Separation of responsibilities

The compulsory retirement of over 60 tax officers suggests a deeper problem and requires a structural solution

RAISINA HILL

A K BHATTACHARYA

Last Friday, the government retired 15 senior tax officials from service. The number of senior tax officials, compulsorily retired in this manner, has now crossed 60. The decision on compulsory retirement has been taken under the provisions of Fundamental Rule (FR) 56-J that regulates the service conditions of government officers belonging to Group A, B and C.

What does FR 56-J say? It empowers the government to compulsorily retire any government servant after either giving three months' notice or paying her three months of pay and allowances, subject to three conditions. One, a decision on compulsory retirement can be taken if the government is of the opinion that it is in public interest. Two, if the officer belongs to Group A or B service, then she can be retired after she attains the age of 50 years, provided she entered service before attaining the age of 35 years. And three, the compulsory retirement for all other groups of services can be ordered only after the government servant attains the age of 55 years.

Note that the provisions under FR 56-J have been part of the government's service rules for several decades, but it has been used quite frequently only now. Indeed, a quick search of all the circulars issued by the department of personnel and training on premature retirement shows that from 1989 to 2014 — almost 25 years — the government did not consider it necessary to issue any notification to clarify the provisions under FR 56-J. There are about a dozen circulars issued between 1969 and 1989 to clarify the implications of a few Supreme Court judgments on the applicability of this provision. But since 2014, the government has issued as many as nine clarificatory circulars.

Equally important to note here is that the circular in 2014 was issued in March, a couple of months before Narendra Modi was sworn in as prime minister in May that year. The March 2014 circular is very significant also because it explained the two specific situations under which decisions on compulsory retirement could be taken. This circular stated that a review of the performance of the officers concerned should be undertaken at least six months before she attains the age of 50 or 55 years. It also reiterated that the government could compulsorily retire those officers under FR 56-J, whose integrity was doubtful or whose fitness or competence had not been up to the mark.

In the last five years, the Modi government has issued many circulars to set up committees and review the manner in which recommendations for compulsory retirement of officers could be implemented. However, action on the ground has been seen only in the last few months and so far this has been largely limited to the income-tax department of the Union finance ministry. It would, therefore, appear that the drive on compulsory retirement is essentially aimed at addressing the general concerns over complaints of harassment by dishonest tax officials. This does not seem to be part of an overall policy decision to get rid of all those officials in different departments of the government, whose fitness or integrity is a question mark.

A more relevant issue with regard to retiring tax officials is that the measure to clean up the taxation department cannot achieve the desired goals with just compulsory retirements. Compulsory retirement of tax officials with integrity issues would only address some of the immediate concerns. What about the systemic issues that create incentives for a tax official to become dishonest and harass a tax payer?

It is time the government embarked on a more comprehensive strategy to make the tax department friendlier. Increasing the digital interface is certainly one of the ways. But a more fundamental and effective measure would be to create a Chinese wall between those officers who undertake investigations and those who are responsible for tax collections. The investigation wing of the tax department should function on its own and not be subservient to the revenue collection goals of the department.

The current separation of responsibilities clearly has not yielded the desired results. If more than 60 commissioner-level tax officials were compulsorily retired in the span of a few months, surely the malaise is far deeper and requires a more fundamental organisational restructuring of the revenue department. Perhaps, the investigation wing should be taken out of the revenue department and made part of another department in the finance ministry.

How much, Mr Das: Rate cut of 40 or 25 bps?

Not inflation but the slowing growth in Asia's third largest economy, which wants to get into the $5 trillion club by 2025, is the primary concern of the RBI

BANKER'S TRUST

TAMAL BANDYOPADHYAY

The Indian central bank will surely cut the growth projection for the year and pare the policy rate yet again at the next bimonthly meeting of its monetary policy committee (MPC) that ends on October 4.

Since February, the Reserve Bank of India (RBI) has reduced its policy rate by 110 basis points (bps) in four successive meetings of its policy making body, including a rather unconventional 35 bps, bringing it down to 5.4 per cent, its nine-year low. One bps is a hundredth of a percentage point.

As far as growth is concerned, at the August MPC meeting, the real GDP growth estimate for 2019-20 was pared from 7 per cent in June to 6.9 per cent. For the first half of the current fiscal, the projection has been in the range of 5.8-6.6 per cent and, for the second half, 7.3-7.5 per cent — with risks somewhat tilted towards the downside.

With the June quarter GDP growth dropping to a six-year low of 5 per cent, the RBI is left with very little choice but to revise its growth estimate downwards, once again. The question is by how much? Not many analysts are willing to bet even on a 6.25 per cent growth for the current year but the central bank probably will not be that bearish, particularly against the backdrop of the aggressive government actions to improve the investment climate and encourage consumption. We can expect the RBI to bring down its projection for the year to 6.5 per cent. It can also play safe and give a range of 6.4-6.6 per cent.

