

Farming Structure, too, Needs Reform

The farm taxation proposal merits debate

The government has been quick to scotch any speculation that it proposes any change in the status quo on taxing income from agriculture. However, the idea merits wider debate, after having been aired by the Niti Aayog. Technically speaking, agricultural income is not quite exempt from taxation. It falls among the taxes the Constitution assigns to the states, that is all. States do collect tax on agricultural income from plantations. And the Centre also has policies that an economist would say tax agricultural income. If a marketing restriction, foreign or domestic, represses the price of an agricultural commodity below its optimal level, it amounts to an implicit tax. As does adverse terms of trade arising from higher protection for industry's produce.

And the Centre, too, levies some tax on agricultural income clubbed with non-agricultural income. If a person has non-farm income above ₹2.5 lakh and also declares farm income, she is allowed to club agricultural income (without any ceiling) to determine the rate of tax applicable to non-agricultural income. Clubbing for rate purposes, in tax jargon, was introduced in the assessment year 1974-75 (financial year 1973-74), and enables a taxpayer to lower her overall tax liability. Her tax outgo would be higher had agricultural income been fully charged to tax. The beneficial rule, meant to protect farmers, has been rampantly misused. The practice, of non-farmers declaring agriculture as their source of income to evade income tax, must end.

However, it is not just taxation that has to change in agriculture—so must its organisation. Corporate farming should be allowed, and leasing in of land given legal protection. Some activities call for vertical integration—for example, of growing sugar cane and crushing it, for optimal efficiency. That would put paid to the saga of cane arrears and contested cane prices. High cane prices would lower sugar profits and low prices would boost sugar profits. But since cane prices and profits would both accrue to the same farmers, the focus would be on improving the efficiency of the combined operation.

Modi Charm Ascendant Still, Kejriwal Wanes

Municipal elections in one city do not normally become an object of national attention. But the elections to the three Municipal Corporations of Delhi (MCDs) were considered a gauge of how urban voters perceived the BJP in the wake of Demonetisation. The BJP has come through with flying colours. More precisely, people have once again reposed their faith in Narendra Modi—the BJP had sent sitting councillors packing and put up fresh faces, seeking votes in the name of Modi and Vikas (development).

The biggest loser in Delhi's municipal elections has, of course, been Arvind Kejriwal. The voters have told him in no uncertain terms that they disapprove of his vaulting ambitions on the national stage, for which he is perceived to have forsaken his chief ministerial responsibilities. It could well be that the disenchantment kicked off by the split in the party that has led to a formation, Swaraj joining the fray in Delhi, has rendered many former AAP activists passive. Further, it is entirely possible that AAP

failed to communicate to the electorate the division of responsibility between the state government and the MCDs and, as a result, the people blamed the state government for the many failings of the municipal bodies, most notably in regular garbage collection and disposal. AAP and its leaders would do well to turn the focus from voting machines towards their own souls for answers as to why they have been routed.

Paradoxical though it might look, the party that has come third is the biggest gainer, in these MCD elections. Compared to its washout in the 2014 general elections and the 2015 assembly elections, the Congress has improved its tally. But if the bickering within the state leadership already evident is any guide, the Congress is unlikely to build on it.

The offensive potential of belches has to be gauged according to context

Rank Burps According to One's Gut Instincts

Defining and then acting upon perceived cultural slurs is bound to cause hiccups. The recent case of the Vienna bartender winning his appeal against being fined ₹55 for emitting a loud post-kebab burp next to a police officer demonstrates this hazard most eloquently. The belcher was obviously acquainted with places where such eruptions are not merely accepted but even appreciated as an expression of gastronomic gratification. But the policeman who got wind of this belch from an impressive distance decided that the act was a violation of public decency, booked him and even got a conviction before it was overturned on appeal. That the bartender's supporters mobilised a flash mob for a mass burping protest—tanked up on cola and kebabs—further highlights the deep divisions on what should be an internal matter.

There is merit in the argument of the bartender's lawyer that the offensive potential of burps should always be gauged in context. The impact would be different when heard at a classic music recital or on a busy public thoroughfare. Significantly, at Indian or Chinese feasts, non-burpers could even be accused of gross rudeness. The positive aspect of the incident, of course, is that a place where a belch can get such importance must have a low incidence of more serious crimes that require official attention.

