

GST: Cut the Rate, Extend Coverage

More complete the coverage, lower the rate

Most goods (nearly 70%) will reportedly attract a goods and services tax rate of 18%. This is welcome. This rate is less than half of the current cumulative burden of indirect taxes on goods. Consumers will gain as most of these taxes will be subsumed under GST, cutting out the cascade of multiple levies that products bear, and lower retail prices. Most services should also attract the 18% rate when all taxes levied on goods and services are collapsed into one. It is more than the so-called revenue-neutral rate — one that would leave revenues no worse off — considering that the combined tax collections of the Centre and states are about 17% of GDP now. Of the total collections, corporate, personal income and customs fetch about 7 percentage points of GDP, and the taxes that would be subsumed under GST yield about 10% of GDP.

Globally, the average VAT rate is about 16.4%. So, increasing the coverage of GST will make it possible for the Centre and states to lower the rate. India will have a four-tier GST structure with rates ranging from 5% to 28%. Rates can converge when exemptions are removed and all goods and services are steadily brought under the tax net. It will also declutter the tax system. Regrettably, a large chunk of the economy, which includes real estate, electricity, alcohol and petroleum products, is out of GST. This breaks the GST chain — wherein manufacturers get credit for the taxes that they pay on inputs — and increases scope for evasion. The GST Council should swiftly bring the excluded items also under GST.

Sensibly, the health ministry wants all tobacco products that include biris (beedis) to attract the highest tariff of 28% and a sin tax component of 15% that will not be eligible for input tax credit. The idea is to generate revenues and penalise a health hazard. Hefty taxes on cigarettes have restrained their use, but increased consumption of tax-evading smuggled cigarettes, besides of other tobacco products, some of them more harmful than cigarettes. The GST Council should just not heed to demands for sector-specific concessions.



EVM is Fine, VVPAT Makes It Better

Much has been spoken about the electronic voting machine (EVM). In the context of the recent assembly elections, it became the proverbial fall guy for those who can only be termed as sore losers: Mayawati and Arvind Kejriwal discovering 'tampered' voting machines as an explanation for their drubbings at the hustings. The narrative of 'spooky' voting machines continued in Madhya Pradesh along the same lines. But the fact of the matter is that EVMs remain the best device by which a voter can make her choice without old bogeys of ballot stuffing and booth capturing.

But making a robust system even more robust can only be a good thing. The government should make funds available for the Election Commission of India to equip itself with about 1.5 million voter-verified paper audit trail (VVPAT) machines — one each for every voting machine. Seven assemblies go to the polls in 2018: Gujarat and Himachal Pradesh in January, Meghalaya, Nagaland and Tripura in March, Karnataka in May and Mizoram

in December. Gujarat and Himachal Pradesh together have less than 45,000 polling stations. That would call for less than 70,000 voting machines and VVPAT units. If the government put its mind to it, getting thrice many that number of the requisite kit by January next year is a simple enough matter. The money spent would not be much and would be a worthwhile investment, in any case.

It can only be a boost to democracy if the cloud of doubt over the EVM's reliability is removed, to both reinforce its validity in public perception and to deny sore losers a chance to whine about malfunctioning equipment. Going back to paper ballots is not the answer; instituting a double-check on EVMs using VVPAT is the way to go. Get on with it.



This Chinese spy chase could beat the Japanese bestselling game hollow

Now, in Hot Pursuit, Spookémon Go!

Crowdsourcing is a dynamic way to raise funds for unusual causes. But is it an equally good way to identify spies? After all, the first lesson of spying is to remain inconspicuous to at least untrained eyes. So, the Beijing city authorities' reasons for offering cash rewards of up to 5 lakh yuan (\$72,000) to the Chinese public to provide information on foreign spies is puzzling. Surely, their own espionage professionals should be up to scratch when it comes to sniffing out spooks. Given the proverbial accuracy of Chinese whispers, it is not surprising that the national hotline set up two years ago for patriotic Chinese citizenry to provide information for "preventing or stopping espionage behaviour" of networks and individuals has not proved to be the ultimate secret (agent) weapon. How many spies come in from a cold call anyway?

Monetary enticements do not promise to be any more successful than the government's earlier advertisements cautioning Chinese women about dating forceful men lest they turn out to be latter-day James Bonds. But the illustrated guide the Beijing government thoughtfully provided, outlining what or who to look out for, could turn out to be a genuine bestseller, especially if other paranoid governments decide to crowdsource spook hunts as well. A real-life Spookémon Go chase has the potential to beat Pokémon Go hollow.

