

# Ease Policy Rates, Reserve Bank

### Inflation targeting as framework, not policy rule

In preparing the second bimonthly policy statement for this fiscal, the Monetary Policy Committee (MPC) of the Reserve Bank of India (RBI) needs to view inflation targeting more as a framework than as a policy rule. The MPC needs to indicate easier cost of funds so as to improve sentiments, shore up demand and boost the faltering growth momentum going forward.

If seen as a rigid policy rule, there seems a solid case for the RBI to hold headline rates steady. As its Monetary Policy Report for April mentioned, while headline inflation did fall to a historic low, it is 'not broad-based' yet. The report added that the persistence of inflation, excluding food and fuel, poses a challenge to the inflation outlook. Further, it stated that there is considerable uncertainty as to how prices will pan out over the coming months. The report was sanguine that the recent appreciation of the rupee has had a 'soothing' impact on domestic inflation. But the fact of the matter is that it is arbitrage opportunities and high relative interest rates that are artificially attracting foreign funds to Indian shores.

Given that the trend in capital formation (read: investment, especially corporate investment) has been weak for years, the hardening rupee is not due to improved fundamentals and productivity gains. Keeping policy rates unchanged will merely aggravate inflows. Instead, taking into account the ground reality of decelerating GDP growth in the January-March 2017 quarter and weakening capital formation, it would make better sense for the MPC to consider inflation targeting as a flexible framework and purposefully indicate lower policy rates. Yes, the continuing problem of unresolved non-performing assets (NPAs) in the banking sector is a drag on credit offtake, and weakens the transmission mechanism for monetary policy initiatives and revised interest rates. However, in a regime of declining inflation, high and rising real rates of interest are wholly avoidable — especially with margins under pressure and a sharp decline in profit growth. So, ease policy rates, RBI.



# GST on Gold an Attack on Shadow Economy

The Centre and states have done well to fix a 3% goods and services tax (GST) on gold. It will create audit trails, prevent people from using unaccounted money to buy gold and gold jewellery, and it will bring in revenues to the exchequer. This is broadly in sync with the recommendations of the Arvind Subramanian panel. It had suggested a 4-6% GST on gold and other precious metals to bring down the standard GST rate — the standard rate worked out was 17.3% with a 4% levy, and 16.9% with a 6% levy. Today, states charge a value-added tax (VAT) on gold. But no tax is charged on jewellery-making charges. The industry wants clarity on the tax treatment for making charges. There is some worry that the total tax incidence on the customer could be higher if, say, an 18% GST is levied on making charges. But GST allows manufacturers to claim credit on all input taxes paid on goods and services used to make the final product. That should hold for making charges as well. Nevertheless, the GST Council should clear the air to remove any ambiguity.



GoI should simultaneously reduce the import duty on gold from 10%, now that the current account deficit is within limits of prudence. A higher import duty only makes smuggling attractive and pushes a part of the jewellery trade into the shadow economy. That's entirely avoidable. India's affinity for gold, an idle asset, has often been buttressed by high inflation. Inflation is under control now. The yellow metal will lose its attraction when the economy grows and investors regain confidence that financial instruments would yield decent returns.

The 'gold monetisation schemes', meant to lower imports, save foreign exchange and provide savers an alternative financial instrument, are sensible. Surely, a better design can make the scheme more attractive to investors.

In that case, the NGT order to stop aircraft from doing so is a waste

# Are Mid-Air Dumps a Flight of Fancy?

There are many alarming facets to the news that the Directorate General of Civil Aviation (DGCA) has not yet complied with the order of the National Green Tribunal (NGT) to issue a circular to all airlines and ground-handling agencies to stop the release of waste from aircraft tanks while landing at New Delhi's Indira Gandhi International Airport or taxiing to any of its terminals. First, the fact that DGCA has actually asked for a review of the order suggests it is such a common procedure that banning it may disrupt the entire waste disposal drill. That airlines might not only be emptying toilet waste tanks in mid-air but also taking a dump right on the tarmac is an equally nauseating prospect. Moreover, non-compliance with the NGT order also implies planes may be jettisoning waste over not only Delhi's airspace and aprons right now in violation of the NGT order but doing the same at other airports in India, especially as they appear to be inexplicably excluded from this swachh ruling.

But experts insist modern aircraft cannot take a leak, so to speak, in flight or while taxiing, as their waste disposal tanks can only be opened from the outside by specially equipped vehicles. Nor is there conclusive evidence of excreta on buildings, apparently. Does that mean complaints from those living near airports are just a load of s\*\*\*?

GoI must realise that Air India is not India. It must exit the airline business immediately

# No, the Sky's Not the Limit



G R Gopinath

The country must welcome the Niti Aayog recommendation to privatise Air India (AI). Civil aviation minister Ashok Gajapati Raju said that the airline is in a debt trap and all options are on the table.

Not a day passes without some bad tidings about AI since its merger with Indian Airlines a few years ago. Pilots on strike holding the government to ransom, a large number of grounded aircraft, cannibalisation of parts from airworthy aircraft to keep critical routes operational, frequent cancelled flights, freebies to management, runaway losses, CBI enquiries on aircraft acquisitions — it is a litany of never-ending woes.

### Gilded Glider

Only two full-service government airlines in the world are efficient and profitable: Singapore Airlines and Emirates. They are government-owned but not government-run. AI is government-owned and government-run. And therein lies the rub.

Here's a reality check. AI has a whopping ₹50,000 crore debt. One can start 100 airlines with that money.