At this point, not inflation but the slowing growth in Asia's third largest economy, which wants to get into the $5 trillion club by 2025, is the primary concern of the RBI. This is why even though with every successive policy rate cut the marginal utility of the cut comes down, it may cut the rate again. Here too, the question is: How much? It could be 25 bps. Or, to complement the previous 35 bps rate cut, it could be a 40 bps cut to bring the policy rate down to 5 per cent. Why not 15 bps? That will be too small a dose and won't cut much ice with the market.

The MPC, at this juncture, is faced with a Hobson's choice: If it goes for a mild cut (15 bps), the market will shrug it off and, if there is a deep cut, it may create an impression that the RBI is done with the rate cut cycle. It needs to frontload the cut and, at the same time, dangle the carrot of at least one more cut in the near future. It could be between a 25 bps and 40 bps cut. My bias is towards 40 bps. The overnight indexed swap market is indicating an approximately 65 bps rate cut in India, bringing it down to 4.75 per cent, in phases.

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RBI Governor Shaktikanta Das has recently said future rate cuts would depend on the incoming data with a caveat that India cannot have low interest rates like in the advanced economies. In the past few weeks, the US Federal Reserve, the European Central Bank, and the central banks of China, Indonesia and Philippines have cut rates. The Bank of England has maintained status quo and may continue to do so till the final Brexit outcome. Other three central banks to keep the rates unchanged are the Bank of Thailand, the Bank of Japan and the Swiss National Bank (maintaining a negative rate of -0.75 per cent). The only hawk in the dule of doves is Norway's central bank which has recently raised interest rates for the fourth time in the past year by 25 bps to 1.5 per cent.

For the record, India's retail inflation marginally rose to 3.2 per cent year-on-year in August from 3.15 per cent in July but continues to remain below the MPC's target (4 per cent with a band of plus/minus 2 per cent). While the food price inflation inched up to 3 per cent from 2.4 per cent in July, the so-called core inflation or non-food, non-fuel manufacturing inflation moderated to 4.2 per cent from 4.5 per cent in July. In August, the RBI projected retail inflation at 3.1 per cent for the second quarter and 3.5-3.7 per cent for the second half of 2020. There does not seem to be any major threat to this projection.

Monetary transmission

Till the August policy announcement when the RBI cut the rate by 35 bps, the transmission of the policy rate cut was a little over one-third — 29 bps against 75 bps rate cut since February. It seems to have improved marginally. We will see further improvement in monetary transmission with the banks being forced to link their floating rate retail and personal loans and loans given to micro and small enterprises to an external benchmark. The State Bank of India has already announced linking them to the repo rate (the policy rate at which RBI gives money to the banks) and others are likely to follow suit.

This is perplexing as banks are allowed to borrow just 25 bps of their net demand and time liabilities, a loose proxy for deposits, from the RBI's repo window at 5.4 per cent, offering government bonds as collateral. They can borrow more from the variable repo window (where the rate is higher — between 5.41 per cent and 5.64 per cent) but the access is capped at 75 bps for the industry. Essentially, not even 1 per cent of the banks' liabilities is linked to the repo rate.

How are they linking their loans to this external benchmark?

They can borrow from term repo windows where money is given for 14 days, twice a week, and at times even for a longer duration but the term repo market is still nascent. Banks can use different benchmarks for different loan products and, once fixed, the spread over the external benchmark cannot be changed for three years. It will be interesting to see how the new regime pans out. Incidentally, most large banks' average cost of deposit is less than the repo rate and large private banks enjoy as much as a 3.5-4.5 per cent net interest margin.

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CHINESE WHISPERS

Image conscious

Social media has become an integral part of our politicians' public relations exercise. Not only the leaders of the parties but even officials are getting increasingly conscious of the image they project on social media platforms. However, it seems the Uttar Pradesh administration has taken it a notch higher. In the last two and a half years of the current regime, as many as two agencies have come and gone with none able to meet the demanding requirement of the government. Sources said talks were on to replace the current (third one) agency with another one soon. However, four different agencies managing the social media footprint of an administration in less than three years make them vulnerable to goof-ups.

