

Reimagining the humble spud

A lot of work is happening around the globe to improve the "profile" of potato



FARM VIEW

SURINDER SUD

Potato scientists are reworking the nutritional profile of this third largest consumed food, next to rice and wheat, to place it in the "health foods" category. For this, they are trying to enhance potato's innate content of antioxidants (anti-cancerous) and anti-diabetic ingredients. Efforts are also on to promote the hi-tech systems of seed

production through aeroponic (soil-less) and tissue culture (test tube) techniques. This would help save time and cost of producing disease-free and good quality seedling material to mitigate the shortage of certified potato seeds.

Potato pundits, in any case, do not view it as an unhealthy food. Shimla-based Central Potato Research Institute (CPRI) director S K.Chakrabarti dismisses the notion that potato intake heightens the risk of weight gain. For, potato is very low in fat content, just 0.1 per cent. It also contains enzymes and other ingredients which improve insulin secretion in human beings to take care of its high carbohydrates content. The protein in potato, even if merely around 2.5 per cent on fresh weight basis, has a very high biological value. All amino acids are present in right proportion with a relatively higher share of vital lysine.

In this respect, potato protein is rated higher than the proteins in products of animal origin, such as milk and meat. Moreover, potato is rich in vitamins C and B and several useful minerals. In fact, the seafarers of olden days ate potato to avoid scurvy, a Vitamin C-deficiency disease that caused swelling and bleeding of gums and reopened previously healed wounds.

The anti-diabetic compounds and antioxidants found in potato, which are now sought to be augmented through bio-fortification, are believed to play a role in slowing down or preventing diseases ascribed to ageing. An increase in the anti-diabetics ingredients of potato, such as biguanide and metformin, is expected to improve the insulin production to combat type-II diabetes. In laboratory studies, diets containing powder of potatoes of Kufri Surya variety have been found to lower the blood sugar levels of diabetic rats.

Antioxidants, on the other hand, are

the chemicals which subdue cell-damaging "free radicals" to impede and possibly thwart the development of many dreaded maladies, including cancer. Main anti-oxidants found in potato are phenolics, anthocyanins, flavonoids and carotenoids. The CPRI is endeavouring to develop potato strains having higher content of anti-oxidants like anthocyanins and carotenoids. These potatoes would have coloured tubers. In fact one such anti-oxidant-rich dark purple-coloured potato variety, Kufri Neelkanth, has already been released about a year ago for cultivation in the northern plains. It yields, on an average, about 38 to 40 tonnes of potato tubers per hectare, against the present national average of 23 to 24 tonnes. More such anti-oxidants-dense coloured varieties of potato having cancer-inhibiting traits are likely to be released in the next few years.

The technology for producing healthy potato seedling material through aeroponic system, which has already been passed on by the CPRI to about 18 entrepreneurs, would expedite multiplication of seeds of potato, including those of the specialty potatoes, to promote their cultivation. In fact, the seeds mul-

tiplied through vegetative route (read clones) with the help of these techniques would facilitate raising the country's overall potato production to meet the rapidly growing demand.

These and other scientific breakthroughs in potato cultivation achieved by potato researchers in India and abroad are slated to be highlighted in the forthcoming Global Potato Conclave 2020 scheduled to be held at Gandhinagar, Gujarat, from January 28 to 31. This conclave is being organised by the Indian Potato Association in collaboration with the Indian Council of Agricultural Research, the CPRI and the Lima (Peru)-based International Potato Center. The Netherlands will be the exclusive country partner. The three major components of this mega event — Potato Conference, Agri-Expo and Potato Field Day — will enable the scientists, traders, processors, value-chain managers and potato growers to interact with each other. Apart from learning about the latest developments in the potato sector, these stakeholders would get an opportunity to strike business deals as well.

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CHINESE WHISPERS

Thoughts on policing



On the day Uttar Pradesh Chief Minister Adityanath (pictured) gleefully announced that the state cabinet had approved the proposal to introduce the office of police commissioner in Lucknow and Noida, Bahujan Samaj Party (BSP) President Mayawati lost no time in taking a potshot at the government. In a Twitter post, she observed merely making changes in the police hierarchy at a few places would not improve law and order, but tough action was needed against criminal elements by rising above the political divide. In his press interaction after chairing the state cabinet meeting on Monday, Adityanath had blamed the previous regimes in UP for failing to adopt the police commissioner model owing to the lack of "political will".

Missing the gas for the coal

Relaxing market norms for private mining is unlikely to attract investment; the government would do better to create a market for natural gas

SUBHOMOY BHATTACHARJEE

The government decision to open up coal for commercial mining is an excellent decision — only, it has just missed the bus. It has finally set up a market for the fuel when global mining investors are unlikely to underwrite coal mining. India, meanwhile, is delaying the creation of a market for natural gas, which is the obvious switchover fuel on the road to renewable energy. The big news flow from the global energy economy is about investments in gas and in hydrogen but we are missing those.

These are the reasons why India's plan to allow commercial coal mining has not created any major ripples. The government last week allowed any India-registered company to bid and develop coal blocks. The Minerals Law (Amendment) Ordinance 2020 amends three Acts: Mines and Minerals (Development and Regulation) Act, 1957, the Coal Mines (Special Provisions) or CMSP Act, 2015, and Mines and Minerals Development Act, 1957. The CMSP Act will also allow any company to sell the coal it produces as a commercial product in the market rather than to specified end-users.

The cabinet decision wipes off all the impact of the Coal Mines (Nationalisation) Act of 1972. In the 47 years since then, there has been abortive attempts to overturn this restrictive regime. The most famous of those was the one by Narasimha Rao government which instead settled for captive use-based coal mining to

begin India's coal rush. The walk back has finally happened.

The economy has imported 235.24 million tonnes of coal in FY19, up 24 per cent in two years. Domestic coal production in FY20 will most certainly fall short of the level of 730.35 million tonnes recorded in FY19 (it is 498.5 million tonnes in nine months till December). Despite India's growth slowdown, domestic coal supply is short. It still has to meet about 60 per cent of India's electricity demand through this decade.

This means India will mine even more coal in this decade. The estimates for 2030 paint a generous range of 1.3 to 1.9 billion tonnes. The problem is this cannot be met solely through current production lines. CIL's production plans show it will mine about 925 million tonnes by then. Singareni Collieries Company Limited (SCCL) and the captive miners can produce another 500 million tonnes. Import of coking coal to feed steel plants will continue since India's reserves are almost exhausted.

So even though India could do with more coal mining, the room for commercial coal miners is restricted — unless they take over CIL mines or those of captive coal miners. Both are possible. The cost of mining coal for CIL has risen sharply. Its two largest subsidiaries, Mahanadi Coalfields and South Eastern Coalfields, are producing less coal for each tonne of waste they dig up. "With increasing cost of production and lowering of grade, the competitiveness of coal would get increasingly constrained. This does not take into



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account the increase in capital cost due to revised land acquisition policy and overall inflation. Compared to alternative sources, particularly solar, coal could be increasingly disadvantaged," CIL's Coal Vision document notes.

Although commercial coal miners could well improve the productivity of the mines, the cost of coal extracted will still rise. Due to generous government policies over decades and the sunk depreciation costs, CIL and SCCL are able to mine coal at an average cost of ₹1,000 per tonne. New companies to generate any level of efficiency will have to make capital investments and this would raise the cost of coal. They will also need to raise costs because the auction formula for coal mines —

the ascending forward method — means there shall be a floor price and companies will have to bid above this price. It shoots up the price of the coal block, which is why most coal blocks beyond the first 75 that were auctioned have not got any response. So the best option for commercial coal miners will be to buy the existing stock of mines from the original owners.

Except, even for this route there are few takers globally. Of the top ten largest coal miners by market cap, three are Chinese companies — China Shenhua Energy Company, Shaanxi Coal and China Coal Energy. The Indian government will be leery about letting them in. Among the rest, Wesfarmers of Australia exited coal mining in 2018. The coal business of

Peabody, BHP Group and others is increasingly looking fraught.

Few banks abroad are willing to lend money to mine new coal projects. The league of insurance companies willing to underwrite fresh projects is also thinning sharply. The Adani group, for instance, had to use its own money to finance the Carmichael mines in Australia and the insurance cover is still being negotiated, thanks to pressure from environmental groups. CIL and even private miners had the luxury of Indian banks and insurance companies to finance them. Where will the miners abroad get the financial space?

