# Advantage indigenous Indian cows

Their milk is better than that of exotic cows in terms of quality and composition of proteins

FARM VIEW

SURINDER SUD

Is the milk of indigenous Indian cows better than that of exotic cows? The answer is yes, especially in terms of the quality and composition of proteins in the milk. The emerging global trend is to classify milk into A1 and A2 categories depending on the nature of its beta-casein which constitutes 30 to 35 per cent of the total milk protein. A2 milk is generally preferred over A1 because of its similarity with the mother's milk. The milk of the Indian native cattle belongs to this class.

To elaborate it further, it is worth pointing out that Beta-casein consists of a series of 209 amino acids most of which are the same in both A1 and A2 milks. But the amino acid positioned at the 67th spot is different in the two cases. While A2 beta-casein has the useful Proline at this position, as does the human milk, A1 has Histidine which tends to break down during digestion to an unhealthy peptide called BCM-7 (beta-casomorphin-7). This peptide, dubbed generally as "milk devil", is similar to Morphine which is harmful for the brain.

The milk secreted by the cattle breeds evolved in most Asian and African countries, including India, is predominantly of A2 type. In contrast, the cattle breeds of Europe (excluding France), Australia, New Zealand and the US usually yield A1 milk. In some cases, their milk contains a mixture of A1 and A2 beta-caseins but it remains in the broad category of A1 milk.

Some studies have indicated that the intake of A1 milk in childhood may be linked to ailments like diabetes (type-1), heart diseases, digestive disorders and autism (a mental condition marked by poor social interaction and repetitive behaviour). But that is not so in A2 milk. It can be consumed even by many of those suffering from intolerance to regular milk.

Actually, cows are not the only source of A2 milk. It is produced also by several other milch animals, such as buffalo, goat, sheep, yak and camels. That is why the milk of these bovines enjoys an exclusive market niche. Some types of A2 milk secreted by animals with prominent humps, notably camel, are deemed good for managing and even reversing autism. This belief has led to the spurt in the demand and prices of camel milk in many countries, including India. But most of these claims need to be validated through more studies.

However, the fact that desi cattle produces A2 milk has been authenticated scientifically and acknowledged by the National Academy of Agricultural Sciences (NAAS) in a recent strategy paper (No. 12) titled "Harnessing full potential of A1 and A2 milk in India: an update". The paper points out that the crossbred cattle developed in India by crossing local cows with exotic bulls also normally carry pure A2 beta-casein. The presence of A1 protein is rare and in traces.

The NAAS paper cites the results of a comprehensive analysis of 1,500 animals, including crossbred cows, carried out by the Karnal-based National Bureau of Animal Genetic Resources (NBAGR), in support of this contention. The study revealed that the milk of over 91 per cent of Indian native cattle had A2 beta-casein only. Barely 0.09 per cent samples showed negligible traces of A1 protein. None of the Indian herds produced the unwelcomed A1 milk.

The awareness about the merits and demerits of A1 and A2 milks is growing in major dairying countries like New Zealand, Australia and the US. In fact, New Zealand has started marking breeding bulls as A1 and A2 to promote A2 type cattle. A business house, called A2 Corporation Ltd, has come up there to undertake testing and marketing of A2 type cows and their milk. It has registered "A2" and "A2 MILK" as its trade marks.

However, the NAAS strategy paper maintains that India has an edge over the European milk trading countries in producing A2 milk. It can easily cater to the growing demand for A2 milk in the global market.

## CHINESE WHISPERS

### Congress' dilemma

There is palpable discomfort in the Congress because some of its leaders will participate in an event in Patna to mark the death anniversary of Socialist leader Ram Manohar Lohia on October 12. It was Lohia who in the 1960s had first envisioned "anti-Congressism" to bring disparate political forces together to defeat the Congress. This led to opposition parties — the socialist parties, the Charan Singh-led Bharatiya Kranti Dal, and Jana Sangh — to form governments in some north Indian states in 1967. With the Bihar Assembly polls now 12 months away, the "grand alliance" is planning to use Lohia's death anniversary to showcase the unity of its five members — the Rashtriya Janata Dal, Congress, Upendra Kushwaha-led Rashtriya Loktantrik Samata Party, Jitan Ram Manjhi's Hindustan Awami Morcha (S), and Mukesh Sahni's Vikassheel Insan Party. While not everyone is convinced that the Congress should take part, some have leavened the matter by pointing out that Lohia was a founding member of the Congress Socialist Party, a socialist caucus within the Congress, formed in 1934 and breaking off in 1948.