Head-on clash

The Jhabua assembly byelection in Madhya Pradesh has become a prestige issue for the Bharatiya Janata Party (BJP) and the Congress. In this crucial election, candidates fighting for other parties are not relevant ... or so it seems. It is being touted as a head-on contest between Prime Minister Narendra Modi and Chief Minister Kamal Nath (*pictured*). In its campaign, the BJP is focusing on issues like the reading down of Article 370, the surgical strike on alleged terrorist bases in Pakistan earlier this year, and the international stature of Modi. On the other hand, the Congress, the ruling party in the state, is holding up the performance of the state government. The Congress announced five-time MP Kantilal Bhuria as its candidate on Thursday. With 114 MLAs, the party is two short of a majority. If it wins the bypoll from the seat held earlier by the BJP, its count will move closer to the majority mark. The BJP won the seat in 2018 but the seat fell vacant after MLA G S Damor was elected to the Lok Sabha.

Who's the most popular?

Uttar Pradesh Chief Minister Yogi Adityanath and his predecessor Akhilesh Yadav have often run into spats over a gamut of topics, be it taking credit for development projects in the state or berating each other's regime as anarchic. However, the rout in the 2019 Lok Sabha polls and flight of senior party leaders to the ruling Bharatiya Janata Party have gradually taken the wind out of the Samajwadi Party's (SP's) sails. Nonetheless, micro-blogging site Twitter has provided some ammunition to the SP cadres, who are claiming an upper hand over Adityanath. The former chief minister's followers on Twitter have hit the figure of 10 million when compared to nearly 5.3 million of Adityanath's followers. Ever since, the SP cadres have been pro-actively calling Yadav "doubly popular" than Adityanath on the social media.

INSIGHT

Taking tourism to greater heights

The decision of the GST Council to slash tax on room rates for hotels across price-points is a sign of better things to come

ADITYA GHOSH

We are in the middle of a social revolution in many ways. Whether it is in hospitality, aviation, consumer technology or even space missions, affordability and access are the key to success. I have always maintained that low cost does not mean low quality.

It is not always critical to create a completely new business but more important is that we approach the same old legacy business in a completely different way with the objective of making the product or service more consistent, affordable and accessible to millions of consumers. The hospitality business is not new in India. It has been around for hundreds of years. And for the most part, it has operated in a more or less fixed manner for guests and operators alike.

With changes in technology and the arrival of the "dare to dream" generation, we have been able to make a lot of progress in the way many products and services, including traditional hospitality, are being conceived and delivered. I truly believe that technology needs to be used to solve fundamentally hard problems. And in India we have many — whether it is education or nutrition or travel or accommodation, these are fundamentally hard problems to solve in our country.

It is heartening to see how regulatory changes have been keeping pace to benefit consumers, who are at the heart of the industry. Right from the implementation of the goods and services tax (GST) in 2017 to the changes introduced for the hospitality sector more recently, we are seeing a promising trend. Today, hospitality and tourism are one of the biggest job creators and India is the seventh biggest tourism and travel economy in the world, poised to add 10 million jobs in this sector alone by 2028, taking the overall tally to 53 million jobs. With the Prime Minister's recent call to all Indians to travel to at least 15 tourist destinations within the country by 2022, there is huge promise in the days and years ahead for sustainable and inclusive growth of tourism in India.

In this light, the decision of the GST Council to slash tax on room rates for hotels across price-points is welcome and a sign of better things to come. I will let the numbers do the talking. Consider this: For hotels with tariffs above ₹7,500, a GST reduction to 18 per cent instead of the existing 28 per cent will mean an opportunity to not only increase seasonal and off-season occupancies but also make staying in India a competitive proposition even for foreign tourists.

The immediate term impact of this rate cut would be a rationalisation of tariffs, particularly in the upper-upscale and luxury segments as hotels adjust to lower rates, potentially stimulating higher demand and consequently occupancies. This, to a limited extent, will also narrow the GST rate differential between India and its neighbouring countries (which are at GST rates of 7-8 per cent) potentially drawing back large meeting, incentives, conference and exhibition (MICE) traffic that India was losing out on.

For hotels with tariffs between ₹1,001 and ₹7,500, the reduction in GST to 12 per cent means more room for growth of operators and customers in the mid-segment. Today, the Indian middle class accounts for 19 per cent of our population and is predicted to rise to 70 per cent in the next three decades.

Further, the decision to waive GST for hotels with tariffs of less than ₹1,000 will bring about the same changes to hotels and accommodation options such as homestays and serviced apartments, as we have seen in the aviation and the telecom sectors over the past two decades, if we are able to guarantee predictable, quality hotel experiences at affordable prices. As the cost of access drops, the propensity to use the product or service is bound to increase exponentially.

It may be too early to predict but this step may also encourage more activity in the space of building new hotels and spaces in all categories. While streamlining guidelines across states as well as the adoption of enhanced digitisation in the hospitality industry are measures that can further help the sector, the GST changes are a step in the right direction. I have always believed that India is a supply-constrained market. Anything that brings costs down and makes supply more affordable for the burgeoning demand is a huge reason to cheer and that too just before the festive season.