Among the rare ones that could take the plunge is Vedanta. Company chairman Anil Agarwal has often chafed at the slow pace at which India has opened up its mining sector. But when bidders are so few, the government runs the risk of having to offer sweeteners, which is a dangerous path to follow — after all, it created the coal scam in the early 2000s.

Given the financial risks of such a policy, the Union cabinet would have done better to have taken a more sympathetic view of expansion of natural gas business in India. We are still debating the details of an Indian spot market for natural gas, which could soften the impact of high costs of imported gas, though the benefits are clear. The International Energy Agency correctly says India's natural gas pricing policy has reduced incentives for producers to raise supplies. Linking it to goods and services tax en route to setting up a national-level market helps India's quest to make its climate bill lower. India's gas market can serve neighbours in South Asia too all of whom have massive demands for energy for their rising populations. Most important, a liquid market for natural gas will keep prices under check, saving India's forex reserves and building up energy security.



ON THE JOB

An ominous confluence

The sharp fall in net fixed assets growth is bound to have an impact on the ability of the corporate sector to increase employment



MAHESH WAS

Medium and large companies did not announce layoffs in the aftermath of demonetisation. The huge liquidity shock, the breaking down of supply chain in some sectors — particularly agriculture — the disruption of business in other sectors — particularly construction — the confusion caused by changing rules of conversion and the myriad uncertainties, none transmitted into announcements of laying off of labour by the relatively larger enterprises.

Most considered demonetisation to be a temporary shock of a couple of quarters. And that business would return to normal soon.

The shock of demonetisation was felt largely in the informal sectors, which have mostly been beyond the pale of mainstream commentators. The impact of demonetisation, measured by comparing labour statistics four months before and four months since the November 2016, was a big fall in labour's participation in the labour markets. This was essentially a fall among young men and women, partic-

ularly young women. But its immediate impact on employment was relatively small. While the labour force is estimated to have fallen by 15 million, from 447 million to 432 million; employment is estimated to have fallen by a much smaller number, 4 million, from 410 million to 406 million.

This fall in labour force and employment is seen in the Consumer Pyramids Household Survey in the monthly estimates just before and after the November 2016 demonetisation. But the nearly one per cent fall in employment is not reflected in the Annual Reports of listed companies. These showed a 2.56 per cent increase in employment in 2016-17. Large- and medium-sized companies did not suffer a contraction in employment when the economy as a whole did witness this contraction, implying that the contraction in employment was entirely in the unorganised sectors.

The unorganised sectors suffered again with the introduction of the goods and services tax (GST) that came quick on the heels of demonetisation and made smaller business enterprises that survived almost entirely on tax evasion, unviable. It made the business of those who could not afford the compliance cost of GST unviable as well. Their loss was the gain of the large companies and so while the introduction of GST did lead to job losses, it was no reason for the larger business enterprises to announce layoffs.

The calendar year 2018 bore the combined brunt of demonetisation and GST. Employment fell by a further 5 million — from 406 million in 2017 to 401 million in 2018. However, the larg-

er, listed companies reported a 4.73 per cent increase in employment. This was expected because the GST helped the larger and more compliant companies takeover the market shares vacated by the small enterprises.

It is therefore quite likely that the brunt of the shocks of demonetisation and GST and the consequent economic slowdown thus far since 2017 has been borne by the unorganised sectors.

But, the organised sector is now facing its own challenges. At a macro-level, the Indian corporate sector has stopped investing into new capacities for all practical purposes. In the year ended March 2019, net fixed assets of the Indian corporate sector grew by a meagre 5.3 per cent. In better times, net fixed assets grew by 16-17 per cent in a year and even peaked at 23 per cent in 2008-09. The sharp fall in net fixed assets growth is bound to have an impact on the ability of the corporate sector to increase employment.

It is not just the lack of investments that is at play here. Sector after sector has been besieged by a semi-crisis.

Several telecom companies faced an existential crisis after the Supreme Court ruling on AGR and simultaneously, BSNL has shed over 78,000 employees while MTNL has shed over 40,000. These are big layoffs amidst big crisis. IT companies were reported to be laying off mid- to senior-level executives to deal with skill challenges. 35,000 were reported to be laid off in the sector and the count was expected to go up to 50,000. The automobile sector faces its biggest slowdown of recent times. Bosch announced that it would reduce headcount in India by over 10 per cent.

Hero MotorCorp is also shedding manpower. And, new-age enterprise Ola is reducing its workforce by 5-8 per cent. Even food delivery enterprises like Zomato, Swiggy and UberEats are facing new challenges as growth has slowed down. Uber has reportedly cut staff by 10-15 per cent. Future Group was reported to be shutting down 140 grocery stores after having grown rapidly till recently. Oyo plans to fire 1,200 in India. NBFCs, brokerage companies face their own challenges.

Public sector banks are being merged, Air India and more are to be privatised. More jobs may be lost.

Employment contraction that so far was limited to the unorganised sectors has started to hit the organised sectors.

Contraction of employment in the unorganised sectors does not stir the conscience of India's chatterati or the mainstream media; it does not directly impact the middle classes or the aspirational Indian and it has not moved policy makers or politicians sufficiently. But, a contraction in employment in the organised sectors will hurt India's middle classes and its much raved about aspirational Indian.

The angst against the new citizenship law and against the growing perception of a government machinery being pitched against young students in campuses is headed to soon meet a severe lack of jobs in the organised sector. This confluence of anger in the youth, an anger that has been vitiated as they seem to be pitched one against another, with a corporate sector that closes its doors to them will give us the first screenplay of the demographic disaster that India may have just created for itself.

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LETTERS

Half-hearted measures

This refers to "Accept or not, privatisation is on" (January 13). There is no doubt that the total market share of the banking business, deposits, advances etc of the public sector banks (PSBs) have fallen steeply in recent years and private banks are the major beneficiaries of this phenomenon. But the moot question is whether the private banks have the wherewithal to offer banking services to the millions of lower middle class and poor people in metros, cities, smaller towns and villages at affordable prices? Will the private banks be able to open branches in interiors of states like Uttar Pradesh, Orissa, Assam etc, for those who have come into the financial system as a result of financial inclusion efforts. The answer is likely to be "no". It is for the government to ensure that PSBs and regional rural banks become more efficient and cost-effective intermediaries. It is time half-hearted measures to improve the functioning of the urban co-operative banks (UCBs) end and more comprehensive steps to bring efficiency and transparency in the functioning of the UCBs are introduced.

Arun Pasricha New Delhi

Avoid reckless caution

Drones with multiple potential benefits — ranging from enabling food-

delivering companies to service people living in high-rise apartments in urban areas cost-effectively and delivering medicines to people living in remote hill areas to delivering seeds to reforest such areas — has now evoked concerns among security agencies across the globe. That drones have been used by terrorists and state security agencies alike to target their enemies — the latest being the drone attack by the US to kill Iranian military general Soleimani — is now leading many countries, including India, to tighten the regulatory oversight over this infant sector. While acknowledging and appreciating the move by the Indian government to usher in stringent requirements for drone manufacturers and operators through its new registration portal called Digital Sky Platform, we should not be oblivious to the significance of exercising caution to ensure that the so-called stringent regulatory oversight does not morph itself into an arbitrary one, thus stalling its growth. As a technology that has the potential to open up multiple markets, the government should desist from exercising reckless caution.

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HAMBONE



Moral hazard

Instead of immunity, India needs simpler tax laws

The government is reportedly planning to come up with an immunity scheme for direct tax assesses in the upcoming Budget. The scheme will allow them to declare any additional income in the past five-six years without facing penalty or prosecution. The idea has been proposed by the direct tax task force. The government expects that the scheme will help generate revenues of about ₹50,000 crore in the first year of implementation, aside from improving compliance. The motivation for the government is not very difficult to understand. It is facing a significant shortfall in revenue collection in the current fiscal year and is likely to overshoot the fiscal deficit target of 3.3 per cent of gross domestic product. For instance, net of refunds, direct tax collection witnessed a growth rate of 0.7 per cent till December 15, compared with the target of 17.3 per cent. Given the state of the economy, managing government finances is likely to remain a formidable challenge even in the next fiscal year. Therefore, the government would welcome revenue inflow by any means. Besides, the government expects the scheme to help reduce litigation. About 500,000 cases are said to be pending at different levels with the disputed amount worth ₹7-8 trillion.