### Action, reaction

Congress MLA Aditi Singh (*pictured*) refuses to step out of the headlines. After being provided Y-plus security by the UP government following her participation in the special 48-hour session of the state legislature despite the party whip to boycott it, her name now figures among the 40 star campaigners of the Congress for the crucial bypolls in 11 Assembly seats. Congress Legislature Party leader Ajay Kumar Lallu had issued a show-cause notice, asking Singh why disciplinary action should not be taken against her. Singh was the only rebel MLA to get such a notice — the Samajwadi Party and the Bahujan Samaj Party did not seek an explanation from their MLAs who defied the party whip to attend the session, held to mark the 150th birth anniversary of Mahatma Gandhi.

### Learning nationalism

The Congress is planning to offer training sessions on nationalism to its leaders "to counter the narrative of nationalism" of the BJP. These sessions will be held at the national, state, district, and block levels. The idea was broached during a meeting of state heads of the party and Congress Legislative Party leaders in Delhi last month. The sessions would aim to build the nationalist credentials of the party, besides focusing on the importance of connecting with voters on important issues at the grassroots. The party hopes the training session would enthuse workers who were demoralised after the party's virtual decimation in the 2019 Lok Sabha election.

# Imbalances in the fiscal deficit debate

While criticising the fiscal deficit target in the FRBM Act, the commentariat ignores the fact that the legislation also stipulated a stiffer revenue deficit target

YASHWANT SINHA

As someone who introduced the concept of fiscal deficit for the first time in the interim Budget of 1991 and later as finance minister in the Vajpayee government and also prepared the legislation for controlling the fiscal deficit, I have followed the recent debate in the media and read with interest T N Ninan's article on the subject ("No virtue in stipulating 3%", October 5).

The Fiscal Responsibility and Budget Management Bill was passed by Parliament after I had moved to the external affairs ministry and Jaswant Singh had taken charge of the finance ministry. The Act was brought into force by the United Progressive Alliance government after it assumed office in 2004. This showed the wide consensus within the political class for controlling the government's runaway deficit. The target of limiting the fiscal deficit to 3 per cent of GDP was fixed in the Act, to be achieved over a period of years. The target was based on the recommendation of an expert committee, which had examined the issue in detail and studied global best practices.

Though the target was not cast in stone, the contemporary wisdom was that it was a reasonable one. But what is generally ignored by the commentariat today is the fact that the Act had also stipulated that the revenue deficit should be brought down to "nil" by the target date. The principle behind this was simple — that the government should borrow only to finance capital (investment) expenditure and most certainly not for generally unproductive revenue expenditure.

The logic was also clear: Investment expenditure would produce returns that could be used to service the debt and, thus, prevent it from becoming a burden on future generations. I always used a popular example to prove my point to the less initiated: If I borrowed money from a bank to set up a shop but instead spent it on my daughter's wedding, I would not be able to return the loan when it became due, whereas if I actually set up a shop and earned an income from it, then debt servicing would not be a problem.

It is true that though limiting the fiscal deficit was mandated by an Act of Parliament, it has been observed more in its breach by governments that have been in office since then, including the present one. What is worse, the FRBM Act has been amended through a provision in the Finance Bill year after year and, given the awareness or lack of it among our MPs, has hardly been debated in Parliament and passed without difficulty. So the whole concept of the fiscal deficit has gone for a toss all these years without a tear being shed.

It is also true that the government's finances today are in a mess. And like some of its predecessors, this government, too, has been economical with the truth while presenting its Budgets and has dished out pure falsehoods in its Budget documents. The submission of the Comptroller & Auditor General before the Finance Commission would show that in 2017-18 the government passed on to its undertakings ₹4 trillion or so, which should actually have been reflected in the Budget and which would have taken the fiscal deficit to 5.85 per cent of GDP that year. This practice of concealment of truth has been followed without challenge in all subsequent Budgets.

ILLUSTRATION BY BINAY SINHA

Then, there is a further concealment of the deficit amounting to ₹1.70 trillion in the current year's Budget by the simple device of taking the revised estimates of receipts of the previous year in the interim Budget presented in February although the "actuals" were available when the Budget for the whole year was presented on July 5. Media reports also suggest that direct taxes revenue grew only 5 per cent in the first half of the year and will have to increase by 27 per cent in the next six months if the collection target is to be met; an impossible task on the face of it.

On top of all this is the sacrifice made by the government in the recent bonanza of tax cuts announced for a handful of corporations, which would amount to ₹1.45 trillion. No fiddling with figures would be able to hide from the people the reckless course the government has adopted as far as the fisc is concerned. Combine it with the sorry state of state governments' finances and the overall national picture is truly frightening.