The author is CEO, India & South Asia, OYO Hotels & Homes

LETTERS

Fascinating subject

This refers to "Understanding the process of ageing" by Devangshu Datta (September 27). The standards in modern medicine are allowing us to live longer than ever before. The interest is not in extending life by days or weeks, but by decades and even centuries. Mortality will then be optional.

The science of extending life has been a subject of fascination down the centuries including the biblical Methuselah. Old billionaires being cryogenically frozen is not a fantasy any longer with many options available now to freeze our bodies with the hope that some time in future, science will revive them. Some cynics express that they would rather be buried in a cemetery than in a refrigerator. The Silicon Valley billionaires, venture capitalists and investors including Jeff Bezos, PayPal Co-founder Peter Thiel, Larry Ellison of Oracle, Elon Musk of Tesla and Craig Venter are all interested and pouring money into the science of senolytics — an emerging anti-ageing medicine.

The idea of technologically enhancing our bodies is not new. Implants like prosthetics and stents have improved our lifespans and in future, may enhance our senses by merging man and machine. Science may then produce humans who have vastly increased intelligence, strength, and lifespan. Some drugs under evaluation are metformin, an old and established diabetes drug. It has become popular among life extensionists and is sometimes referred to as "the aspirin of anti-ageing." Another potential drug is rapamycin normally used to aid organ transplants and treat rare cancers. Many of the world's top gerontologists have demonstrated the possibilities in animals and are now beginning human clinical trials. Current recommendation till these pills are in use is a healthy diet by reducing the amount of animal protein one consumes. The association between low protein intake and longevity is well established. Ideally this protein should be from plants.

H N Ramakrishna Bengaluru

Nothing new

That United States President Donald Trump now faces the prospect of an impeachment inquiry for his alleged action of seeking his Ukrainian counterpart to investigate the business dealings of former vice-president Joe Biden's son Hunter in a bid to influence upcoming 2020 US presidential polls is hardly surprising. Ever since he donned the mantle of the US President, he has had no qualms in expressing his blatant disregard for principles, values and ethos defining American democracy. With a significant chunk of members of the House of Representatives and the Senate expressing their support for an impeachment inquiry, Trump may go down in the history of the US as the third president after Richard Nixon and Bill Clinton to be impeached by the US Congress.

M Jeyaram Tamil Nadu

Well begun is half done

The editorial "Slow but steady start" (September 27) does a great analysis of how has the Pradhan Mantri Jan Arogya Yojana panned out in its first year. We need regular 'stock taking' of all such public schemes launched by the government. This one is particularly important as it attempts to tackle a long pending need of the nation and the society.

"4.5 million cases of hospital treatment in the first year" is very impressive for a new scheme. It is a very large number by any standard, notwithstanding that it represents only a small percentage of the "number of possible cases in the country". Of course, the issue of scaling up needs to be addressed but that should not make us scoff at this achievement.

You have hit the nail on the head, when you conclude that common requirement for the success will be the expansion of state capacity; this is important when it comes to public sector hospitals. We have huge "non-performing assets" lying out there in the form of many public hospitals and district/primary health centres all over the country — mostly non-operational because of non-availability of doctors, nurse, para-medics and medicines, consumables etc. We have to leverage these assets soon to make the scheme a reality. Depending solely on 'partnerships with private sector service providers' is just not going to work. The government can't afford those costs.

Krishan Kalra Gurugram

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HAMBONE

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Failures of supervision

RBI needs to upgrade oversight capacity

The Reserve Bank of India (RBI) took action last week on the ongoing crisis at Punjab and Maharashtra Cooperative (PMC) Bank, one of the 10 largest co-operative banks in India. The central bank argued that an inspection of PMC Bank's books had uncovered problems; but, in fact, the co-operative bank's management had itself come to the RBI last week with its problems, pointing out that they had discovered long-standing bad loans, in particular to Housing Development & Infrastructure Ltd, and would need a resolution plan. The RBI needs to be commended for its swift action after the problem was revealed to it. But the larger issue should not be lost sight of: That, as a regulator, the RBI is not performing as it should.

Regulators should be able to detect early warnings of such problems, not have to take drastic action only after they are told of them. The RBI must introspect on the fact that its auditors failed to detect the problem that has been festering for many years. Nor is this the first such time that the RBI has failed in its supervisory task. It did not detect an ongoing fraud at Punjab National Bank, for example, which misused the SWIFT inter-bank transfer system among other facilities. The regulator failed for years to either detect the fraud, respond adequately to red flags in the banking system, or correct a breakdown of normal practices at the bank. The IL&FS imbroglio, which thrust the non-banking financial sector into a crisis from which it is yet to emerge, is another such recent oversight.