However, such immunity schemes are better avoided for at least two strong reasons. First, it affects the firmness of tax laws and would discourage taxpayers from filing their dues accurately. What is the need to take tax laws seriously when the government comes up with some immunity or amnesty scheme at regular intervals? It is also unfair to honest taxpayers. The moral hazard comes from the negative impact it has on behaviour. For a tax evader, the thought that there will be a window of forgiveness in future is bound to encourage deviant behaviour. Second, the history of such schemes, starting from the 1950s, shows that they don't yield the desired results, and it is highly unlikely that the government will get anything close to the quoted amount of ₹50,000 crore in the first year of implementation. For instance, the ongoing Sabka Vishwas Scheme for legacy dispute resolution in the area of indirect taxes is said to have raised ₹30,000-35,000 crore, against the estimates of about ₹1.5 trillion, prompting the government to extend the deadline to January 15. Schemes for direct tax assesses, launched after the National Democratic Alliance government came to power, have also shown underwhelming results.

Therefore, instead of immunity and amnesty schemes, the government needs to work on two areas to improve its finances, and the Budget for 2020-21 will be a good starting point. First, the expenditure should be aligned with a realistic expectation of revenues. The government tends to overestimate revenues and underestimate expenditure, which creates a problem. Second, work on simplifying tax laws, along with rationalising rates, should be expedited. This will not only help increase compliance and revenues but will also reduce litigation. The government has done well to introduce faceless scrutiny of income tax cases. This will help check harassment and augment compliance. Further, the government needs to build capacity in the tax administration to be able to identify tax evaders. Regular use of immunity and other such schemes reflect capacity constraint and misallocation of resources in the tax administration.

China's Taiwan tangle

More doubts on 'one-country-two systems' principle

The landslide re-election of pro-independence Taiwanese President Tsai Ing-wen raises a fresh challenge for China's "one-country-two systems" principle on its south-east and southern peripheries. Taiwan's election results are significant because they come soon after Beijing's unsuccessful efforts to quell pro-democracy protests in Hong Kong, which resulted in a resounding defeat for pro-Chinese candidates in local elections there. Ms Tsai, who came to power in 2016, had explicitly rejected the ambiguous 1992 consensus between the Kuomintang, then the ruling party, and China, binding the two more closely on the "One Country-Two Systems" principle, including multiple trade and economic cooperation agreements. Even in a society as efficiently repressive as China, the possibility of pro-democracy blowback on the mainland represents a danger to Xi Jinping, appointed president for life in 2018, and the seven-decade dictatorship of the Communist Party. So Beijing's response to these geographically peripheral but politically significant threats to its authority remains the big question.

Thus far, Beijing has followed the familiar path of upping the ante in both territories. The head of the Taiwan Affairs Office has intoned the party line that China would oppose any acts for the independence of Taiwan. In Hong Kong, Beijing replaced its top representative last week, signalling a doubling down of action against protestors there. How far these muscular moves are likely to bind one *de facto* independent nation and one semi-autonomous territory to the authoritarian regime in Zhongnanhai, seat of China's party and government, is an open question. The mushrooming of anti-government posters in Hong Kong following the Taiwan election results tells its own story.

Inconveniently for Mr Xi, the test for this notion of "one country-two systems" lies in the economy, specifically, the outcome of the debilitating trade war with the US and its heavy dependence on Hong Kong for inward investment in mainland trade and industry. China's economy has been slowing steadily — its 6 per cent third-quarter print marked the lowest in 27 years — and the seven-month long protest saw Hong Kong's economy shrink 3.2 per cent in the third quarter, leaving jittery global financial institutions to eye alternative locations in South-east Asia. Ironically, however, the trade war with the US saw Taiwan's economy grow 2.6 per cent — faster than Singapore or Korea. This growth has been the result of a surge in Taiwanese firms investing at home, principally by on-shoring investments from mainland China. Intellectual property disputes have been at the heart of the US-China trade war and Taiwanese business responded by relocating their ICT platforms from China to Taiwan, despite higher costs. The result has been healthy 16 per cent growth in US-Taiwan trade (most of it in ICT).

Ms Tsai's rise to power in 2016 — she won 56 per cent of the vote then and 57 per cent in 2020 — was an expression of young Taiwanese' disaffection with the Kuomintang's close economic ties with the People's Republic of China, making China Taiwan's largest trading partner. Going forward, the economic differentials between a slowing dictatorship and a fast-growing democracy may well undermine the legitimacy of China's regime far more insidiously than the 1989 students' protest in Tiananmen Square. And even if Beijing cracks down with greater viciousness on Hong Kong's protestors, Taiwan will remain the bigger democratic thorn in Beijing's side for some time to come.

ILLUSTRATION: AJAY MOHANTY



The inequality debate we need

Rich countries need to start thinking about how to deal with global energy inequality before it's too late

While denizens of the world's wealthiest economies debate the fate and fortune of the middle class, over 800 million people worldwide have no access to electricity. And more than two billion have no clean cooking facilities, forcing them to use toxic alternatives such as animal waste as their main cooking fuel. Furthermore, per capita carbon dioxide emissions in Europe and the United States are still vastly higher than in China and India. What right do Americans, in particular, have to complain as China increases production in smokestack industries to counter the economic slowdown caused by its trade war with the US? To many in Asia, the inward-looking debate in the West often seems both tone deaf and beside the point.

Even if Europe and the US deliberately stall their capitalist growth engines — as some of the more radical policy proposals might do if implemented — it would not be nearly enough to contain global warming if emerging economies stay on their current consumption growth trajectory.

The most recent United Nations data suggest that the world has already reached a tipping point where there is little chance of limiting the increase in global temperature to what climate scientists consider the safe threshold of 1.5°C above pre-industrial levels. In fact, a significantly larger rise is likely. According to a recent International Monetary Fund report, limiting global warming even to 2°C would

require a global carbon price of at least \$75-100 per tonne of CO₂ — more than double its current level — by 2030.

Any solution to the problem requires two interconnected parts. The first and more important is a global tax on CO₂ emissions, which would discourage activities that exacerbate global warming and encourage innovation. Equating the price of CO₂ emissions globally would eliminate distortions whereby, say, a US-based firm might choose to relocate its most carbon-intensive production to China. Moreover, a worldwide carbon tax would achieve in one fell swoop what myriad command-and-control measures cannot easily replicate.

The second critical component is a mechanism that impels emerging and less-developed economies to buy in to emissions reduction, which can be very costly in terms of foregone growth. In recent years, the biggest contributor to the global increase in CO₂ emissions has been fast-growing Asia, where roughly one new coal plant is being built every week. For advanced economies, where the average coal plant is 45 years old, phasing out such facilities is low-hanging fruit in terms of reducing CO₂ emissions. But in Asia, where the average age of coal plants is only 12 years, the cost of taxing plants into oblivion makes doing so virtually impossible without outside aid.

Yes, Europe and the US can impose carbon bor-



KENNETH ROGOFF

Quo vadis, Modi 2.0?

"A week is a long time in politics," Harold Wilson is supposed to have quipped on his way to victory in the 1965 British Parliamentary election, the first Labour triumph in 14 years. If seven days are too long, seven months must surely be an aeon, or so it would seem to the rather beleaguered Narendra Modi government at the start of 2020, after its famous victory last May (a Joseph Lee 1974 cartoon titled 'Victory...with strings' showing Mr Wilson as Julius Caesar and fettered with ropes labelled unemployment, business confidence, opposition politics, Scots-Welsh nationalism, among others, would seem especially apropos for Mr Modi now).

Opposition parties, the media (both local and especially the global) and the commentariat have declared open season on the government and rightly so. Its inept handling of the vexing issues of the day — Kashmir, citizenship Act and registrations, seemingly spontaneous protests by not just young students but also by older citizens — is the least of the grounds for the opprobrium. More fundamental concerns with basic values and observing democratic norms not just in letter but in spirit as well should trouble even otherwise thinking supporters of the present dispensation — and they have.