Returning to the issue of fiscal deficit, let me state clearly that I am not a fiscal fundamentalist. The target is not inflexible. We must, however, learn to distinguish between the fiscal deficit and the revenue deficit. If we can restrict the revenue deficit to zero, I would have no problem if the fiscal deficit is raised to even 5 per cent of GDP and the money thus raised is well spent. My quarrel with the recent corporate tax cut is that it is not the remedy for the current ills facing the Indian economy. The problem is on the demand side and the government is busy fixing the supply side. If ₹1.45 trillion had been spent instead on agriculture, rural infrastructure, housing and infrastructure generally, then demand would have picked up almost immediately, providing much relief to corporations engaged in production. The euphoria this created in the stock markets has also waned, though it enabled some select operators in the market to make a quick killing — but that is another story and must be dealt with separately.

India is a developing country and there is no dearth of demand. The government must come forward with spending on infrastructure and housing if the economy has to be revived, while at the same time, encouraging the private sector to play its role not necessarily through tax cuts but by creating opportunities for it to invest. This is what we did during the Vajpayee years when we had faced much stronger headwinds, including international sanctions after the nuclear tests.

*The writer is a former finance minister*

ON THE JOB

# Labour metrics improve in September 2019

MAHESH VYAS

The month of September 2019 was arguably the best month for the labour markets in India in almost three years. Labour participation increased, employment increased sharply, the employment rate increased and the unemployment rate fell significantly. And, these improvements were across rural and urban regions, albeit very unevenly.

The estimated number of people employed shot up to nearly 410 million in September 2019. This was nearly 7 million more than the 403 million that were employed in August. It was also nearly 7 million higher than it was a year ago. Month-on-month estimates can be volatile and so, the 7 million increase could be partly statistical noise. Yet, it is large enough to believe that there was a substantial pick-up in employment during September 2019.

The labour force increased from 439 million in August 2019 to 441 million in September 2019. A year ago, the labour force was 431 million. These are big increases, bigger than the projected increase in the working-age population during the same period.

The labour force participation rate increased from 43 per cent in August to 43.2 per cent in September. More significantly, the employment rate increased from 39.5 per cent to 40.1 per cent during this period.

The employment rate is, perhaps, the single most important number in the slew of fast-frequency labour market indicators. It is the share of the working-age population that is employed. India's challenge on the employment front is best captured by this metric. The employment rate has been falling almost steadily for a long time. This implies that an increasingly smaller proportion of the population that could be employed is actually harnessed for the purpose. As a result, even after the increase in the employment rate in September 2019, it is lower than the 40.3 per cent level it was a year ago and 41.6 per cent it was two years ago.

Similarly, good progress was made on the unemployment rate front, which fell from a high of 8.2 per cent in August to 7.2 per cent in September. However, the unemployment rate is higher than the 6.5 per cent level it was at a year ago.

While the labour market metrics improved in rural and urban areas, the robust increases reflect largely the big strides made in rural India.

Employment in rural India shot up by 6 million in September 2019 — from 276 million in August to 282 million. Note that the all-India increase in employment during the month was 7 million. It follows that a predominant increase in employment in September came from rural India.

Rural employment can be seasonal. Monthly time-series of the data is too short to ease out the seasonal component of this increase. But, a partial explanation for this sharp increase could be the seasonal monsoon effect. It could be that the delayed monsoon increased agricultural activities sharply during September and this showed up as increased employment in rural India.

If the increase is largely seasonal and associated with the monsoon and kharif crop related activities then this may not be a sustainable increase. This will become clear only as the data for the coming months become available.

Labour participation in rural India increased from 44.1 per cent in August to 44.3 per cent in September. Such small increases can make a substantial difference. For example, this 20 basis point increase in the labour participation rate in rural India led to an increase of 1.8 million into the labour force.

Note that while the labour force increased by 1.8 million, employment increased by 6 million. This implies a reduction in the unemployed. The count of the unemployed in fact, did fall by over 4 million in September.

The rural labour force crossed 300 million in September 2019. Of these, 282 million were employed. And 18 million were unemployed. Another 7 million were willing to work but were not actively looking for jobs and so were not counted as unemployed.

Urban India saw very modest increases. The labour force increased by 0.4 million, employment increased by 0.5 million and the unemployed declined by 0.1 million in September 2019 compared to the estimates of August 2019.

Point to point comparisons with estimates of a year ago show the labour force expanded from 137 million to 141 million but employment remained stable at 127 million. And the entire increase in the labour force showed up in 4 million increase in the unemployed.