There is no alternative to raising the RBI's capabilities when it comes to banking oversight. In the last Union Budget, the RBI was given additional powers to regulate the NBFC sector and housing finance — when it has barely demonstrated the capacity for the oversight of the sectors over which it had full powers. While the RBI is right to argue that its powers to address wrongdoing at, say, public-sector banks are too limited, regulators need to focus on the quality and implementation of their regulations, and not just on their arbitrary powers for corrective action. Unfortunately, the latter has been the focus of the central bank far more than the former.

What sort of capacity increase within the RBI is required? First, form should follow function — and function should be clearly defined. Other central banks, such as the US Federal Reserve, have clear and public manuals on how it conducts banking supervision. The RBI should also expose its process to public scrutiny and discussion. When a final and acceptable process is arrived at, the RBI can structure its audit and enforcement capacity around that process. Similar rigour should be shown when it comes to drafting new regulations, which can currently be done by the central bank's staff arbitrarily and non-transparently. Instead, new regulations — which, after all, must be designed in tandem with the capacity to enforce them — must be made after input from outside experts, in response to a clearly stated or foreseen need, and with the approval of the RBI's board or a sub-committee thereof. Finally, the question of appeals to the RBI's decisions should be re-opened. The quality of supervision by the securities regulator has been greatly improved by the presence of a relevant appellate tribunal. What is clear, certainly, is that matters at the banking regulator cannot be allowed to continue the way they are.

Stimulating rural demand

Farm reform focus should shift to income generation

A good sequel to the recent bold steps to reverse the economic slowdown would be to prop up rural demand for goods and services through a well-judged stimulus package for agriculture and its allied fields. Market researchers like Nielsen hold slump in rural demand partly responsible for the sluggish performance of various industries. Though typically, spending on consumer goods in rural areas grows by three to five percentage points more than in the urban centres, this has not been the case in the recent past. The rural demand has actually decelerated at twice the rate in urban India. The ongoing income-oriented programmes, such as rural employment guarantee scheme, minimum support prices (MSP) for crops, the PM-Kisan scheme to hand out ₹6,000 annually to every farmer and similar others, seem to have failed to sustain rural spending. This issue needs to be addressed expeditiously.

The genesis of a cash crunch in rural areas, despite several consecutive good harvests, can be traced to the ill-advised and erratic policies related to agricultural pricing and external trade. These policies, guided largely by the concern for inflation management, are tilted towards consumers, undermining the interests of the producers. The bulk of the farmers do not get MSPs because of the paucity of procurement infrastructure. Wheat and rice are also traded at below the MSPs during the post-harvest peak marketing season in areas where official grain procurement agencies do not operate. The growers are seldom allowed to earn remunerative returns for their produce. Even a marginal uptrend in prices of farm products invites government intervention through measures like stockholding limits, curbs on exports and emergency imports. Onion is the latest case in point. The government lost little time in stalling outbound onion shipments by raising minimum export prices, disregarding the fact that the supply-driven price spike is only temporary as it is caused by seasonal factors. The fresh harvest is also not too far. Such moves are innately anti-grower.

The need, clearly, is to invigorate farm economy to generate disposable income in the rural areas, where two-thirds of Indians live. This can be done by shifting the focus of agriculture promotion programmes from production to income generation. The profitability of farming, which has been eroded drastically, needs to be restored. This will require nudging the states to speed up agri-market reforms to ensure free, fair and transparent trading in farm commodities. The prices should be allowed to be determined by demand-supply dynamics in local and international markets.

Moreover, stability in the domestic and external trade policies is vital to let the production respond to demand. This is being denied at present through knee-jerk responses to price movements. A reliable and stable export window is the key to provide a lucrative outlet for the surplus produce, which, otherwise, depresses local prices. With over 85 per cent of the country's landholdings being less than two hectares and, therefore, economically unviable, employment avenues need to be created in the non-farm rural sector to supplement farm incomes. Solo crop cultivation needs to give way to mixed farming and integrated agriculture involving allied activities like animal husbandry, poultry, fisheries, bee-keeping and others. This would help harness their synergies to optimise farm productivity and profits. Such holistic strategies are imperative to let rural demand contribute to economic growth.