Some of the criticism is sheer hyperbole, calling the present turmoil India's second struggle for Independence. That was supposed to be in 1975-77, against the Emergency. But even those who believe politics is the art of the possible and not a Sunday school lesson in morality cannot ignore the fact that the government's management of the economy is less than satisfactory. The sounds of economic thunder may have appeared distant when first heard a

year or so ago, but now they are within the audible range of even those wearing ideological ear buds.

Some obfuscation prevails even in current economic commentary. A recent column by William Pesek headlining India as having the worst economy in 42 years has gained much traction. The writer rightly says that the nominal rate of growth of 7.5 per cent is the lowest since 1978. Another pundit avers that the 14.5 per cent rate of growth needed to reach a \$5 trillion economy (reckoned in real terms), is impossible to achieve. But surely the correct concern should be with the real rate of growth for the current year (which at 5 per cent is nothing to write home about) or the real rate of growth needed to reach the \$5 trillion goal in five years (which is still a near-impossible 9-plus per cent).

But let us concede that issues such as rates of growth and budgetary deficit are too arcane for the *aam aurat*, and her perception is really what matters at the ballot box. Mr Modi might think that just as he successfully rode the demonetisation storm to unprecedented electoral success not just in Uttar Pradesh but all over India as well, he might overcome the current disquiet by appealing to nationalistic and xenophobic sentiments. This is evident from the twin thrust he and his second-in-command Amit Shah appear to be following. One takes the high road of persuasion while the other takes the low one of threats.

But surely the otherwise astute duo must realise that just as armies cannot be expected to march on empty stomachs, voters cannot be expected to re-elect regimes that hurt their pocketbooks. The unintended collateral effect of *notebandi* was a long spell of low prices of essentials, especially



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der taxes on developing countries that do not comply with their standards. But, beyond the associated technical challenges, this would raise issues of fairness, given profound global energy inequality. One promising idea, which I have suggested previously, would be to establish a World Carbon Bank that would specialise in energy-transition issues and provide technical and financial assistance to poor and middle-income countries.

In principle, either a carbon tax or a quota system, such as the one Europe has instituted, can work. But, as the late economist Martin Weitzman showed in pathbreaking work in the early 1970s, there are important subtleties depending on the nature of uncertainty. For example (and greatly oversimplifying), if scientists have a fairly precise idea of the amount of cumulative CO₂ emissions that the planet can handle between now and 2100, and if economists are not so sure what price trajectory would induce countries and firms to adhere to those limits, then the case for (tradable) quotas is strong. Under other assumptions about the nature of cost and benefit uncertainties, a carbon tax is preferable.

One issue Weitzman did not consider is that carbon tax agreements are likely to be more transparent and easier to monitor than quotas; this is particularly important in international trade. There are good reasons why a succession of multi-country tariff-reduction agreements after World War II sought to strip away regulatory and quantity constraints, and replace them with relatively simple tariff schedules. In addition, carbon taxes could generate significant revenues to support green research, compensate low-income households within countries for transition costs (for example, by giving car owners incentives to trade in old "clunkers" and buy more fuel-efficient vehicles), and fund transfers from rich to poor countries through a mechanism like the World Carbon Bank. Quotas could, in principle, be auctioned to achieve the same goal; but they are often given away.

In practice, almost all of the 40 countries that have established national carbon prices have done so indirectly, via quotas. European policymakers are particularly enthusiastic about this approach, arguing that it is much more politically palatable than introducing a carbon tax. But it is not at all clear that the same is true for a global system, where transparency carries a premium. As the cost of distorting taxes and quotas increases, it makes sense to align across the most efficient possible system.

The scientific evidence increasingly indicates that the world may soon reach a point of no return regarding climate change. So, rather than worrying almost exclusively about economic and political inequality, rich-country citizens need to start thinking about how to deal with global energy inequality before it's too late.

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food, which greatly cushioned the blow. Now we have a lurking iceberg only the tip of which is beginning to surface. In the last two months, prices of some necessities have gone up alarmingly, as confirmed by the recent retail inflation data. Arhar dal has gone from ₹70 to ₹85 or more a kilo, sugar from ₹33 to ₹39 and the cheapest edible oil from ₹80 to over ₹90. But we talk of only the onion prices and breathe a sigh of relief that they are coming down sharply.

We have not really understood what caused the onion inflation. This column had pointed out that while onions typically follow a seasonal cycle of low and high prices, "a breakdown of competitive markets is the root cause of vegetation" ("The onion enigma," October 8, 2019). This current spike was both much higher (up to ₹110 per kg) and of a longer duration (September to December). To understand how that came about, plot political events (elections in Maharashtra, poaching of opposition leading lights, Enforcement Directorate enquiries against opposition leaders, among others) against prevailing onion prices. It should not be too difficult to join the dots and come to the conclusion that otherwise vanquished political formations are still capable of erecting significant economic roadblocks.

Mukul Kesavan has observed perceptively "Narendra Modi is not a time server... [H]e serves a cause larger than himself... to successfully redefine citizenship... [and] approach the election of 2024 at the head of a putatively Hindu nation" ("The foundation is laid," *Business Standard*, December 29, 2019). But he cannot get there if his government ignores *atte dal ka bhav*. Their road map cannot forget the fact that the Nav Nirman movement which was the spark that brought down the Emergency regime sprung from students agitated about their mess bills.

The writer is an economist

Reading the CEOs



KITABKHANA

T C A SRINIVASA-RAGHAVAN

Thanks to the Left, whose conscience substitutes as its brain, the mythology has been fostered that businessmen, businesswomen and managers are incapable of thinking about the four most important things in society: Ethics, equity, justice and an altar other than political and religious texts

to hang our moral coats on.

The truth, however, is absolutely the opposite. So it's good to see some highly successful managers prove it.

I refer here to only four such men. But doubtless there are more, perhaps even women, of whom I am as yet unaware.

The four are Gurcharan Das, Arun Maira, R Gopalakrishnan and Jaitirth Rao. In the last few years, all four have written books that show two things quite conclusively. All have been CEOs.

One, that it is possible to discuss concepts from philosophy without the accompanying jargon-doused salad dressing that academics serve up. And, two, eruditely talking sense is inversely related to verbal pomposity that is thrown like a collapsed tent over ignorance.

Thus, Gurcharan Das has written often about *dharma* and has been

challenged and debated often. But the other three are new.

R Gopalakrishnan has written about justice amongst other things; more recently, Arun Maira has written about ethics; and, most recently, Jaitirth Rao has written about conservative thought in India. All ask questions that need asking, namely, how do we make Indian society better and replete with the characteristics mentioned above.

Two of these books, by Messrs Maira and Rao, are new. All four books are available online and can be bought for less than ₹2,500.

It's money well spent because the Left, in its eagerness to give the State preeminence, has simply never grappled with these things as it believes

that the State is the embodiment of all virtue. In Latin this method is called *ipsi dixit*, ie because I say so.

Oddly enough, the Right also thinks so, which is why I despise intellectuals from both sides. They think smugness is the perfect substitute for wisdom and the State is the panacea for all ills.

Jaitirth Rao has dealt with a subject that India has never really bothered with much: conservative thought. He provides a very loose definition of it, as a preference for tradition and gradualism — or something thereabouts.

As such it's not a complete definition but it will do to begin with for a very important reason: It reduces the emotional content of recent Indian thinking on social issues by injecting some cerebral dye into it.

The need for this cannot be underemphasised. It's the brain that should do the thinking, not the heart.

That said there are two other themes the book should attempt. They can only extend the boundaries of conservative thought in India.

One is to discuss how conservative thought approaches the problem of using tradition to justify coercion within families and communities. The other is the problem of balancing what I call the Impossible Social Trilemma: Equity between groups, justice for individuals and efficiency for the economy.

I should point out here that the Chanakya/Kautilya type of reasoning is not very helpful when the State is up for grabs in democratic competition because at that time sovereignty didn't reside in the people but in the King or Queen.

Marx said the State would do it. But since he didn't spell out the details, Stalin ran off with the ball after silencing his rivals. His rule cost the Russians around 2.5 million lives.

Arun Maira has written an equally thoughtful book about an ethical toolkit for the world. Of particular

philosophical interest is his question about how we will deal with society when it is going to be dominated by artificial intelligence (AI), and to lesser extent by social media. How do you programme a machine so that it can differentiate between right and wrong?