With investments comatose, NPAs high and exports low, any recovery is statistical, not economic

This Glass is Half-Empty



Aurodeep Nandi

The real issue with the recent near-7% GDP growth figure isn't that it should have been 6.7% or 6.5% to correctly account for last year's note ban. The real issue is that it is almost entirely driven by consumption. Investments have been comatose for the past several years. Investments worth over \$220 billion remain stuck in the pipeline. Exports have only recently started recovering after two years of massive contraction.

Which means that any further shock to consumption — be it a monsoon mood swing or a sudden rise in food and commodity prices — has the potential to slow down the economy. And the engines of investments and exports will be in no position to offer any significant backup.

Weaker Re, Richer Imports

The government will be forced to step in by increasing short-term revenue expenditure, cutting down on longer-term public investment, and throwing years of fiscal consolidation efforts to the air. Meanwhile, the absence of fiscal space will only make things worse for private investment and the ailing banking sector, which at this point is pinning for a bailout.

Other imbalances will also play in the background. Fiscal slippage will almost certainly be frowned upon by global credit-rating agencies. Overt reliance on consumption without adequate capital spending can potentially overheat the economy, increase the risk of inflation and subsequently

promote a high interest rate regime. Increased consumption is also accompanied by increasing imports, otherwise a natural economic phenomenon. But in the event of a seismic shock, it can put pressure on the current account deficit and the rupee if not backed by exports and foreign capital inflows. A weak rupee makes imported goods more expensive, causing inflation to further rise, and convince RBI to keep tightening monetary policy.

It is not just a Nostradamus-que economic meltdown risk that one should worry about. Some of the best years of the Indian economy — 2000-10 — tell us that simply relying on consumption isn't enough. In this decade, GDP trend growth sharply swerved up to 9%, while per-capita income jumped by 200%. Not even the 2008 global financial crisis could unnerve the growth momentum. The Sensex grew from 5,000 to 15,000 between 2000 and 2010. In other words, the market capitalisation of the top corporates grew by a whopping 300% in this decade.

In contrast, circa 2017 and the Sensex has grown by only 67% since. GDP growth over the last six years has moderated to an average of around 6.6% from 8.5% in the previous six years. Per-capita income over the last decade has inched up by a mere 15%.

The golden decade of 2000-10 was primarily driven by robust investment and export growth, along with rapid liberalisation and reform. The investment growth rate doubled within those 10 years. A booming global economy and an increasingly active India aligning itself with the global value chains gave a big boost to exports.

It is usually in times of booms that the seeds of bust get planted. The fiscal stimulus following the 2008 financial crisis was supposed to be a temporary support mechanism. Instead, it was conveniently not withdrawn when growth recovered. Subsidies



Truths, damned truths and statistics

reached a high of 3% of GDP. Minimum support prices for farmers were kept inflated, and profligate social sector schemes led to accelerated growth in wages and personal incomes.

While the average consumer (and government) went on a shopping spree, investments started stalling with problems erupting around environmental clearances, land acquisition and allegations of wide-scale corruption. This led to an effective freeze on bureaucratic decision-making. Reckless borrowing and poor banking governance during the boom years were now leading to mounting non-performing assets (NPAs) and highly indebted corporates struggling to grow their way out of their debts.

Cold Food, Overheated Prices

Elevated global oil and food prices in an economy that were also overheating from high public and private consumption caused the RBI to tighten monetary policy. Meanwhile, the pace of reforms slowed down, actually reversed, with India making global headlines on its regressive retrospective taxation decisions.

By 2014, India found itself with high fiscal deficit, current account deficit, inflation and interest rates, along with slowing growth, stalled reforms and a plummeting rupee. It was precariously close to being downgraded to

junk by global rating agencies.

The last three years have been a rescue from this brink. Improved quality of fiscal consolidation has ensured that GoI is spending less on handouts, and more on investing in capital goods like roads and railways. The fall in oil and commodity prices has given some much needed breathing space, while the pace of reforms has remained brisk. The recent GST coup de grâce is actually the latest in a long list of 'small bang' reforms that GoI has been doing for a while now.

Statistically, India's growth rate should remain fine. Consumption is close to 60% of GDP. If that continues to grow well, and other economic parameters trudge along, we will keep scoring 7% and above. If anything, demonetisation has shown how resilient Indian consumption can remain to shocks.