The small improvements seen in urban labour statistics in reality only mean that in September 2019, urban labour market conditions did not deteriorate any further. The unemployment rate is still high at 9.6 per cent and the employment rate is still low at a mere 37 per cent.

As of September 2019, there were 13.6 million unemployed in urban India. 35 per cent of these were graduates or post-graduates. The count of urban graduates who are unemployed is rising steadily but, the count of urban graduates who are employed is declining gradually. This is the graduate's challenge.

*The author is the MD & CEO of CMIE*

## LETTERS

### Lack of interest

This refers to the editorial "Too many errors" (October 7). Drafting of any law is a highly skilled job in terms of the choice of words, clarity of language and structure of sentences. It requires minute attention as shifting a mere comma can change the meaning. It is debatable whether we have such expertise in the ministries given the litigation many Acts lead to.

While a draft law undergoes many checks in the government departments, the check exercised by a Member of Parliament during the legislation is most crucial as it is the last stage of scrutiny. Legislation is the MPs' primary function but nowadays they spend much less time on debate because a major part of a Parliament session is lost due to disruptions of various kinds. Moreover, when the government shows undue haste in passing a Bill such as relating to Article 370, the Opposition has to play a watchdog's role -- be alert and inquisitive. Yet, MPs have made a practice of quickly passing the Bills mostly without due application of mind. Thus, when the Act pertaining to removal of the provisions of Art 370 was passed without any MP detecting even one mistake out of the 52 including punctuation marks, it speaks more of the lack of interest than that of knowledge.

Lastly, countries like Britain, Australia, Canada, New Zealand and United States are simplifying the language of the law but we are still clinging to an incomprehensible language in which "the presents" means "a document", Latin expressions are quoted as a proof of expertise, definitions run to 50 or more words with several commas and words like "aforesaid" and "the said" are used freely. Some MP should take the initiative to get rid of this baggage.

**Y G Chouksey** Pune

### Hit and miss

This refers to "Indirect tax board removes circular on GST, but confusion remains" by Indivjal Dhasmana (October 7). It was intriguing to learn that despite the Central Board of Indirect Taxes and Customs (CBIC) removing a controversial circular that imposed goods and services tax (GST) on post-sale discounts by dealers, the resultant confusion -- that arose with the issuance of the said circular -- simply refuses to go away. Mind you, this board had unimaginatively issued a circular (in June 2019) which said that dealers will have to pay 18 per cent GST on the entire amount of the post-sale discount that they get from the suppliers of goods if the supplier asks them to pass on the concessions to the end consumer(s).

What else could explain the fact that notwithstanding the withdrawal thereof by the CBIC, its over-enthusiastic field officers continue to harass the dealers. There doesn't seem to be enough clarity as to how the situation

of post-sale discounts should be dealt with. Such a hit and miss scenario is proving to be a double whammy for the trader community in the absence of clarity on various inter-linked issues involved here. In fact, all credit truly goes to the extant GST regime which sadly continues to be in its operational infancy though it was "born" as early as on July 1, 2017.

**S Kumar** New Delhi

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HAMBONE BY MIKE FLANAGAN

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# Go further with Dhaka

### New Delhi needs to do more

The official visit of Bangladesh Prime Minister Sheikh Hasina to India is an appropriate moment to take stock of a bilateral relationship that, while stronger than ever at the government-to-government level, is yet underperforming on some important metrics. During the visit, seven agreements and three projects were arranged. The scope of these agreements is quite wide. Much attention has focused, for example, on radar-based surveillance systems being set up along the Bangladesh coast. This is an important development in the field of maritime security in the Bay of Bengal. Another useful development is the finalising of a shared procedure for the use of two Bangladeshi ports, Mongla and Chattogram, for the shipment of goods to and from the Indian north-east. Bangladesh will also help out eastern India in terms of the supply of liquefied petroleum gas in bulk.

All of these are important steps forward. The shipping agreement must be seen as part of a larger attempt to ensure that connectivity improves to India's north-eastern states, for which access to the Bay of Bengal through Bangladesh is essential. Security cooperation in the Bay of Bengal is also vital if Beijing's increased presence in the western edge of the Indo-Pacific is to be managed. Yet, the outstanding issues should not be minimised, either. It is unfortunate, for example, that no final solution has been found so far on the question of the Teesta river waters. While Bangladesh has agreed to help out with water from the Feni river for a parched Tripura town, Indian officials need to recognise the emotive impact of the Teesta issue in Bangladesh and act quickly to remove it as an irritant. West Bengal politics served to undermine an agreement on this issue during the rule of the United Progressive Alliance in New Delhi. While the Bharatiya Janata Party may now fancy its chances in West Bengal in the next Assembly elections, the Teesta issue cannot be postponed until after the politics of West Bengal settles down. State politics cannot hold up vital strategic matters indefinitely in this manner.