Will India be a consumer market that is complemented by an innovation ecosystem?

Our Internet Connectivity



Ashok Malik

In the last three years, the Narendra Modi government has followed a liberal investment policy that has opened up more and more sectors to FDI, and a cautious trade policy that has balanced global engagement with jobs and value creation at home. To be fair, India is not alone. In tough times, many major economies have followed a similar policy path.

An emerging area where these multiple imperatives of the government are being tested is the internet economy. The surge in FDI and in start-ups in the internet space was one of the PM's calling cards. Now, in Year Three, numbers have fallen.

Venture capitalists are becoming that much more careful with their cheques. Yet, for Digital India to succeed, for the digitally-enabled services sector to gallop ahead and create jobs, it is important that this engine does not stutter.

In a sense, India is at the stage it was at in the late 1980s and early 1990s with electronics and computing hardware manufacture. Appropriate policy steps then could have made India a production base and leveraged its vast domestic market to create value and intellectual property, home-grown brands and lots of jobs. That moment was missed, and India became an importer of South Korean refrigerators, Japanese air-conditioners and Chinese mobile phones.

The internet and digital story is at an similar cusp. It is being presented as

a battle between 'national' and 'global' brands: Ola vs Uber, Flipkart vs Amazon, and so on. But reality is far more complex.

The essential question is: will India remain a consumer market? Or will it be a consumer market that is complemented by an innovation ecosystem and flourishing local value and intellectual property (IP) creation? This is a nuanced question. It would be prudent not to see it merely in terms of the passport of an individual business promoter. For, by itself, that should matter little.

In truth, there are very few 'local' or 'national' companies, at least in regard to ownership. Even so, there are companies that are perceived as 'local' in terms of what they bring to the economy and their potential in the global market.

Dollar Shower

Alibaba is a Chinese company, though headquartered in the Cayman Islands. Maruti (20% Indian ownership) and ICICI (35%) are symbols of Indian corporate excellence. Not because of some intangible national pride, but due to jobs, value, export earnings and tax revenues they generate in India. Should one see internet companies with similar levels of Indian ownership through the same prism?

This dilemma is exercising the government—and with no definitive answers.

On the one hand, there is determination to steer clear of knee-jerk protectionism and not give international companies the impression that India will discriminate against them. On the other hand, there is sobering recognition that competition has to be fostered and the current mechanism of 'predatory pricing' or 'capital dumping' (both expressions being heard in policy circles) is not without risks.

This phenomenon amounts to international internet companies de-



Digital rakshaks

playing profits from overseas markets, working on gross negative margins in India that could be as high as -60%, and impoverishing the competition so as to capture market share.

Both Uber and Amazon have been accused of this, with local rivals saying this is giving the former an unfair advantage and delaying, perhaps forever, the creation of a sustainable business model with multiple players.

Comparable market distortions have led to anti-dumping duties in other sectors: Chinese steel, for example, or any product that is sold at below cost price. In international trade regimes, such norms are routinely applied against dumping of manufactured goods and commodities. The ambit of dumping does not as yet cover services, such as internet-based intermediation between consumer and service provider (what a cab aggregator or an online marketplace does).

What is the implication of this lacuna? Immediately, it means ridiculously low prices for consumers and makes any policy intervention that much harder. It also poses a longer-term challenge.

The internet economy is largely focused on six specific areas: search engines, social media, travel websites

(air tickets, hotels), payments (PayPal to Alipay to Paytm), conveyance (ride and cab aggregation), and e-retail. Google and Facebook have world domination in the first two. For the remaining four, the battle is on.

The Great Firewall of China

In the US, all six areas are booming and the internet business sector is valued at 10% of GDP. In China, a combination of local entrepreneurship and state muscle (virtually driving out Uber, for instance) has secured a similar 10% of GDP space for home-grown internet giants. In Europe, where comparable resident internet brands are absent, market cap of internet companies is an abysmal \$40 billion in a \$16-trillion GDP.

India's internet sector is valued at \$25 billion in a \$2-trillion economy. Where will it head: to American or Chinese robustness with a network of India-anchored as well as international companies? Or European-style retreat?