The book is rich in questions of this sort. His basic point is crystal clear: How do you arrive at an optimal trade-off between two good social choices? By regulation or trial and error? Despite a few thousand years of trying we are no closer to a universally acceptable answer.

This leads straight to the question of justice which Gopalakrishnan has discussed in his book. He asks a simple question: Why is justice not a fundamental right? I can't recall a single jurist or political science professor asking this question.

Let me end by asking if any B-Schools offer courses in philosophy. If they don't because they don't know who will teach it, they can start with any or all of the four former CEOs above.

Opinion

TUESDAY, JANUARY 14, 2020

A step towards normalcy

SC does well to put curbs on govt's J&K mobile/net lockdown

THE SUPREME COURT, last week, in the context of the internet shutdown in Jammu & Kashmir (J&K), ruled that the freedom of speech and right to carry on trade and business were protected by Article 19(1) of the Constitution and that the internet is now a crucial tool for these to be exercised. It also ruled that any curbs on these must be temporary, in keeping with the Temporary Suspension of Telecom Services (Public Emergency or Public Service) Rules, 2017, and must pass the test of proportionality, under Article 19(2) and (6). Thus, there is now no doubt that a prolonged shutdown, like that in J&K, is untenable. To the extent that the judgment will help matters normalise, aid the restitution of livelihoods, and even allow the people of the newly-declared Union Territory to communicate with their families, it should restore the faith of the J&K body politic in the law of the land.

J&K has been in a virtual lockdown, with mobile and internet facilities suspended, for 163 days; some curbs have been lifted, but these are nowhere near what is needed to claim that there is normalcy in the UT. Meanwhile, Kashmiris living outside the states have had to learn of family members' death weeks after their passing, the UT has suffered a ₹10,000 crore loss in terms of suspended economic activity, as per the business community's estimates, and, indeed, people have had to physically go to a fire station to report a fire. To be sure, in the aftermath of the decision to revoke Article 370 of the Constitution and bifurcate the former state of J&K into the Union Territories of J&K and Ladakh, there was a need to preempt the backlash, including possible violence and terror attacks, which would not have been possible without some manner of curbs on digital and telephonic communication. But, as the SC noted in its judgment, the state must pronounce complete, broad suspension of internet and mobile services as necessary and unavoidable only after having assessed the existence of "alternate less intrusive remedy". Indeed, while saying that the government is "entitled to restrict the freedom of speech and expression", the question is "one of extent rather than... the power to restrict". While local authorities make frequent use of Section 144 of the Criminal Procedure Code to shut down mobile/internet services indiscriminately citing "national security" concerns, the court deemed such action abuse of power, and ordered the government to publish all orders on internet/mobile shutdowns to see if they met the test of proportionality. However, where the SC judgment falls short is in providing immediate, summary relief to the petitioners and the people of Kashmir. Instead, it creates the mechanism of a periodic review of the shutdown—with no such provision in the law—by the Union home ministry, which is akin to asking a cat to bell itself.

A recent research report pegged the economic cost of India's internet shutdowns in 2019 at \$1.3 billion—third only to Iran and Sudan. Whether that estimate is a close approximate or not is difficult to say; indeed, a 2016 Brookings study pegged the cost of internet shutdowns across the globe in 2015 at \$2.4 billion, while an Icrier study from 2018 said internet shutdowns in India between 2012 and 2017 cost the country \$3 billion. But, a prolonged shutdown, in the manner that has happened in J&K, will surely break the economic backbone of the UT, and with the curbs on civilian, peaceful dissent that it places, it could fuel even worse disenchantment with the Indian state than what, the latter argues, is being contained by the lockdown.

Not just the Kochi builders

Panchayat permits were illegal, Kerala HC order helped

THE DEMOLITION OF the flats in Maradu municipality in Kerala's Ernakulam district are, without doubt, a ringing endorsement of the sanctity of the country's environmental laws. The Supreme Court ordered the demolition of all structures in the area built in violation of the Coastal Regulatory Zone (CRZ) regulations. In doing so, it also invoked expert studies showing how the devastating floods faced by Uttarakhand and Tamil Nadu in recent years could be blamed on "uncontrolled construction activities on river shores and unscrupulous trespass into the natural path of backwaters". But, the Maradu affair is also evidence of the complex maze that is the Indian administrative system, and the rather sordid way in which the government/courts remain insulated from the consequences of poor decisions while the masses and business pay the price.

In September 2006, the Maradu panchayat issued building permits to four companies to construct apartment complexes in an area designated as CRZ III. This itself was illegal, and twice over. First, CRZ III does not allow any construction within 200 metres of the coast; second, a panchayat is not allowed to give such permissions. After the panchayat permitted the construction, the Kerala Coastal Zone Management Authority (KCZMA) asked it to issue a show cause notice to the builders since the construction violated CRZ III; in other words, at least one part of the official machinery was doing its job. The builders, however, obtained an interim order in July 2007 from the Kerala High Court and resumed construction; indeed, in 2012 and 2016, the HC ruled in favour of the builders, saying that they couldn't be held responsible for the failure of the local government. The KCZMA had then approached the SC. A technical committee set up by the SC in 2018 found that the Maradu panchayat had violated the CRZ rules in giving the permission.

The new CZMP, the CZMP 2011, it is true, classified the area as CRZ II, where construction can be permitted beyond 50 metres from the coast; this, in fact, is the argument the builders used. But, the permission by the panchayat was given before this—in 2006—when it was a CRZ III zone. Also, even though the draft CZMP 2011 was made in that year, it was approved by the central government only in February 2019. Not surprisingly, then, in May last year, the SC ordered the demolition of the flats within a month, saying the permission granted by the panchayat was illegal and void. In September, the SC, taking up the matter *suo motu*, issued an ultimatum to the state government on the demolition. Since the flat-owners bought the flats at higher values than the ₹25 lakh compensation the SC had said they must get—the state is to collect it from the builders—there can be little doubt that they have been short-changed by the panchayat and the legal process.

House RULES

Maharashtra's liquor ordinance will lead to more harassment, state must find other ways to regulate home dine-ins

ALTHOUGH INDIA HAS scrapped many colonial laws since Independence, some stick out sorely even today. For instance, while prohibition has never really worked, states keep thinking of some form of it as a good idea. Andhra Pradesh is the latest to do so. There are also those who have some form of a partial ban, which is not only just as ineffective as a total ban but also signals contradictory goals. Take Maharashtra, for instance. On the one hand, it moved to allow bars to stay open till 5 am; and liquor shops can be in business till as late as 1 am on Christmas and New Years. On the other, it has moved to strengthen the prohibition law that dates back to 1949.

The ordinance, passed in September last year, sets a limit to possession of alcohol—given that it allows an individual to possess up to 12,000 litres, it shouldn't seem too restrictive. But, it has also imposed a rule whereby those hosting house parties of more than 10 people need to apply for alcohol licences. Though such regulations have existed for societies, restaurants and large gatherings, and other states also have restrictions, they are rarely observed. More importantly, if such rules are allowed, they shall only become a tool in the hands of local authorities to extort money. It is true that internet and platform economies have led to home dine-ins and apps like VizEat, and these put restaurants at a disadvantage. Restaurants have to apply for licences to serve liquor, whereas these establishments can do so without any restrictions. However, the state needs to find other ways to deal with the problem. One possible example can be asking such platforms to impose rules on behalf of the state—Uber and Ola, for instance, must ensure that no driver without a licence can register. The state needs to realise that old methods of regulation won't help with new, digital-age businesses.



CAUSE AND EFFECT

Chief minister of Bihar, Nitish Kumar

How the question of NRC arise? We have no inkling that such an exercise would be conducted across the country. It would be needless and have no justification.

TRADE WINDS

FAILURE OF SEZs AND A FORCEFUL COMEBACK OF THE SWADESHI IDEAS IN POLITICALLY ENABLING CONDITIONS HAS LED TO THE RETURN OF IMPORT PHOBIA OF THE 1960s AND 1970s

India turning the clock back on trade

AMITENDU PALIT

Senior research fellow and research lead (trade and economic policy), NUS. Views are personal



THE YEAR 2019 was notable for India's stubborn disengagement on trade. It also marked the exceptionally low priority trade has come to occupy in India's economic policy-making.