The priority must be integrating the two economies through infrastructure and shared procedures. There has been a welcome movement on the provision of railway rolling stock to Bangladesh, but common vehicle permissions need to be finalised. Non-tariff barriers on Bangladeshi goods in India must be ironed out, through shared phytosanitary standards and laboratory testing. India-Bangladesh trade is less than $10 billion, and could easily be doubled. The closer the two countries are in economic terms, the more both will benefit, and the less likely there is to be any future divergence on security issues. It is also essential for New Delhi to take the long view. While Sheikh Hasina is a vital partner in Dhaka, India-Bangladeshi relations must be expanded beyond warm relations with the ruling dispensation. People-to-people contact must be made easier. Outreach to civil society in Bangladesh, in the absence of a credible opposition, must be enhanced. Good relations with India must be seen as a non-partisan priority in Dhaka the way it is in New Delhi. If India has to go the extra mile to ensure this, for example, on river waters or the joint use of surveillance data, then it is very much in the national interest to do so.

# Financial sector stress

### It is not obvious how the system will come out of it

The latest Monetary Policy Report of the Reserve Bank of India (RBI) shows that the flow of funds to the commercial sector has virtually collapsed. Between April and mid-September, the flow declined to ₹90,995 crore against ₹7,36,087 crore in the same period last year. The decline is an indication of stress in both the financial and industrial sectors. This indicates that a lot of businesses are in the process of deleveraging or reducing debt, while the financial sector is not looking to expand its balance sheet. Although this process may reduce balance sheet stress over time in the system, it would affect economic activity in the interim and potentially prolong the slowdown.

Incremental financing to a large extent in the above-mentioned period came through issuing securities and a flow of funds from abroad. While stressed corporate balance sheets have been a problem in recent years, perhaps the bigger worry for policymakers at the moment is the renewed weakness in the financial sector. At a time when the banking system was witnessing early signs of a turnaround, stress has spread to the non-banking financial companies (NBFCs). According to the June edition of the Financial Stability Report of RBI, the gross non-performing asset ratio for commercial banks is expected to decline to 9 per cent by the end of the current financial year compared to 9.3 per cent in March 2019. The provision coverage ratio has also risen for commercial banks. But problems in the NBFC sector can now spill over to the banking system. The trouble in the NBFC sector started to emerge in a big way with the collapse of the IL&FS group. The government-appointed management committee has said that half the group's debt will be resolved, which would still mean that the system will need to write off about ₹50,000 crore worth of assets. The collapse of the IL&FS group also froze the credit market, which created liquidity issues for other NBFCs. Banks and mutual funds that used to lend to NBFCs are not willing to do so in the same way, largely because of asset quality issues. NBFCs dealing with the real estate sector are particularly in a difficult spot because of a variety of issues afflicting it.

Although problems plaguing the financial sector are largely known, it is not obvious how the system will emerge out of this difficult situation. One of the biggest problems is that the economic slowdown could affect the repayment capacity of borrowers and increase defaults. Things for non-banking lenders could become worse because, on the one hand, they are finding it difficult to raise funds and, on the other, their asset quality could deteriorate further.

The government is working towards improving the flow of funds from banks to NBFCs, but it may not solve all the problems. What is needed is a faster resolution of stressed firms so that trust can be established in the financial system, which will help restart the flow of credit. It has been reported that the government is contemplating the idea of bringing NBFCs within the scope of the Insolvency and Bankruptcy Code. The other option could be to allow specialised funds that can buy bad assets at a reasonable discount. It is important to resolve the problems in the financial sector to avoid a vicious cycle of slow growth and increasing vulnerability of the financial system.

ILLUSTRATION: BINAY SINHA

# Restoring high growth

### Look beyond large corporations and release the growth potential of farmers and small entrepreneurs

NITIN DESAI

The recent corporation rate tax cuts have enthused the share market but are not sufficient to lift the growth rate to anywhere near the levels required for the $5 trillion economy goal. The reduction in the corporation tax will boost earnings but will not boost investment till companies see clear signs of demand growth.

An obvious measure to boost demand for basic consumer goods is to pump money into the rural economy through higher spending on MGNREGA. If this means breaking the FRBM budget constraints, so be it. The obsession with inflation control is misplaced in an economy where the more immediate threat is retarded growth and rising unemployment. As for higher end consumer goods and capital goods, relief will only come when growth and employment generation improve and the credit market is nursed back to health.

