKASH

The finance minister surprised almost everyone on Friday with her announcements on corporate taxation. The government has taken the decisive step of reducing tax rates by 10 percentage points to 25 per cent for all domestic companies. For new manufacturing investments, companies can avail of a tax rate of 17 per cent, provided the new assets become operational by March 31, 2023. There were some other less significant changes for share buyback programme that was announced earlier, as well as for the removal of surcharge on capital gains on buying and selling of equities. The total cost of these tax breaks was estimated to be ₹1.45 trillion. The magnitude and speed of corporate tax relief is unprecedented for India. Overnight, we are now comparable to most countries in Asia. This was clearly an unexpected move, and markets rejoiced by promptly rising over 5 per cent on Friday. On further reflection, it becomes clear that this is a major policy move. Investors have to think through the long term impact — and it is not just the rise in corporate earnings. Here are some of my takeaways.

1. The government has finally moved past the "*suit, boot ki Sarkar*" jibe of the Congress. It is no longer scared of being seen to be wooing businesses. Money-making, if done ethically, is to be celebrated and not vilified. This is a big step in correcting the perception that the government had moved too far to the left and was not pro-business.

This tax break is targeted at corporate India, and improving corporate confidence. The government recognised that there was risk aversion among corporate leaders. The decision to decriminalise certain offences in the companies Act is another step in this direction. No amount of reduction in interest rates will catalyse investments if business leaders lack belief.

India will become a more attractive destination to set up and run a business as a result of these steps. Instead of giving a relief in GST rates, which would have given a boost to consumption, the finance minister has improved the earnings and cash flows of corporate India, hoping that these companies will gain confidence and, in turn, hire and invest. While more needs to be done to ease the hassles of running a business in India, this is a massive step. Tax rates can no longer be the reason to not invest in India. Corporate India must now stop complaining and instead step forward and bet on the economy and growth normalising. The time for cynicism and doubts about the government having any interest in corporate India must end. Companies will hopefully use this windfall to make investments for the future, be it in people, pricing, technology, brand building or plant and machinery. Ultimately, domestic investments must drive our economy; foreign direct investments can only be the icing on the cake.

2. This is a huge bet on growth. We will miss the fiscal targets for this year for sure, but even going forward, the only way this step makes sense for the government is if growth comes back strongly. Prime Minister Narendra Modi needs funds for his social programmes. With these new tax rates, unless growth accelerates strongly, he will not get the revenues he needs to fund these social schemes. These tax cuts should put to rest any doubt about whether the government cares about economic growth. Everyone is now aligned on one thing: Rapid economic growth is a necessity. Better still both the fiscal and monetary authorities are finally on the same page.

3. The bears worry about the fiscal deficit. It is true we may see a fiscal deficit of 3.7-3.8 per cent of GDP this year. However, as an equity investor I can live with that if growth strengthens and earnings accelerate. I would prefer a higher fiscal deficit with stronger GDP and earnings growth and a little higher inflation, than an obsession with 3.3 per cent (fiscal deficit), with no inflation and weak growth. The fiscal overshoot will also put pressure on the government to monetise assets faster and more strategically. Strategic divestments will come back on the table. They may be far more aggressive than anyone now thinks. We may see a faster roll out of direct benefit transfer, in the area of food and fertiliser subsidies, as pressure to optimise expenditure gains ground. The fiscal constraints this step imposes will encourage more reform.

4. We should see an 8-10 per cent rise in profits after tax for the listed corporate sector. The initial benefits may be lower as some companies will not move to the new regime and others will have to mark down deferred tax assets. More importantly, the new tax regime will raise the normalised return on equity and free cash flow metrics for corporate India. The benefits are for perpetuity and should therefore raise the theoretical multiple for the market.

5. These steps only further strengthen the ongoing consolidation in corporate India. The strong will get even more powerful and the weak will fade away. After all, the biggest beneficiaries of these steps are the companies which pay the highest absolute amounts and highest rates of tax. Weak companies, which are not profitable, get no benefit at all. In industry after industry the weaker players with weak governance or stretched balance sheets are being swept away, creating space for market share gains for the better run companies. The clean up of corporate India will only accelerate post these cuts.

6. In the short term, the economy will remain weak. Q2 earnings will be horrible; consumption demand will take time to recover; the NBFC crisis is not over; you will see no immediate pickup in investments; jobs growth will remain weak. People will argue that this is a blunt stimulus measure, it would have been better to cut income taxes or GST. Others will argue that companies will just sit on the gains.

However, sentiment has turned in my opinion. So have markets, as they lead the economic cycle. The government has shown that it will listen, and that the economy and corporate India matter. The lurch to the left in economic policy-making has been arrested. It has also shown that the government has the willingness to make big bets even in the economic sphere. Investors thought that monetary policy was the only lever the government had at its disposal to revive the economy. We were wrong. No one expected a stimulus of this magnitude. We now have both the fiscal and monetary levers being pulled simultaneously. Over the next 18 months, expect both GDP and corporate profits to accelerate. We may have hit bottom in both.