But the real rot lies in that investments have shrunk from 35% of GDP to below 30%. NPAs remain at an uncomfortable high of 8%, while exports have fallen from 25% to 21%. Till these are corrected, the glory of 2000-10's superlative economic prosperity will continue to elude India. And the recovery will remain a statistical phenomenon, not an economic one.

The writer is Deputy Head of Economics at a foreign mission based in New Delhi

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WIT & WISDOM

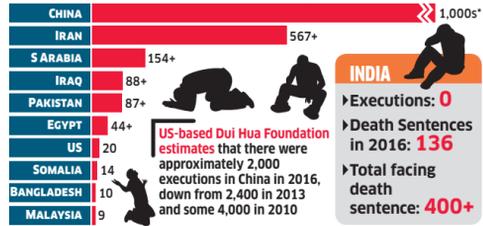
"All change is not growth, as all movement is not forward."

Elen Glasgow
Writer

Death Penalty

China executed more people last year than the rest of the world combined, according to Amnesty. Estimates from other rights groups also pegged the annual number in the thousands in China, which treats these figures as a state secret. All other countries together executed at least 1,032 people last year — a decline of 37% compared to 2015. Of those, 87% took place in just four countries — Iran, Saudi Arabia, Iraq and Pakistan.

Recorded executions in 2016, top 10 countries



MEME'S THE WORD



LETTER FROM WASHINGTON

Radical With Pakistan?



Seema Sirohi

The ongoing game of thrones inside the White House is riveting and real. The Daily Leaks on who's in, who's out are gripping. But palace intrigues are also a measure of continuing dysfunction.

While the alt-right and globalist factions battle it out, a real-life general is slowly getting a functioning National Security Council (NSC) in place. President Donald Trump's national security adviser, Lt Gen H R McMaster, has emerged as a steady hand, bringing a measure of relief to US partners waiting to start engaging substantively with the new administration.

The news that McMaster named Lisa Curtis, a well-respected expert, to be the senior director for South and Central Asia at the NSC has come as a welcome surprise. She is the first and only person appointed so far for the region in any government department. Curtis would be the highest-ranking person dealing with India and Pakistan on the regional policy before McMaster takes recommendations to the president's table.

It's an onerous responsibility at the best of times, but even more so when the region faces a resurgent Taliban, a nascent Islamic State, a swaggering Pakistan and an aggressive China determined to change the balance of power while Russia plays on the edges. Curtis is expected to travel to the region as soon as her security clearance is complete and report back to McMaster after taking the temperature of key capitals. She recently co-authored a report on

Pakistan advocating a tougher US policy (A New US Approach to Pakistan: Enforcing Aid Conditions Without Cutting Ties', Husain Haqqani and Lisa Curtis, Hudson Institute, goo.gl/KJebmJ). Now she is in a position to report the policy, if she so chooses. Widely seen as fair and balanced, Curtis comes to the job equipped with deep knowledge of the region, contacts across the political spectrum and, most importantly, a ground-level feel for South Asia. She has consistently advocated a clear stand against the use of terrorist proxies by Pakistan. She wrote countless articles asking the Obama administration to practise tough love, but to no avail.

Curtis sees a need to break the US habit of trying to always 'balance' policies towards India and Pakistan. And she has no delusions about mediating between the two, something that a Pakistani journalist trapped Trump's UN ambassador Nikki Haley, a neophyte on foreign policy, into advocating, much to the amusement of everyone.

In fact, Curtis' first memo to all posts might be a broad overview of existing US policy on South Asia and subtle or not-so-subtle changes — if any — the

new administration wants. She is experienced enough to know that any offer on US mediation would be dead on arrival in Delhi.

As the Trump administration came in, Haqqani and Curtis released the report that clearly said the US should "no longer sacrifice its anti-terrorism principles in the region for the sake of pursuing an 'even-handed' South Asia policy, but rather should levy costs on Pakistan for policies that help perpetuate terrorism in the region".

The US should stop viewing Pakistan as an ally, enforce the conditions on US military aid written in law, lay out a timeline for specific, "calibrated actions" against terrorists and make clear that failure to make real progress could "eventually result in Pakistan's designation as a state sponsor of terrorism".

If Curtis were to work towards these goals, it would be nothing less than revolutionary. It would mark a clear shift from her predecessor in the NSC, Peter Lavoy, who was widely seen as a rationaliser of Pakistan's double games. Christine Fair, a Pakistan expert, says Lavoy "never met an army chief he didn't like or defend even when the evidence suggested otherwise. He was always willing to defend Pakistan no matter how outrageous its perfidies."