The Keynesian focus on immediate demand stimulation would be a good first step. But we also need to correct the 5 per cent fall in gross fixed investment since the 2011-12 peak. The bulk of this fall has been in the non-corporate sector. Some of this fall could be because of demonetisation and the disruptions caused by the GST. But the bulk of it is because our policy framework for agriculture and small industries, which account for nearly half the GDP, has become obsolete and is not capable of drawing out the full growth potential of these sectors.

Our agricultural policy was designed in the mid-1960s when we faced severe shortages of food grains. The focus was on persuading farmers to use the Green Revolution technology, mainly for wheat and rice, by providing an assured market with public procurement for these two cereals at generously set prices. This policy approach is now no longer appropriate. In 1964-65, the year prior to the mid-1960s drought, our domestic production of rice and wheat was about 100 kg per capita. In 2018-19, this has gone up to 160 kg per capita and one sign of surplus production is the steady accumulation of wheat and rice stocks.

The mid-1960s focus on food security through strong incentives for wheat and rice production has lost its salience in today's agricultural environment. Wheat and rice account for less than a quarter of the value of crop production, which in turn is about two-thirds of total agricultural production. Add sugarcane, where the procurement by sugar mills often runs into liquidity and solvency bottlenecks and the 10 per cent of milk production procured by cooperatives, and the proportion of agricultural production that has a predictable price realisation and an organised procurement system amounts to about 21 per cent of the total. Thus nearly 80 per cent of what our farmers produce is subject to market risks, exacerbated by laws that prevent farmers from choosing where to sell their produce. This lop-sided system distorts incentives, leads often to ecologically wrong crop choices and lands the government with an open-ended subsidy burden.

The focus of agricultural policy has to shift from selective crop or input oriented interventions to broad-based support that covers everything from field crops and horticultural products to animal husbandry. Agricultural research and extension, market infrastructure development, agro-processing, storage, particularly cold storage, must focus on all crops and all regions. This will stimulate both corporate and household investment in agriculture and agro-processing.

The big change, however, has to be the removal of all constraints on where and to whom farmers can sell their produce. The competition among purchasers and more organised agro-processing may actually reduce the wild fluctuations in prices of products outside the official procurement system. This will allow a more predictable and stable agricultural trade policy instead of the current practice of panic reactions to seasonal surpluses and shortages. The need to subsidise agriculture will not disappear, if nothing else, because competitor countries will continue with their subsidies. But the basis can shift from distorting output and input subsidies to income support.

Micro, small and medium enterprises in manufacturing and services account for about 30 per cent of GDP, employ 107 million in small micro enterprises and about 3 million in small and medium enterprises. They are split roughly a third each in manufacturing, trade and other services. The micro and small enterprises, particularly those in the trade sector, were badly hit by demonetisation since much of their business was cash driven. Some months later they were hit by an inefficiently implemented GST. The immediate impact led to the closure of many units. Given the high share of these units in GDP, exports and employment, the slowing down of consumption expenditure growth, export stagnation and the fall in household investment is quite understandable.

Many of our small industries thrived and survived on staying out of the tax net. With the GST this is proving to be difficult. Bringing them into the tax net is desirable and the focus should be on removing glitches. But the primary focus should be on a policy framework that does not encourage permanent smallness.

The small industry policy was based on a system of reservations that effectively discouraged them from growing larger. Many small entrepreneurs who were doing well retained the advantages of reservation by simply multiplying small factories, thus losing scale advantages in production. The product reservations are now gone and yet there are other regulatory asymmetries in the Factory Act, the Shops and Establishment Act, and labour laws, for instance, that encourage small enterprises to remain small.

Laws to enforce standards must be made universally applicable except perhaps for a self-employed enterprise with no hired help. This will require some dilution of standards for large enterprises and a strengthening of standards for small enterprises. The distinction between the formal and informal sector must become history. In some ways, GST is doing just that for — despite exemptions for enterprises with a turnover under ₹20 lakh — the availability of credits for GST paid is forcing even small players to register in the GST Network.

The removal of the small to large hurdle will allow the emergence of a size distribution of enterprises that makes economic sense, improve credit flow to small enterprises and thus stimulate non-corporate enterprise investment, which is a large component of what we call household investment. The revival of household savings and investment is the litmus test of whether we are on the road to recovery.

Export growth is vital for a high growth path and the stagnation since 2011-12 in the dollar value of exports makes this a particularly urgent policy imperative. A reformed and modernised policy for agriculture and for small enterprises, which account for 45-50 per cent of total exports, will help greatly. Of course it will require other more specific reforms in trade facilitation and an exchange rate policy that focuses on global competitiveness as its primary aim and is not distorted by large capital inflows.