The writer is with Amansa Capital

Big bets for heavy (green) industries

INFLEXION POINTS

ARUNABHA GHOSH & TIRTHA BISWAS

Yesterday, the United Nations Secretary-General convened a climate action summit urging world leaders to increase ambitions to ensure net zero emissions by 2050. India co-chaired the industry transition track with Sweden. India aims to become a $5 trillion economy by 2024. Manufacturing share of GDP reached an all-time high in 1995 (18 per cent). When China was at our current size in 2006, manufacturing contributed a third of its GDP. Manufacturing is also responsible for a quarter of India's greenhouse gas emissions, rising to more than a third by 2040.

Can Indian manufacturing remain competitive, add to national income and create jobs, despite environmental constraints imposing hard choices on patterns of industrial development?

Four industries — iron and steel, cement, ammonia, and petrochemicals — contribute 27 per cent of industrial value, 23 per cent of formal sector manufacturing jobs but a whopping three-quarters of emissions. Even best-in-class energy efficiency will not keep the planet within the carbon budget consistent with limiting temperature rise to under 2°C by 2100. In order to retain or gain an edge, India must consider emerging technologies.

Iron and steel (32 per cent of emissions) will witness three-fold increase in production capacity by 2030. Most plants today use blast furnace technology. Lack of high-grade coking coal has forced firms to increasingly rely on imports. Some plants have shifted to direct reduced iron technology, which uses locally available low-grade non-coking coal, but input costs are very high. Average emissions intensity of steel production in India is twice the global level.

Alternatives are under development. TATA Steel's plant in Ijmuiden, Netherlands, has successfully piloted the HIsarna process, with half the carbon intensity of its Jamshedpur plant. But this approach would increase import dependency of low-ash non-coking coal. The Circored process uses natural gas to produce hydrogen and substitute for coal. Swapping the steam methane reformer with an electrolyser, which uses renewable electricity to produce hydrogen, eliminates emissions.

Today, green hydrogen-based steel is 20-30 per cent costlier but could become competitive in India with a carbon tax of $40 per tonne of C02. It could meet strong domestic demand and provide for 4 million direct jobs by 2050, creating another 1.6 million jobs along the hydrogen supply chain.

Cement production adds 30 per cent of manufacturing emissions. With growing demand, limestone imports have increased 18-fold since 2000. Reducing clinker slows down import dependency for high-grade limestone and reduces emissions. But clinker substitution has reduced emissions intensity by only 5 per cent since 2010. Average clinker factor of Indian cement still remains at 0.71 (global average: 0.66).

In collaboration with EPFL (Switzerland), researchers from various IITs are piloting and testing Limestone Calcined Clay Cement (LC3). Early results indicate that LC3 can be as strong as Portland cements while replacing half the clinker and using low-grade limestone abundantly available in India. A transition towards low-carbon cement could support 540,000 jobs in 2050.

Ammonia, primarily used to make urea, is critical to food security. Despite being the world's second largest urea producer, India's urea imports have grown 30-fold since 2000. Globally, energy needed to manufacture a tonne of ammonia has dropped two-thirds but Indian plants have lower energy efficiency.

One alternative is to use syngas from coal and coal-bed methane. India's first coal gasification project to produce urea is under construction in Odisha. Another CBM-based urea plant in West Bengal will start commercial production by end-2019.

Other attempts, in Oxford and Fukushima, are aiming for zero-carbon ammonia, by combining renewables-derived hydrogen with nitrogen captured from air. A seven-fold drop in electrolyser costs and cheaper renewable electricity have nudged Australia, France, Japan, the Netherlands, Norway, Singapore and South Korea to announce plans for a hydrogen economy.

Green ammonia would reduce India's dependence on natural gas, freeing it up for other sectors. By 2050, about 200,000 jobs could be created along the hydrogen supply chain replacing 20,000 jobs in the natural gas supply chain.

India has built huge petrochemicals refining capacity. Since 2000, imports dropped from 39,300 tonnes to just 24. The thermal energy needed to crack crude is responsible for maximum emissions. Today's steam cracking furnaces are operating at peak efficiency. Reliance Industries' Refinery Off-Gas Cracker facility (the world's largest) uses refinery gases (and gasified petcoke) as feedstock, making it the most energy efficient producer in the world.

But India still remains import dependent for oil feedstock. An alternative is green methanol. Renewables-derived hydrogen and CO2 captured from air produces syngas, feeding green methanol production with zero carbon emissions. CEEW and the International Energy Agency find that by 2030 green methanol could be cheaper than using natural gas and coal-based processes in India, reducing both import dependency and emissions footprint. It could create an additional 160,000 jobs along the hydrogen supply chain.

Green steel, low-carbon cement, green ammonia and green methanol for petrochemicals promise lower emissions, lower imports and more jobs, while helping India respond to technological shifts. Dedicated efforts are needed to reduce costs and increase adoption: R&D and innovation partnerships; regulatory nudges by making clean energy more affordable and by taxing environmental externalities; and creating a domestic market for green products and processes (with financial incentives, consumer awareness and leveraging supply chains).