ILLUSTRATION BY AJAY MOHANTY

Resolving India-US trade issues

High expectations of a trade deal were probably misplaced ab initio as there was no bilateral FTA or economic cooperation agreement under negotiation

In a week that has seen India's diplomatic success with the United States attain new heights, India-US trade talks have been rather muted. This is not surprising, given that even the closest allies of the US have not been spared of President Donald Trump's hostile trade policy actions. In the last one year, India has been subjected to repeated criticism of its relatively high tariffs, restricted market access, and the general trade environment. While the tariff on imports of Harley Davidson motorbikes has been most often cited by the US President, more serious policy action has followed in terms of withdrawal by the US, earlier this year, of the long-standing preferential treatment accorded to India and some other countries under its Generalised System of Preferences (GSP) programme. In June, last year, the US had announced higher tariffs of 25 per cent and 10 per cent on imports of steel and aluminum, respectively, from which India had been unable to secure exemptions, unlike some countries such as Canada and Australia. For this, though India has registered a complaint with the World Trade Organization (WTO) dispute settlement body, the US inaction with regard to new appointments on the appellate body (among other things) has rendered the multilateral institutional mechanism weak. Timely outcomes of disputes registered may therefore be hard to achieve. India has now set in motion a retaliatory action by increasing tariffs on 29 commodity imports from the US.

AMITA BATRA

While the extent of impact of all these policy decisions on India-US bilateral trade may not be high, they need to be viewed in terms of not just the immediate trade lost, but also the increased competition that domestic producers will potentially face as Indian exports get subjected to most favoured nation (MFN) tariffs, as well as loss of export market share and consumer welfare for some commodities that have been brought under higher retaliatory tariffs.

In recent years India-US bilateral trade has seen positive growth. After a decline in 2015-16, trade increased in 2016-17 and substantially so in the last two years. Growth in India's trade with the US was a little over 15 per cent in 2017-18 and around 18 per cent in 2018-19. After many years of being second to China, the US emerged as India's lead trading partner in 2018-19, with trade worth $87 billion. Growth in imports registered a jump from 19.29 per cent in 2017-18 to 33. 59 per cent in 2018-19. However, export growth declined from 13.42 per cent in 2017-18 to 9.46 per cent in 2018-19. Even in the eventful year, 2018-19, which has seen major adverse policy changes, the share of the US in India's trade increased marginally to 10.42 per cent from less than 10 per cent in the preceding three years.

The impact of GSP withdrawal is likely to be felt most in sectors like chemicals; plastics; machinery and mechanical appliances; electrical machinery; and photographic, optical, medical, and surgical precision instruments, that is, sectors in which the largest number of commodities are under GSP concessions. In all these sectors, which are also among India's top 20 export sectors, the US is the largest or the second-largest export market for India. In the last two years share of the US market in India's exports in these sectors ranged from 7 per cent in electrical machinery to 20 per cent in machinery and mechanical appliances. But, India's share in US imports in these sectors is very small, only 1 per cent or less, other than in chemicals, where India has a share of 4.6 per cent in US imports. After the withdrawal of the GSP, as Indian exports are subjected to MFN tariff, they will compete with products from China, Germany, Japan, South Korea, and other developed countries, which are leading exporters to the US in these sectors. In the face of stiff competition from these advanced economies, India may not be able to retain even its small share in the US market.

As regards steel exports, a decline of 34 per cent was registered in 2018-19 and in May this year, exports have fallen to their lowest in three years. This is on account of higher tariffs in the US as well as preventive/safeguard measures by other importing countries against potential import surge. The share of aluminum exports in our exports, which was 1.4 per cent in 2018-19, has also dropped to 1.1 per cent in 2019-20 (April-July).

Turning to India's retaliatory tariff hikes, the items with a substantial share in US exports are almonds (54 per cent), apples (15 per cent), phosphoric acid (33.7 per cent), and some iron or non-alloy steel products (29.7 per cent). However, while having a substantial share in US exports, these products simultaneously hold a significant share in India's imports of these commodities. In 2018-19, over 80 per cent of India's almond imports 47 per cent of both walnuts and fresh apple imports, and 41 per cent of stainless steel imports were from the US. A higher duty may, therefore, be equally detrimental for Indian importers and consumers in terms of higher prices. Retaliatory action by itself may, therefore, not achieve much, and may certainly not exert sufficient pressure on the US for restoration of GSP concessions to India.

Difficulties also apply to other demands of the US related to e-commerce, increased market access in agriculture, reduced duties on information and communications technology (ICT) products, and moderation in sanitary and phytosanitary (SPS) measures in dairy products. These are not easily acceptable as they are among issues that India is yet grappling with even at the multilateral level and/or in some of its long-running bilateral free trade agreement (FTA) negotiations. Removal of price caps on certain medical devices, also a US demand, is difficult since providing affordable health care is a national priority in India.