In simple terms, we must look beyond large corporations and release the growth potential of our farmers and small entrepreneurs.

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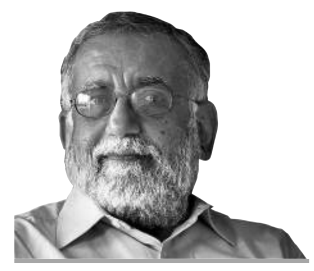
# The onion enigma



ET CETERA

SHREEKANT SAMBRANI

As surely as September follows August every year, onion prices shoot up come September. Just as surely, the central government, regardless of its party affiliation or ideological leaning, takes a series of steps in quick succession: Raising minimum export prices, imposing stock limits on traders, banning exports altogether and announcing imports and their distribution at lower prices through public agencies. Electronic media splash sensational headlines of the bulb prices about to cross the three-figure mark and focus on customers looking longingly at baskets full of onions, bemoaning their misery without this essential staple of their diet. Those Delphic oracles, editorialists and sundry pundits, sombrely lambast the government's knee-jerk reactions and express grave concern for the lot of poor onion growers. They assert that the only way out comprises a completely free trade, control of intermediaries (oblivious of the inherent contradiction between the two) and cold storage and processing, respectively to extend shelf-life and even out seasonal price fluctuations. In November, shining new red onions reach markets by the truck-loads, prices decline and all is well again. Until next September, that is. Let us call this suite of rhapsodic movements "The (Onion) Rite of Fall (pun intended)".

The chief reason for this cycle is seasonality of onion production. September is towards the fag end of the stored crop reaching the market, and November is the beginning of the arrival of new crop. That understandable phenomenon has long been in evidence. It is now compounded by weather-related occurrences, especially in the last decade, such as delayed sowing due to inadequate precipitation (the case last year) or loss of early planting due to floods, as has happened this year. It has taken its toll politically. Sushma Swaraj's tenure as the Delhi chief minister in 1998 was chopped due to the price of the pesky bulb reaching the then unheard-of level of ₹60/kg. Her successor Sheila Dikshit very nearly suffered the same fate 15 years later.

This makes rising onion prices politically an extremely sensitive issue. Unfortunately, both the perception and prescriptions offered are shrouded in myths, which need to be deconstructed to know one's onions.

First, the cost of production. Farmers claim that when the wholesale price in the main market, Lasalgaon in Nashik district, falls to ₹10/kg, even their costs are not met. Ashok Gulati and Harsh Wardhan cite a cost of ₹9 to 10 per kg in Maharashtra as estimated by the National Horticulture Research and Development Foundation (*The Indian Express*, September 30, 2019). The average price in Lasalgaon from January 2016 to May 2019 was ₹9.92/kg, according to Harish Damodaran, who added that it just barely covered the cost of production of ₹8 or so (*The Indian Express*, September, 30, 2019). Does this mean that the otherwise very active and vocal onion farmers continued to grow and sell larger crops at barely cash break-even prices for three long years?

Very unlikely. A close friend, an educated and enlightened onion farmer in Satara for over 50 years, has immaculate records. He estimated his total paid out costs to be ₹85,000 per hectare last year. He uses hired labour for all his operations, so this is the A2+FL cost as defined by the Swaminathan Commission. Add to it the imputed fixed cost (depreciation, land rent and interest) of about ₹12,000 to arrive at the full C2 cost of ₹97,000. This matches well (after adjustment for inflation) the full cost of ₹67,000 per hectare in 2011 deduced from a survey of growers in the same district, as published in *The International Journal of Agriculture Science* (*http://www.bioinfo.in/contents.phpid=26*). My friend's yield is 30 tonnes/hectare, so the cost of production is ₹3.20/kg. Even if the average productivity is lower, say about 20 tonnes/hectare, the cost would be ₹4.80/kg. At ₹9.92/kg, farmers got more than twice the full cost of production, yielding a very attractive net profit of over ₹1 lakh/hectare for a three-month crop.

Onion prices shoot up because of high storage losses. The Indian Council of Agriculture Research (ICAR) estimates these to be between 40 and 50 per cent when stored in ventilated, ambient conditions. That cost is to the traders' account and gets added to the margin, which appears large and against the farmer. But if we look at the farm and retail prices at any given time (not averaged over a year) the spread is reasonable, between 20 and 30 per cent. That covers transport and *mandi* taxes as well. I had shown in these pages that modern retailing has, in fact, a larger spread than traditional markets for most vegetables including onions (November 4, 2012) and had come to the conclusion that a breakdown of competitive markets is the root cause of vegflation (November 17, 2013). That is the reality.