This fork, to iterate, is not different from the electronics manufacture fork of 25 years ago. The choice will decide India's future, and be an indicator to the internet economy's final frontier: Africa.

Where will India's internet sector head: to American or Chinese robustness with a network of India-anchored and global companies? Or European-style retreat?

WIT & WISDOM

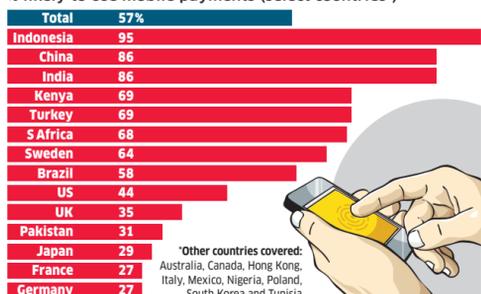
"For every complex problem, there is an answer that is clear, simple, and wrong."

H L Mencken
Writer

Mobile Payments

Propensity to use online payment systems on mobile phones varies greatly by country, with most G-8 countries near the bottom of the list, and emerging economies near the top...

Comfortable with making online payments via mobiles? % likely to use mobile payments (select countries)*



MEME'S THE WORD



FUNNY BUSINESS

Live the Indian Summer



Anuvab Pal

I sent about 30 work emails this week, and 28 of them came back with 'out of office' messages. Something glorious happens in Indian offices with the onset of summer. Employees break up into two groups of employees: those that escaped on vacation. And those who got trapped.

For the latter, there is further torture. Facebook photos of friends holidaying as you get more and more annoyed not being on holiday yourself, as more and more work gets piled up—because everyone else is on holiday.

For whatever reason it may be, when one misses the May holiday deluge, the only feeling is, 'Ugh'. And the only solace is that unlike that home air-conditioner (the electricity bill for which one has to pay for oneself), the office one works (and is 'free').

For whatever other altruistic and empathetic reasons, I feel for those stuck in the office in the month of May. You took a vacation like an idiot in February and ended up in Europe in the middle of a snowstorm. And now, when there's glorious weather in the western hemisphere and your Instagram is flooded with colleagues in the south of France or on top of a mountain in Innsbruck, in some photo straight out of a glossy travel magazine, you are staring at the compressor of a split AC venting heat in a tiny Andheri cubicle.

As our friendly CEO jets off to the cooler climes of Switzerland, I'm sure some of the less-fortunate colleagues would jealously look at photos of him walking the cobbled streets of Zurich

on a glorious day as they realise that in 45° Celsius heat, they need to go to Rairpur or Bareilly or some equally high centigrade town for official work.

As a quick aside, before Independence, every summer, when we used to tell the British to leave India, the Brits used to go to Simla. Now, every summer, India goes to Britain.

Summer is always when everyone is lying to everyone. The boss saying, "I'll be out for a quick meeting," when he's taken off for a swim. The employee saying, "Terrible flu, ya," when really he couldn't be bothered to stop watching Netflix, shut off the AC, and dress to face the Gurgaon furnace.

Also, summer often means the urge to constantly keep going to hotels.com and makemytrip to see what one can afford while being on the phone with a client. You know the urge. You're on the phone going, "Yessir, of course we won't miss the deadline, sir," while you stare at photos of five-star hotels in Aruba or Prague wondering two things: one, I need a 5,000% raise to afford this, and two, who is my least annoying friend to travel with.

And, of course, the deadline you promised on the phone will be missed because there's no one in the office except a peon. Forget the colleagues. Even

the product you're selling is on vacation.

Even news isn't immune. Indian offices get so lazy in the summer that it is likely that we might read newspaper headlines a few days old because the journalist couldn't be bothered to update it, between Breezers and staring at waves. France could have a new president, but we'll only find out when Neharika is done sightseeing southern Spain.

One might argue that this is elitist privilege. There are, however, the true martyrs: the workaholics. Startup CEOs, for example, out raising cash in a rather cash-strapped Indian startup drought environment. The toll booth worker, the airport security guard, the night watchman...

And, of course, some of the committed bosses work 24x7 regardless of seasons, often unaware of them. I feel for those who work for them though, folks who might not be as committed. The unkindest cut of all is probably when such a boss calls just as a lesser mortal is about to go on vacation. Knowing full well, that's the end of the vacation. Still, such bosses must, being human, have that little urge once in a while, to sneak into Facebook, to see a deputy on some South African safari and wonder, "Maybe I can sneak out for a few days." Why not? The rest of the country has.