Historically, India was anti-trade for several years after independence. For four decades after independence, imports were limited to the 'essential' and 'high priority'. The ostensible reasons were encouraging local industry to develop sufficient capacities and capabilities. The eventual realisation that four decades of heavily protective import-substitution policies had resulted in large industrial shortages and inefficiencies, forced a re-think on trade. This coincided with negotiations going on at the Uruguay Round of the General Agreement on Tariffs and Trade (GATT), which led to the creation of the World Trade Organisation. India played an active role in establishing the WTO and formulating global trade rules. The active role was inspired by the belief that it needed to trade more with the rest of the world to maximise its own economic interests. It was equally influenced by the view that an outward-oriented, economically reformed India could be a model for achieving economic prosperity through greater participation in rules-based global trade for several other developing countries.

During the 1990s and the first decade of the current century, India remained engaged in global and regional trade consultations. At the WTO, its role became increasingly defensive. This was largely due to the push-back on the Doha Development Agenda (DDA). As most OECD countries resisted implementation of DDA without more significant market access concessions by developing

countries, India began leading the developing country resistance to such concessions. At the same time, like several other developing countries, it began exploring bilateral and regional FTAs, to get market access over and above that in the WTO. But, whether at the WTO or through FTAs, it remained engaged in trade talks, successfully pulling off various FTAs, first with smaller economies, and later, with advanced ones like Japan and Korea.

A significant change in India's trade engagement arose came in the middle of the last decade. India began turning back on various ongoing FTA negotiations. These included advanced negotiations like those with Australia, Canada, and the EU. The withdrawal from the Regional Comprehensive Economic Partnership (RCEP) last year, was, by far, the strongest example of India resorting to active disengagement on trade. Looking back, India appears to have turned around the last three decades in one single sweep by going back to the kind of disengagement it practised before the 1990s.

Today, trade in India suffers from a noticeable absence of champions. This wasn't so in the early years of the century. At a time when the Indian economy was growing at 8% annually and trade was expanding, the role of trade was considered virtuous for the economy's long-term growth.

Indeed, it even inspired the government of the day to announce the Special Economic Zones (SEZs) strategy for prioritising exports through long-term financial incentives. Multiple imperfections led to limited results from the policy, with several SEZs getting scrapped, the policy inviting flak for encouraging dubious real estate deals, and state governments—who should have been at the forefront of the export drive—giving up on SEZs. A bottom-up, holistic implementation of the policy, backed by creation of durable infrastructure and trade facilitation might have resulted in much greater shares of Indian manufacturing and services in global trade.

The failure of most SEZs to deliver, and the cynicism surrounding them, including politically catastrophic issues like acquisition of land for commercial and industrial development, pushed export promotion way down the priority ladder. A simultaneous forceful comeback of the *swadeshi* ideas in politically enabling conditions ensured the return of the import phobia of the 1960s and 1970s. Importing even for eventual exports, became a non-priority. Nowhere is this more evident than in the struc-

turing of the GST, which, by not allowing exporters to avail exemptions on inputs used for manufacturing exports, has hit them hard.

As exports became low-priority, competitiveness and 'national interest' became useful grounds for disengaging from trade talks. The nearly five decades old logic of resisting opening up for fear of the adverse impact it would have on uncompetitive domestic industries has been reemployed successfully for disengaging from FTAs, particularly RCEP. While doing so, it has hardly been realised that the services currently driving the economy—hospitality, entertainment, education, and

health—are not entirely domestic. The global exchanges prominent in these services necessitate India focusing closely on trade policies involving data, competition, investment, and standards—a far larger gamut of issues than India's sole point of obsession, i.e., tariffs.

Disengagement has not just meant India losing out on multiple economic opportunities. It has also meant India not being involved in dialogues and discussions on latest developments in global trade, thereby losing out on the opportunity to contribute to the process of rule-making around these developments. Obsession with the local has shifted sight from the realisation that the local is hardly as local as it is made out to be. It has become more global than is imagined, and will become even more so, over time. A good dash of global is needed for nurturing the local, which is impossible without engagement.

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Implementing India's economic strategy

NITI Aayog's strategy for new India @75 addresses some of the problems of the architecture of governance in India

NIRVIKAR SINGH

Professor of Economics, UC Santa Cruz. Views are personal



MY LAST COLUMN for 2019 reflected on India's lost year, where what can mildly be described as continued political missteps accumulated to the point of threatening the country's economic future. Nevertheless, one has to look to the future, and understand where there is room for making a positive difference. This involves thinking about India's economic strategy going forward. A year ago, I wrote two columns critically analysing a report titled *An Economic Strategy for India*, written by about a dozen premier economists with expertise on the Indian economy. The group included US- and India-based individuals in academia, the private sector, and international policy roles, but no one, as far as I could tell, working actively with the national government. The report said many of the right things, and my main concern was that not enough attention was given to focusing on India's lack of dynamism in the industrial sector, traditionally the core of economic development.

I have also been lamenting the lack of broad consultation of experts by the national government, but this thought prompted me to dig into what NITI Aayog, the government's premier think tank, has been doing. I discovered a significant report that was published a month before the "outsider" document I had discussed a year ago. *Strategy for a New India @75* is over 200 pages long, and identifies 41 areas for attention and focus. It is clear and well-written, the recommendations are good, and it has a foreword by the prime minister. Many experts were consulted, and it shows in the report's breadth and quality. Interestingly, there seems to be no overlap in the contributors to the two reports.

One major difference in the NITI Aayog report is that it doesn't give much attention to macroeconomic stability or to the need to clean up the mess in the financial sector. In some sense, these are preconditions that one

can view as necessary, but at a different level than strategies for sustained growth. Given its length and the breadth of its coverage, it tackles many important issues that the "outsider" report neglects or does not emphasise enough. In particular, the seven sets of governance reforms, including civil service reform and modernisation of city governance, are given welcome prominence. I wish I had read this report a year earlier. But, since so little of what it recommends seems to have happened, perhaps it is not too late.

What do we learn from the NITI Aayog report—not just its content, but also its trajectory? In the rest of this column, I offer several tentative lessons. First, if the goal of creating NITI Aayog was to have a high-quality think tank, this report provides some validation. Freed of the futile and outmoded exercise of planning, and separated from the politics of allocating central government money to sub-national governments, the new organisation has great potential.

Second, there is clearly considerable expertise within the system, or on its peripheries. I have been arguing that the government's economic policymakers should not hesitate to bring in outside expertise, but it seems that outsiders might also do better by interacting more on the ground with those who are engaged with the realities of India. Of course, as this year's Nobel Prize illustrated, there are such ties, particularly with NGOs and with some state governments, but deeper intellectual engagement across different groups must surely help, if only to refine ideas that most already agree on. A related point is that the internal document seems to me to have a clearer sense of the kind of structural

transformation that India needs. The "outsider" report was, to some extent, circumscribed by the fashions of the economic profession, in academia and in international organisations. Economists need to engage more productively with non-economists.

Third, the NITI Aayog report and its overall efforts illustrate the continued weaknesses of economic policymaking in India. The report may have been launched with a splash, but I could find no evidence of updates, of assessment of progress, or linkages to all the other documents and ideas spread across the organisation's website. The report itself did suffer from the standard weakness of Indian government documents, having a long list of areas that need attention, without any clear prioritisation, systematic analysis of linkages between different areas, clearly presented pathways to implementation, or realistic timelines (India will turn 75 very soon).