India could reap benefits from new approaches to heavy industrial manufacturing. Or it could get trapped in older technologies and fuel dependence. Big bets on the essential trinity of growth, jobs and sustainability are needed urgently.

Ghosh is CEO and Biswas is Programme Lead, Council on Energy, Environment and Water (http://ceew.in). Their latest paper (with Karthik Ganesan), Sustainable Manufacturing for India's Low-carbon Transition, *is available here:http://bit.ly/2m6IZZW.Follow @GhoshArunabha@CEEWIndia@tirtha_biswas*

A ready reckoner of Modi's India 1.0

BOOK REVIEW

NILANJAN MUKHOPADHYAY

This is the book that spawned numerous political theories, including conspiratorial, after its New Delhi launch last month. One of the speakers, former Union minister Jairam Ramesh, made remarks interpreted by instantaneous analysts as soft on Prime Minister Narendra Modi. He remarked it was time "we recognise Modi's work and what he did between 2014 and 2019 due to which he was voted back to power by over 30 per cent of the electorate." Abhishek Manu Singhvi picked up the cue and tweeted: "Always said demonising #Modi wrong. Not only is he #PM of nation, a one-way opposition actually helps him…". The "final" evidence of senior national-level Congress leaders lining up at Mr Modi's altar was Shashi Tharoor's I-have-already-said-it statement: "I have argued for six years now that Narendra Modi should be praised whenever he says or does the right thing, which would add credibility to our criticisms whenever he errs…."

Undoubtedly, provocation for Mr Ramesh's peppery remark was the book that gave away the author's political orientation or perspective on the subject by including "malevolent" and "New India" in its title. Mr Ramesh was possibly stating that this book, written before the May 2019 Lok Sabha verdict, makes little effort to understand what makes Mr Modi tick despite his obvious divisiveness and the politics of malevolence he pursues incessantly. This limits the reach of the book, since it is likely to be picked up by the converted, or those outside the dominant fold of the times.

As the three Congress veterans' remark, not all of them in the context of the book, there must be something that Mr Modi is doing correctly for him to increase his vote share by six percentage points between 2014 and 2019. This, however, is not the subject of the author's scrutiny as he writes while explaining what made him take up this project: The London publisher invited him to lunch and asked if he would write a book on Modi's India, or India after the prime minister assumed office in 2014. Mr Komireddi labels Modi as the "worst human being ever elected prime minister."

The author is enormously angry. The concluding chapter, Coda, opens with a Nissim Ezekiel poem: "When, finally, we reached the place; We hardly knew why we were there. The trip had darkened every face; Our deeds were neither great nor rare…". When elections were held this past summer, Indians already had "more than a glimpse of the New India he [Mr Modi] has spawned. It is a reflection of its progenitor: culturally arid, intellectually vacant, emotionally bruised, vain, bitter, boastful, permanently aggrieved and implacably malevolent: A make-believe land full of fudge and fakery; where savagery against religious minorities is among therapeutic options available to a self-pitying majority frustrated by Modi's failure to upgrade its standard of living."

The diagnosis is clinical and in prose that is hard to put down — in fact, the book began with a narrative located in the 1980s, when the dream of secular and inclusive India was beginning to sour, and written in a style that makes it one of the most fascinating non-fiction books this writer has read. As the last pages stacked up on the left of the book's hinge, realisation set in that here was a writer who had matched Mr Modi rant for rant, the difference being that the spoken word was replaced by the written. Yet, there was no escaping the sadness at the book not turning out as one expected it to be. Not a very small measure of this was contributed by the author's confession that the section on Murad, escapades with whom in the 1980s set the foundation of what Old India, as a juxtaposition to the New India, may have been, was "slightly fictionalised to conceal identities".

Style apart and Mr Komireddi's refusal to probe the reasons for Mr Modi's ever-increasing stranglehold on the electorate despite escalating anger and fear of his ilk, the book is extremely valuable for people who have been spared the lives of worms in Mr Modi's New India. This book was conceived over a London lunch chiefly for people who may have flipped through headlines detailing the latest horrific incident from India, but were unaware of the entire canvas of hate-spewing ideology and kangaroo courts engulfing India since 2014. The author lays bare multiple facets of this New India where an individual has become the party, the party has become the government and the government has become the nation, and how criticising one of them means castigating all.

Kudos to the author for seeing Mr Modi's emergence as part of a political process that began in an earlier era. Almost one third of book, part one formally, can be considered a narrative on the pre-history of Mr Modi's India and can be encapsulated in one oft-repeated quote of a certain Dev Kant Barooah: "India is Indira, Indira is India." Fast forward to party leaders attempting to outpace rivals by statements eulogising Mr Modi and likening him to historical heroes of the Shivaji variety or terming him the "second Mahatma". When the regime's malevolence is incessant, it is often taxing to recollect details. This is where this book serves an important purpose. It is a ready reckoner on what is now past.

The writer is a journalist. His latest book is RSS: Icons of the Indian Right. *He has also written* Narendra Modi: The Man, The Times (2013)

MALEVOLENT REPUBLIC: A Short History of The New India
KS Komireddi
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