Dehydration and cold storage are non-starters. India demands fresh vegetables, not processed stuff. Conventional cold storage at 0°C leaves onions sprouting and covered in black mould. Not much is yet known about ICAR's new cold storage technique.

So where does that leave us, after we peel all these layers of the onion enigma? Exactly where we started, no wiser, and also unable to grin and bear it, because onions cause tears, literally!

*The writer is an economist*

# The tarnished tycoon

BOOK REVIEW

VIKRAM JOHRI

At the beginning of this book on fugitive diamantaire Nirav Modi, journalist Pavan Lall reveals that his first meeting with Mr Modi, in 2015, happened on account of the jeweller having created a global luxury brand with roots in India, one that boasted stores in marquee locations across London, New York and Hong Kong.

From there to early 2018, when the Punjab National Bank (PNB) went to authorities to report a $1.8 billion scam perpetrated by Mr Modi, was a quick three years during which the diamantaire's professional life unravelled. Mr Lall dives deep into those times, as well as the earlier halcyon days during which Mr Modi used ill-gotten money to build his personal brand.

Born in Belgium, Nirav Modi lost his mother at an early age. Details of this time of his life are sketchy but both his grandfather and father, it is known, tried unsuccessfully to make a career in the diamond trade. He moved to Mumbai in 1999 to work with his maternal uncle, Mehul Choksi, the owner of Gitanjali Gems and a member of the Palanpuri Jain community, a close-knit group that tightly controls the diamond business.

Mr Modi was a quick leaner. The book recounts how he wanted to capture every part of the diamond business, from trade in roughs to the luxury retail side. He established his own business, Firestar International Private Limited, with an ambition to take it much further than what his uncle had achieved with Gitanjali.

To that extent, Mr Modi was keenly attuned to what the global diamond business demanded. He studied international styles and hired Hollywood stars to endorse his products. Mr Lall notes, for example, that Mr Modi researched decades' worth of Christie's catalogues to understand what made it to their cover before sending them jewellery pieces for auction.

For the deeply secretive community that the Indian diamond merchants are, Mr Modi was both an exemplar and outlier. He did not mingle with Indian jewellers, preferring to work with a small set of trusted individuals, most of whom belonged to his extended family. His secrecy may have played some part in why it took so long for the scam to come to light, but jewellers Mr Lall spoke to said that this could also be an outcome of his solitary way of working.

Some of his actions defied financial logic, and only make sense retrospectively given the revealed source of his funds. Money "flowed like water" when it came to branding initiatives, with full front-page ads in the *Times of India* and *Financial Times* and the hiring of mega-stars such as Priyanka Chopra and Kate Winslet.

Given his deep involvement in the business, what was Mr Modi's ultimate gameplan? Did he really build up a global brand and employ close to 2,000 people fully aware that this house of cards would come tumbling down one day? Mr Lall posits a couple of theories. One, Mr Modi's plans to bring an IPO were genuine and would have given him the financial leeway to stop defrauding PNB.

While that is plausible, Mr Lall's other postulation, that the business was an eyewash to launder money for high-net-worth clients and politicians, seems closer to the truth. An important piece of evidence points in this direction. Before the PNB scam, income tax authorities had already raided Mr Modi's properties in early 2017 when it came to light that he had used his employees to "clean" close to ₹300 crore worth of black money after demonetisation.

Mr Modi's last public appearance was to a media person who accosted the jeweller on a London street in early 2019. He has since been arrested by the British police and efforts to extradite him to India are reportedly on. While most of the details of the case are now publicly available, Mr Lall raises doubts on how the entire operation could have been limited to one branch of PNB.

He also connects this to the larger rot within the public sector banking system that turned particularly galling during the UPA years, with the origin of a slew of scams, from the Commonwealth Games to coal mine allocations being traced to pliant bank officials. Mr Lall acknowledges that the situation has improved under the NDA government, but the latest scam involving PMC Bank indicates that the system is hardly out of the woods.

While Mr Lall is damning in his indictment of Modi the businessman, he reserves his opinion on Modi the person. The rub is that Mr Modi's wrongdoing was not of kind but of scale. It is also a comment on the flimsy robustness of the system. Towards the end of *Flawed*, Mr Lall speaks sagaciously of the onus falling on "regulators, governments, media outlets... to monitor the actors in their society so as to be able to identify a trajectory that is too good to be true."

**FLAWED: The Rise And Fall of India's Diamond Mogul Nirav Modi**
Pavan C Lall
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