The root cause is the internal organisation of India's national government, where the focus too easily becomes one of retaining and projecting political power. This tendency has been exacerbated in the current government. There is already too much centralisation of power and decision-making geographically, and further concentration within a small group at the Centre just makes everything worse. The NITI Aayog report does address some of these problems of the architecture of governance in India. Any successful economic strategy will depend on systemic changes in this architecture, including the civil service, regulators, the judicial system, and of course, politicians

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LETTERS TO THE EDITOR

PM's fallacious argument

Prime minister Narendra Modi bases his case for the CAA on the contention that the law is meant 'to give citizenship, not to take it away'. But, his line of argument does not hold. For one, religion is made the criterion for citizenship. For another, the law snatches the right to citizenship prospectively from Muslims on religious grounds. The CAA is unconscionable because it legalises religious discrimination. It is simplistic, shallow and fallacious for the PM to say from the headquarters of Ramakrishna Mission, of all places, that the CAA grants citizenship and does not snatch it away from anyone. The citizenship law should have been amended to give citizenship to all persecuted minorities of all religious persuasions from all neighbouring countries. Uighurs, Rohingya, Ahmadiyyas, and Sri Lankan Hindus and Muslims, too, are human like Hindus, Buddhists, Jains, Sikhs, Christians and Zoroastrians from Pakistan, Bangladesh and Afghanistan. People persecuted are people persecuted. Why divide people who are essentially the same biologically on the basis of religion. No amount of rationalisation can alter the fact the CAA fundamentally changes the basis of citizenship. Modi's invocation of Mahatma Gandhi to justify a law that negates the constitutionally promised equality of religions is an affront to his memory. The incumbent PM who refused to wear a skull cap, referred to *kabristan* versus *shamshan* and exhorted people 'to identify rioters by their clothes' should know that Mahatma Gandhi was a martyr to the cause of Hindu-Muslim unity and avoid dragging his holy name to validate unholy things. The remark that 'CAA has made the world aware of Pakistan minorities' persecution' has brought out the Hindu revivalist in him. It is not clear whether Pakistan will now stop persecuting minorities fearing the amended citizenship law in India. One humble appeal to the Modi government is to let people have their peace of mind.

— G David Milton, Maruthancode

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ILLUSTRATION: ROHNIT PHORE

TV MOHANDAS PAI & S KRISHNAN

Pai is chairman, Aarin Capital Partners, and Krishnan is a tax consultant



Simplifying capital gains tax regime

A simple capital gains tax regime will help investors in compliance and the income-tax department in administration

I T WAS RECENTLY reported in the media that there are anomalies in the processing of I-T returns at the IT department's Central Processing Centre, resulting in incorrect computation of tax liability on capital gains. It's not surprising, since taxation of capital gains is one of the most complex regimes to understand. Holding periods are different for various types of assets. Tax rates are different for short-term and long-term gains, and are different for various assets. Exemptions are provided on meeting some preconditions and withdrawal of those exemptions when the preconditions are not met. In addition, some specified categories of long-term capital assets get the benefit of cost-inflation indexation, whereby the base cost of the asset is increased by the ratio of inflation in the year of sale and purchase. The rules for carry-forward and set-off are also not uniform. Short-term capital loss, which is carried forward from earlier years, can be adjusted against long-term capital gains as well as short-term capital gains, whereas long-term capital loss can be adjusted only against long-term capital gains!

Long-term capital gains (LTCG) arising from the transfer of a long-term capital asset are either taxed at a concessional rate in India or exempt from taxation on meeting some preconditions. A long-term capital asset is defined by the period of holding such capital asset. The de facto holding period for a long-term capital asset in India is more than 36 months immediately preceding the date of its transfer. However, this de facto period is modified for various types of assets. In the case of a share listed on a recognised stock exchange in India, the holding period is 12 months, while it is 24 months in the case of an unlisted share. The holding period in case of a debenture listed on a recognised stock exchange in India is 12 months, while it is 36 months for a debt-oriented mutual fund unit. An immovable property being land or building or both is considered long-term if the holding period is 24 months.

The capital gains tax rate is different for short-term and long-term assets, depending on the type of capital asset and payment of applicable securities transaction tax (STT). The accompanying table provides a summary of the tax rates and the tenure to determine long-term capital asset.

The LTCG exemption regime is further complicated with too many rules and restrictions, and is not uniformly applicable for all taxpayers. An individual or a HUF generating LTCG on transfer/sale of an existing residential house property is exempt to the extent the LTCG is used to buy or construct maximum of two new houses (residential property). However, LTCG on the sale of existing house property must not exceed ₹2 crore. The new properties must be purchased either one year before the sale or two years after the sale of the property. Or the new residential properties must be constructed within three years of the sale of the property. If the taxpayer is not able to use the capital gains to buy or construct new houses before the date of furnishing of the return of income, he or she should deposit the amount in the Capital Gains Accounts Scheme (CGAS),

else the gains become taxable. This benefit can be claimed only once in the lifetime by an individual or a member of HUF. If full amount of LTCG is not reinvested, then pro rata relief is available.

LTCG arising on transfer of any capital asset not being a residential house is exempt from taxation if the taxpayer, being an individual or a HUF, has within a period of one year before or two years after the transfer date purchased, or within a period of three years after that date constructed one residential house in India. If full amount of LTCG is not used for the purchase or construction, then pro rata relief is available. The taxpayer will not be entitled to LTCG exemption if he or she (1) owns more than one residential house, other than the new asset, on the date of transfer of the original asset; or (2) purchases any residential house, other than the new asset, within a period of one year after the date of transfer of the original asset; or (3) constructs any residential house, other than the new asset, within a period of three years after the date of transfer of the original asset.

If a taxpayer within six months from the sale of land or building or both (residential or non-residential) has invested LTCG in long-term specified bonds issued by NHAI and REC or by the central government for a minimum period of five years, such LTCG shall be tax exempt to a maximum of ₹50 lakh. This exemption is available to any person. All of these are confusing to ordinary taxpayers, forcing them to seek professional help.

The finance minister, earlier this year, introducing the corporate tax regime by introducing two low-tax rates associated with no deductions and exemptions. A similar approach should be adopted for capital gains tax regime. An exclusive capital gains tax regime should be introduced for financial assets, whereby investments in equity and debt securities, whether listed or not, should be taxed in a uniform manner.

Various types of financial assets carry risks associated with returns. Defaults in interest payment of debt securities in India in the recent past indicate that debt securities also carry significant risk. There is no rationale for debt securities to be considered as long-term capital assets after a holding period of 36 months, instead of 12 months applicable for listed equity securities and equity mutual fund units. It is similar for the difference in tax rates. To take benefit of lower tax rates of equity securities, many investors opt to invest in arbitrage funds/hybrid funds, with the justification that the risk is similar to a debt fund and its taxation is similar to an equity fund, thereby possibly generating higher post-tax returns.

Investments in unlisted equity shares carry higher risks compared to listed equity shares. However, the holding period is 24 months for unlisted shares to qualify as a long-term capital asset and the tax rate is higher at 20% with indexation benefit. There is no rationale for this difference.

To rectify this anomaly, all investments in financial assets should be considered as long-term capital assets after 12 months of holding. Income-tax rate of 10% with an exemption up to ₹1 lakh should be extended to LTCG from all financial assets. Income-tax rate of 15% should be applicable for short-term capital gains from all financial assets. To incentivise investments in start-up companies, a tax deduction of 50% should be provided in the year of investment. Consequently, investments in listed and unlisted equity shares and debentures, and equity and debt mutual fund units, would be taxed in a similar manner. This will enable investors to choose investments based on risk and reward suitable to them, rather than driven by tax considerations.

Immovable property, being land or building, is considered long-term capital asset if held for a period of more than 24 months. LTCG from transfer of immovable property is subject to taxation at 20% with indexation benefits. The option of taxation at a lower rate of 10% without indexation benefit should also be extended to immovable property, which would then be similar to the rate applicable to financial assets. The lower tax rate of 10% would make the real estate sector attractive for investments, thereby helping real estate builders to reduce the volume of unsold inventory. A simple capital gains tax regime will help investors in compliance and the income-tax department in administration.

BIT BY BIT

How laptops are changing

NANDAGOPAL RAJAN

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They are getting thinner, have foldable screens and almost day-long battery life

CAN'T REMEMBER THE last time a Consumer Electronics Show generated so much excitement around laptops and so little around everything else. CES 2020 will stand out for the transitional year it has been for laptops. There are three big trends that emerged from the products launched that could underline how the laptop segment itself will pan out in the coming years.

To start with, there was clear indication that foldable laptops are something technologically possible now; companies have been working on foldable laptops for a while. Lenovo announced the ThinkPad X1 Fold, the first laptop with a foldable screen. The company's team in Japan spent well over four years figuring out the best possible iteration of such a device. A lot of effort seems to have gone into getting the screen, the materials behind it, and the hinge right. For any foldable device, the hinge will be key. Although foldable screen phones are available, the hinge issue hasn't really been solved. "Smartphone makers have to just cater to open-and-closed. But for laptops you need to work on everything in between, as far as folding screen goes," says Yasumichi Tsukamoto, director of product engineer, System Innovation Commercial Notebook Development at Lenovo.