High expectations and persistent references to a trade deal were probably misplaced ab initio, as there was no bilateral FTA or economic partnership agreement that was to be negotiated in this visit. Some reversal of unilateral ad hoc trade policy measures may have been all that was reasonable to expect. However, since trade policy has been used by Mr Trump as a major political instrument, even this may have been a hard bargain to achieve for the Indian side. Perhaps, a selective restoration of the GSP for some of India's major export products, in return for not so difficult and probably desirable reductions in import duties on almonds, walnuts, and apples (especially now, close to the festive season and peak demand period) may be a more feasible outcome to pursue as negotiations proceed in the next few days.

The writer is professor at School of International Studies, JNU

Tax cuts: Knee-jerk or part of a plan?

The Union finance minister on Friday, September 20, announced dramatic cuts in corporate taxes, which will benefit big taxpayers like Asian Paints, Nestle, Hindustan Unilever, Bajaj Finance, and HDFC Bank. They will also benefit new companies, which have the option of paying only 17.01 per cent tax. This announcement electrified the stock markets. The Sensex shot up by 5.3 per cent that day and 2.8 per cent the following Monday, making this one of the largest two-day gains in recent history. But the real impact has only been psychological.

Human beings love to extrapolate and so expectations are high. If Prime Minister Narendra Modi could take such a sudden, bold, and dramatic step, then a series of big-bang reforms are a child's play for him — this is the assumption. Since 2014, businessmen and investors have been waiting for this to happen. For five years, they fervently believed that the Bharatiya Janata Party government knew exactly what to do to accelerate growth. Like fans of filmstars or cricketers, they have shown abiding faith in Mr Modi, who is still seen as a doer with the right intent and strong will.

IRRATIONAL CHOICE

DEBASHIS BASU

This belief was unshakeable despite the foolhardiness of demonetisation and shoddy implementation of the goods and services tax — two moves that wrecked the supply chain and hollowed out the economy. Even then, just before the Budget in July, the market hit an all-time high, as investors looked for a ground-breaking Budget. After all, Mr Modi had created history by winning a massive popular mandate for a second successive time and nothing stopped him from unleashing "big-bang reforms".

The reality was different. Over the past few months, every economic indicator is flashing red. Rising unemployment, poor export growth, punitive taxes, tax terrorism, an imploding public sector, collapse in the GDP growth rate to 5 per cent (3.5 per cent according to the old calculations) in the first quarter, auto sales at a 20-year low, no manufacturing growth, and crisis in financial services and banking. All these added up to an alarming situation, which even die-hard fans of the government could not ignore. But just when all seemed lost, the government announced huge tax cuts and the belief in Mr Modi was restored. We are now expectantly waiting for the next round of big-bang reforms.

Growth framework

What could these reforms be? Economic success stories from around the world clearly tell us what works. Balanced, continuous, and equitable growth flows from higher productivity of land, labour, and capital. Experience from around the world shows that higher productivity can be delivered by two important engines: One, a true market economy, which offers both incentives and competition to economic agents. This leads to low and steady prices, which, in turn, boost consumption and investment; two, a regulatory, governance and justice system that encourages good guys and penalises the bad buys. There is no other proven method of durable economic progress. The much-hailed liberalisation of the early 1990s failed to fire either of the two engines, which is why we had corruption, bad loans, and inflation, from which the economy took a decade to recover. The later regimes made it worse by adding large doses of crony capitalism.

If the recent tax cuts flowed from a well-articulated overarching framework described above, it would have been transformative. There is no such framework. For the engine of incentives and competition to fire, we need ease of entry and exit for all businesses. We don't have it. Dozens of permissions, some mindless, are required to start a business; running it involves large frictional costs, including bribes and extortion, and shutting it down is equally tough. Land acquisition remains a big thorny issue.

The governance, regulatory, and justice system is no better. The continuous failure of the central bank to supervise banks and finance companies, the bumbling of sectoral regulators across infrastructure, and the extortive attitude of revenue authorities are inimical to a market economy, leading to enormous waste of time and resources. The government is the largest litigant. Hidden from the public eye are ills of the tendering system for government projects, which leads to terrible productivity, enormous corruption, and decrepit public services.

Tax cuts did not flow from an overall plan to change this system. Welcome as they are, they are a knee-jerk action. The fact is, various markers of the economy today are worse than in late 2013, when a despondent India, tired of corruption, crony capitalism, and policy paralysis pinned its hopes and faith in Mr Modi. If the tax cuts were part of an economic philosophy, they would have been at least part of the last Budget. Indeed, the impact of the tax cuts, an afterthought, is so deep that it has turned the Budget upside down and there is no clarity on how it will boost demand through greater consumption.

The fact that the tax cuts were announced at the end of a series of six press conferences that started in late August, after the insipid and forgettable July Budget, shows that it was a panic reaction to the 3.5 per cent ... sorry, 5 per cent GDP growth. We can only hope that the government has finally "got it" and will stay focused on improving productivity, demand, and governance. If not, that extrapolation of the tax cuts to big-bang reforms will be a false expectation that will quickly peter out.