Indeed, The Obama administration began its eight years with a 'Pakistan first' policy: keep Pakistani generals happy, get them to start peace talks with the Taliban, and get out. It even appointed a special representative who travelled to Pakistan frequently to massage the generals' egos, only to come back and undermine US policy on India.

The Taliban had no incentive to make peace while under the ISI protection racket. Pakistan had no incentive to change because the US gravy train kept running. Lavoy was at the centre of this failed policy. With Curtis in charge, both India and Afghanistan look forward to real changes to 'make America great again' in the region.



The new face of anti-terrorism: Lisa Curtis

Citings

Machine Learning

FEDERICO BERRUTI ET AL

Since the financial crisis of 2007-09, many companies have applied lean management to improve cost efficiencies, customer satisfaction and employee engagement simultaneously, and many programmes have achieved substantial impact. Progress on digital, however, has been more uneven...

As macroeconomic conditions continue to put pressure on profit margins across sectors, cost productivity and unlocking new value are back at the top of the senior-management agenda. That's where intelligent process automation (IPA) comes in. We believe it will be a core part of companies' next-generation operating models. In essence, IPA "takes the robot out of the human".

IPA is an emerging set of new technologies that combines fundamental process redesign with robotic process automation and machine learning. It is a suite of business-process improvements and next-gen tools that assists the knowledge worker by removing repetitive, replicable and routine tasks...

Traditional levers of rule-based automation are augmented with decision-making capabilities thanks to advances in deep learning and cognitive technology. And, the promise of IPA is increased worker performance, reduction of operational risks and improved response times and customer journey experiences.

From "Intelligent Process Automation: The Engine at the Core of the Next-Generation Operating Model"



Darkness Before Dawn

RANJANA CHAUBE

The Brahmakumaris practise Raja Yoga, particularly the trataka form of meditation, in order to achieve union with God. It involves keeping your eyes open and fixing your gaze on a tiny red spot with total attention. Raja Yoga gives knowledge of self and enables one to attain peace, purity and harmony.

Dawn is preceded by the darkest hour of the night. The Brahmakumaris consider the present time as the most critical period. This will be followed by a new age: the dawn in the great cycle of time. The agent of transition may be the person possessing knowledge of the true self. One who reaches the highest stage of this knowledge becomes Brahma. The supreme divine being is Shiva, who is an embodiment of knowledge, peace, purity and harmony.

Raja Yoga helps us locate ourselves in our souls (atma). Raja means 'the glorious supreme' and yoga means to connect or to establish a link with God. It teaches us to pull ourselves back from being self-conscious to concentrate on the paramatma that is the purest entity. Mythology traditions and some ancient texts have declared Shiva (the deity) as the Lord of the Yogis and yoga was revealed to him.

Yoga, however, is misunderstood today and is largely associated with physical bends and postures called asanas. To the yogis, God is not an all-pervasive omnipotent entity; God is a tiny star-like soul. There are two fields of existence: the physical and the metaphysical. Both fields act, react and interact to produce the desirable universal drama of which we are all a part, including God.

Chat Room

Pandora's Box Now Opened

It was inevitable that the loan waiver in UP would trigger similar demands. The CMs of BJP-ruled states especially are going to find it difficult to explain to their voters why similar waivers are not given to the farmers in their states. With the meat processing industry in doldrums and the spectre of prohibition looming large, this move is going to be financially disastrous. Loan waivers cannot be the panacea for farmer distress. The best brains in India need to put their heads together for a lasting solution to the problem of farm finance.

ANTHONY HENRIQUES
Byemail

Migration Need Not be Migraine

Apropos 'India: A Very Moving Story' by Amitabh Kundu and P C Mohanan (Apr 11), the data on inter-state migration represents a rosy picture, but also a cause of worry: The growing opportunities of employment, education and quality of life in



urban areas are motivating factors for the rural population. This can cause a disparity in resource allocation between the urban and rural economies. The inter-state migration is affecting employment, inducing regionalism, linguistic tussles and racial discrimination. Only balanced growth in rural areas can control migration.

SANJAY TIWARI
Hisar

Don't Sound Like a Cricket

This refers to 'What's Your Qualification?' by Anirban Bandopadhyay. With so much of cricket being played around the world, for ex-cricketers, this is a post-retirement second career. Having played cricket at the highest level brings with it an insight that can be shared with the viewers. A commentator who is articulate and has knowledge of the game comes across better than an ex-cricketer with passable communication skills. The commentator who brings excitement into her voice scores better with the viewer.

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