Intel and Dell, too, showcased their concepts of foldable laptops, but both seem to have different takes on the hinge. Justin Lyles, vice-president of Consumer Design at Dell, says we are going to see more dual display devices first. "There's a lot of opportunity here. But we want to make sure we don't misstep in that space by rushing into it too quickly," Lyles is very clear. "So you will see us explore different sizes of bendable displays over the next couple of years. We are really going to test this with users in different ways to make sure there's real good value before we release that to the customer."

The other big transition seems to be happening with battery life. With the Yoga 5G announced last week, Lenovo is promising 24 hours of battery life! Almost unheard of when we think in terms of laptops. Lenovo APAC president Ken Wong says the day-long battery life is like a smartphone experience. "We think the technology is very convincing. And it's very sellable," he says, adding how we will now be talking of battery life in terms of days and not hours.

There is also a trend that devices are much thinner than before. Yes, they have been becoming thin for years, but not across price points. In late 2019, Asus and AMD got together to showcase many new thin laptops across price points. Even an entry-level laptop can now be thin, even a gaming device for that matter. At CES, both Lenovo and Dell had announced extremely thin laptops to display. Flipkart has announced its first private label laptop, the Falcon Aerobook—extremely thin when you consider its sub-₹40,000 price point.

While Lenovo is pushing its new Legion devices for gamers with a very thin chassis, Lyles is not convinced that thin and gaming are meant to go together, just yet. "A gaming device is not a thin Ultrabook-type device because the power required is much larger. It is a thicker, heavier device," he underlines. But across CES it was clear that gaming devices could become much thinner.

Also, AI is becoming more integral to laptops by optimising battery life based on usage, ensuring the laptop is locked when it's not in use, and even blurring the background while you make video calls. We will see more of these optimisations in devices launched this year.

Beyond these is the impending 5G revolution. While we all know it is coming, we don't know how it will play out. If 5G gives a huge bump to interactive, immersive experiences, we could see the laptop space heading towards another big pivot. But it is too early to take that call. For now, everyone is talking about 5G in terms of more download speeds, but this new technology could also let devices push all processing power to the cloud, unlocking themselves from issues of power and battery life. That could truly be a whole new world.

The tax rates and the tenure to determine long-term capital asset

Nature of asset	STCG tax rate	LTCG tax rate	Holding period for LTCG
■ Unlisted shares of a company	Regular income-tax rates applicable to various tax payers	20% with indexation benefit	24 months
■ Equity shares listed on a recognised stock exchange in India before February 1, 2018; applicable STT is paid; A unit of an equity applicable mutual fund	15%	If sold on or after April 1, 2018, 10% on LTCG exceeding ₹ 1 lakh. Capital gains up to January 31, 2018 is tax exempt. No indexation benefit	12 months
■ Equity shares listed on a recognised stock exchange in India after January 31, 2018; applicable STT is paid	15%	If sold on or after April 1, 2018, 10% on LTCG of more than ₹1 lakh. Indexation benefits apply. Cost will be indexed up to FY17-18	12 months
■ Equity shares listed on a recognised stock exchange in India on which STT is not paid (off-market transactions)	Regular income-tax rates applicable to various tax payers	20% with indexation benefit or 10% without indexation benefit, whichever is lower	12 months
■ Preference shares or non-convertible debentures listed on a recognised stock exchange in India (No STT is payable on a preference share or a non-convertible debenture)	Regular income-tax rates applicable to various tax payers	20% with indexation benefit or 10% without indexation benefit, whichever is lower	12 months
■ Units of debt mutual funds	Regular income-tax rates applicable to various tax payers	20% with indexation benefit or 10% without indexation benefit, whichever is lower	36 months
■ Immovable property being land or building or both	Regular income-tax rates applicable to various tax payers	20% with indexation benefit	24 months

In addition to income-tax, surcharge and cess as applicable are chargeable on the above tax rates

T HE LATEST ESTIMATE of India's growth for fiscal 2020, at 5%, is at a 11-year low. With every passing day comes a new anecdote of India's slowing growth. The most recent one was that of liquor sales taking a hit. Another one was Surat's diamond merchants and polishers suffering amidst the slowdown, and Nirav Modi's PNB scam case. Some interesting ones relate to innerwear sales and biscuits. A recent visit to a manufacturing facility made the ground-level impact of the slowdown clear—macro having a bearing at the micro level.

Amidst the ongoing slowdown, construction was banned in Delhi NCR to keep a check on air pollution. As a result, the demand for the product of this manufacturing plant took a hit. The plant was operating at around 60% capacity utilisation, and daily dispatches were down nearly 90%. As a result, some casual labourers (about 20% of the total workforce) were laid off. One can argue the very essence of casual/contact labour is to help the plant in tiding over highs and lows, nevertheless this meant loss of livelihood. The ancillary businesses that the plant supported in the vicinity had also taken a hit. Other industries in the area, too, were in a similar plight. Consumption in the area would take a big hit, leading to a lower demand for manufac-

Making fiscal expansion effective

Current levels of inflation, especially core inflation, provide a conducive environment to increase spending

ANUJ AGARWAL

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tured goods, and this vicious cycle might spill over to other sectors and industries.

Now, how do we revive demand and growth in such a scenario? While RBI is doing its bit by lowering policy rates and asking for a transmission, there is also a need for an expansionary fiscal policy. Breaching the fiscal deficit target (within acceptable limits) is not too big a sin, if it helps the economy tide over tough times. Some even question the sanctity of the 3% benchmark. On the

fiscal front, the government has two levers to play with—expenditure and revenue. One way to provide stimulus is for the government to forego revenue by lowering taxes and duties. It has already announced corporate tax cuts, and there are expectations of concessions on personal income tax as well. Savings from reduction in corporate taxes aren't as huge as government estimates them to be, and there is no guarantee that these savings will translate into investment



spending or increased payouts. The other option to provide fiscal stimulus is to increase spending. The quality, however, is crucial—increased spending should be focused on capacity creation and should ideally be capital expenditure.

Consider the case of the manufacturing plant. A reduction in government taxes both for the business as well as the individual employee won't be of any help. For the business, the demand for its output is weak

amidst the slowdown. Employees of the plant are also witnessing this slowdown, and won't be too positive about future incomes and employment. For the workers who have been laid off, a reduction in income tax means nothing when there is no income. In such a scenario, increased demand/spending is unlikely by the business or by individuals is unlikely. On the contrary, if the government decides to spend more on infrastructure projects, the demand for plant's output will increase. Employees will be confident about their future economic prospects. The plant will start to operate at a higher capacity utilisation rate. With increased demand, the business may be willing to hire more people to meet the increasing needs. In such a scenario, new investment by the business seems likely. Confident individuals are also likely to spend more.

The effectiveness of fiscal stimulus as increased spending versus tax cuts has been long debated by academicians. In a broad sense, with tax cuts, increase in revenue expenditure is assumed to precede and lead to increase in capital expenditure. Fiscal expansion via increased spending on infrastructure will lead to increased capital expenditure driving the increase in revenue expenditure—increased demand for capital goods, increased incomes for the people in those industries, and increased consumption spend. The advocates of lower taxes

argue that tax cuts are self-financing by way of increased economic activity and higher tax collections in the future. In a similar way, increased fiscal spending of capital nature will lead to capacity creation and facilitate increased economic activity in the future. In the current scenario, fiscal expansion via increased government spending seems to be better suited. The effectiveness of tax cuts to stimulate demand and investments remains doubtful in a scenario of weak confidence. Moreover, direct tax cuts will have a limited impact given the following facts: With a population of around 1.3 billion, India has only 80 million individual taxpayers. Of this, around 22 million pay zero tax.

While the latest numbers suggest that fiscal deficit had reached 4% until November 2019, perhaps it is time to let go of the fiscal discipline and put faith into the Keynesian economic theory. Government consumption spending accounted for nearly a quarter of the growth in fiscal 2020—clearly, government spending is what is keeping the economy going. Public sector also accounts for nearly a quarter of capital formation. Current low levels of inflation, especially core inflation, provide a conducive environment to increase spending. The government must use the Budget for the next fiscal as an opportunity to jump-start the economy and revive all sectors, be it undergarments or auto.