While your friends are on holiday...

Citings

Financial Strategy

ADAIR TURNER

Policies to ensure better-run banks and more competent and honest bankers will never be a sufficient policy response. For, if excessive debt is like pollution, its growth imposes on the economy a negative externality that it will never be sensible for profit-maximising banks to take fully into account. Indeed, as Chapter 10 argues, even lending that from a private perspective looks like and is "good lending"—loans that can be and are paid back in full—can still produce harmful instability for the whole economy. Even good, competent bankers can, through the collective impact of their actions, make economies unstable.

And as Chapter 6 describes, even the banks that most expertly applied the new techniques of Value at Risk modelling and mark-to-market accounting, and that survived 2007-08 relatively unscathed, contributed just as much to the crisis as did the incompetents who went bust. Certainly we should use public policy sanctions... to penalise incompetent or reckless behaviour.

Certainly we should address the too-big-to-fail problem. But such policies will never be sufficient to achieve a more stable economy. Nor, either, will central bank policy still operating within the assumption that we can have one objective—low inflation, and one instrument—the interest rate... Financial instability is inherent in any financial system...

From "Between Debt and the Devil: Money, Credit, and Fixing Global Finance"



Islam and Its Dimensions

HAZRAT ABU BABAJI

A Sufi is detached from material life and is full of ecstatic devotion to "The Divine Life", free from pain and sorrow. Sufism, or tasawwuf in Arabic, is the inner mystical or psycho-spiritual dimension of Islam. The Sufi surrenders to God in love, over and over; which involves embracing with love at each moment the content of one's consciousness as gifts of God or, as manifestations of God.

Allah uses many ways of awakening people from slumber and attracting them to Him. Once awake, people become seekers and travel on the path, or salek. As they start their journey Divine, their thoughts and feelings shift, and they begin to behave and live differently in varying degrees. Why the change? Because it helps them distinguish between the 'reality' that they have always known and the reality that truly is. They begin to realise that the purpose of this life's journey has far greater depth and meaning than they had ever imagined. To travel on this highway, one must disable and break down the self, or nafs.

This also marks the separation between the real traveller and the pseudo traveller. Guided by his teacher, or murshid, the salek follows and obeys the murshid, whose job is to prevent the salek from falling into the trap of self. The self uses every ploy to get the traveller off the road that will ultimately lead to the self's demise.

Its tools include man's mind, emotions and belief systems—a dangerous and powerful array of weaponry. One must be most aware and equipped to defy the attempts of the nafs.

Chat Room

Farming of Only Tax Exemption

We all know that several people escape tax by showing much of their income as agricultural income. However, about a decade ago, a new category of agriculturists was created: the urban farmer. This farmer pays no income on his corporate dividend income. The exemption was supposedly brought in to encourage small investors. If so, there should have been a limit on the exemptions. And why no exemptions for bank interest income where the small investor really puts his money?

The biggest beneficiaries are the promoters whose dividend is a few thousand crores. In fact, these promoters are being subsidised by the small investor through the dividend tax levied on companies. So, tax agricultural income beyond a certain limit, and let the exemption on dividends be limited to the same extent or to the extent of the taxable income. The best solution: if you claim agricultural income exemption, all other income will be taxed at the highest slab rate, and vice versa. We will then know who the real farmers are.

TR RAMASWAMI
Mumbai

BJP Won MCD Polls – and How!

Even as the BJP has swept the MCD elections, there are lessons for the defeated. BJP replaced all the sitting corporators with new faces, indirectly admitting anti-incumbency. They knew the voter would want accountability from the old faces. AAP concentrated more on EVMs and forgot to highlight this point, and the Congress was too busy cleaning its own house.

AAP needs to sit and plan its future strategy, be it highlighting their good work in Delhi or fighting elections in other states. As for the Congress, they don't seem to have learnt much since the 2014 debacle. They should admit that Rahul Gandhi is not the right person to lead the oldest party and put Priyanka at the helm, and take along the local leaders. As of now, the BJP deserves the congratulations, and as much for the way they achieved it.

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