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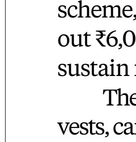
The coming crisis in international affairs



BOOK REVIEW

JAMES TRAUB

As secretary of state, Condoleezza Rice hung up in her office portraits of George C. Marshall and Dean Acheson, the predecessors who, more than anyone else, built the institutions that governed the international community after World War II. Rice and the president she served, George W. Bush, believed that with the invasion of Iraq, and the aggressive promotion of democracy across the Middle East, they could extend to the Arab world the liberal, democratic order that had sustained peace and prosperity in the West. They turned out to be dreadfully wrong, and neither the United States nor the Middle East has recovered from their reckless experiments.

Like Henry Kissinger, Rice is a scholar as well as a diplomat, and thus has additional means to influence the public and shape her own standing. A quarter of a century ago, she and Philip Zelikow, both of whom served as midlevel officials in President George H. W. Bush's National Security Council, described the virtuoso statecraft that brought the Cold War to a peaceful conclusion in *Germany Unified and Europe Transformed* — a kind of bookend to the world-ordering labors of Marshall and Acheson. In *To Build a Better World* they return to the subject, but with a new sense of urgency, for, as they write, the world seems to be "drifting toward another great systemic crisis." They would have us regard the end of the Cold War as a parable for our own beleaguered times.

Rice and Zelikow make a convincing case that the collapse of the Soviet Union constituted one of history's rare "catalytic episodes," when the existing order is convulsed by immense forces that statesmen can shape for good or ill. Had reckless leaders made self-aggrandising choices, the collapse of a great power could have led to chaos and war. This did not happen, in Rice and Zelikow's telling, because the chief actors of the drama — the elder President Bush, the German chancellor Helmut Kohl and the Soviet premier Mikhail Gorbachev — were rational, worldly, pragmatic heads of state. They shared a vision of a common Europe, even if Gorbachev imagined a Communist Soviet Union flourishing alongside the capitalist West. They believed in, and used, the chief institutions of the postwar world, whether NATO or the United Nations. They understood the political limits under which each operated. When he met Gorbachev in late 1989, Bush said: "I have conducted myself in ways not to complicate your life. That's why I have not jumped up and down on the Berlin Wall." Gorbachev, under great pressure from traditionalists to keep the Soviet sphere intact, responded that "he had noticed that and appreciated it."

Rice and Zelikow told many of the same stories in their earlier book. But when you read them now, you feel an almost unbearable nostalgia for a time when leaders took risks in the name of a common interest and publics embraced the core values of liberal democracy. Where are the wise men of yesteryear? That, implicitly, is the question Rice and Zelikow pose. But perhaps that's the wrong question.

In retrospect, the end of the Cold War gave birth to an extraordinary, and very brief, moment of consensus in which liberal values appeared to be universal and the institutions of the "liberal world order" seemed poised to operate as their founders had imagined. Peace and prosperity disposed citizens to defer to their leaders, who enjoyed the support needed to make tough decisions. That consensus is gone, along with the deference it fostered.

What happened? How did we lose faith in George H. W. Bush's optimistic vision of American global engagement and sink into the toxic brew of bellicosity and isolationism that Donald Trump now promotes and exploits? Rice and Zelikow blame the economic crisis of 2008 and, incredibly, the preoccupation of the left with "the diversity narrative" rather than with poverty and inequality — blithely skipping over George W. Bush's huge tax cuts for the rich. But that is hardly the chief omission. The terrorist attacks of 9/11 presented Bush and his national security team with their own "catalytic episode." They could have closed ranks with allies and worked closely with the United Nations, as the elder Bush and his team had done. They chose a different path, one that ultimately damaged America's standing in the world and sundered the American public on engagement abroad.

At that critical juncture, our authors arguably did not practice what they now preach. Rice commissioned Zelikow to rewrite Bush's 2002 national security report after the State Department produced a version that sounded to her too much like the elder Bush. The Rice/Zelikow version bristled with threats of military action — unilateral, if need be — in the name of principles that are "right and true for every person, in every society." In the run-up to the war in Iraq, Rice ignored warnings from the same veterans of 1989 whom she praises so lavishly in To Build a Better World. And she and Zelikow refer only in passing to the Iraq war, observing with supreme understatement that the results "are still being debated today." What, one is forced to ask, should be made of a work that is so scrupulous in historical analysis yet so impoverished in critical self-reflection?

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TO BUILD A BETTER WORLD: Choices to End the Cold War and Create a Global Commonwealth
Philip Zelikow and Condoleezza Rice
Twelve
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