The paid-up capital of AirAsia India, a joint venture with the Tatas, is less than \$50 million. AI is unsustainably overstaffed: 475 employees per aircraft against IndiGo's 70. And if one considers the fact that normally, about 30% of AI aircraft are on the ground any given time because of slack maintenance or want of parts, the number of employees per aircraft becomes even more shocking.

Employees are demoralised with the lack of leadership and riven by factions. AI's cost per available seat km (CASK), the industry benchmark globally for measuring airline efficiency, is probably the highest in the world. It is four times IndiGo's and five times AirAsia's. Inexperienced bureaucrats, usually political appointees, have been heading the airline without autonomy or accountability, and have run it into the ground.

Employees and the management have always been confident that in the end, GoI will bail them out. Is there no way out? There is, if the political wisdom and will can be found.

AI is in no worse state than British Airways or Lufthansa were when those two airlines were on the verge of bankruptcy and were privatised more than two decades ago. AI has huge assets in land, buildings, engineering, bilateral grandfather (acquired) rights, slots and an extensive network. It is still a powerful and endearing brand that evokes fond nostalgia.

AI can be hived off into three separate entities. All of its land and buildings across the country can be put into a separate entity. From that sale,



Deconstruct the brand

all surplus employees who have to be laid off can be compensated with a golden handshake.

After that, GoI would be left with an airline with lean staff levels with only the operational assets necessary to run it and sustainable debt. It can be sold with zero debt, but will attract a premium, as it would be a very attractive proposition for any investor: GoI can retain 51% or 49%, and over a period, sell off the balance and exit when the airline gets listed.

### Ta-Ta, Sky

As for the third entity, while AI is overstaffed and filled with deadwood, it also has excellent people in engineering who can be cherry-picked. Taken together with AI's massive investments in maintenance, repair and overhaul (MRO) and engine shop, they could form Air India MRO. This could then be privatised, as was done with Lufthansa Technik after it was hived off from Lufthansa Airlines.

If this is done wisely it will not only staunch AI's continued bleeding but also benefit the government in the form of annual revenue against the current losses.

The government must also go bey-

ond just solving the AI mess. It must create a vibrant aviation sector and spell out a long-term strategic vision for all stakeholders: air cargo, MRO, manufacturing of components for aircraft. It must revisit airport policies where it is now a stakeholder. A robust ecosystem is needed, not individual policies to suit AI or Jet Airways or private airport operators, as has been the case with past governments.

The timing is perfect. The stock markets are on a roll. The Narendra Modi government has inspired confidence among investors. The mood is upbeat, even euphoric. Even AI employees realise that opportunities abound and they will be better off under the private sector. They sense that there is public discontent and the days of 'free lunch' are over.

The government's Ude Desh ka Aam Naagrik (UDAN) regional connectivity is a step in the right direction to make aviation travel inclusive. But first, GoI must realise that AI is not India, and that the larger interests of the country are more important than one airline's interests. It must exit the airline business immediately.

The writer is founder, Air Deccan

GoI must create a vibrant aviation sector and spell out a long-term strategic vision for all stakeholders: air cargo, MRO, manufacturing of components

## AGRICULTURAL TAX

# Why Shouldn't Rich Farmers Pay?



Mukesh Butani

Finance minister Arun Jaitley was correct when he stated in April that constitutional constraints do not empower his government to tax agricultural income, implying that he is not constrained from amending the Income-Tax Act. BR Ambedkar, in framing the Constitution, was vehemently critical of British land revenue system, the foundation for which was laid during the Mughal period, and strengthened by the East India Company, which was then incorporated under the Government of India Act, 1935, by which land revenue was assigned to states.

The 1935 Act was incorporated in our Constitution in 1950, using which state governments have developed their land revenue system. Ambedkar, participating in the Bombay Legislative Council debate, felt that the system was inequitable and indefensible. He advocated a tax on business and agriculture based on earning potential. A fresh assessment is required today to gauge land revenue and tax levied by states, and its importance for the states' fiscal machinery. The definition of 'agricultural income' under the tax statute is subject

to a liberal interpretation by the judiciary. Tax-exempt income includes not just what is derived from the sale of farm produce, but also rent from farm land, income from the processing of farm produce, farm income and capital gains on sale of farm land. Further, the entitlement is for all forms of taxpayers: individuals, partnership firms, Hindu undivided families (HUFs), companies, cooperative societies, etc.

It covers all forms of agricultural produce, including crops covered under minimum support price, produce consumed for domestic use and exports, large-scale mechanised farms, orchards and groves, and tea, coffee, tobacco and rubber plantations. Interestingly, under the new goods and services tax (GST) law, the term 'agriculturist' (not agricultural income) means an individual or an HUF who cultivates himself, or uses family labour or hired labour under personal supervision. The GST law, therefore, applies to a limited category of agricultural income.

Attempts have been made in the past to amend the income-tax law to prevent abuse. Exemption is believed to be the most active instrument for tax evasion, as borne out from findings of successive expert committees, the Tax Administrative Reforms Commission being the last one. So, the first task would be to assess the political will to restrict such exemption, not just under the tax law but also under the Constitution. A stated objective to grant exempti-



Jai Kisan 2.0

ons to small farmers with marginal holdings, or those covered under land ceilings of respective state laws, can be carved out. This will leave out a major part of the rural economy. As a 2012 right-to-information reply reveals, almost eight lakh taxpayers disclosing farm income shall come under the tax net, presuming they don't fall under the 'small farmer' category. The 2017 amendment seems to curtail all forms of cash transactions above ₹2 lakh, and possibly mandates visibility of all high-value agricultural transactions, thereby limiting the scope for tax evasion. The Income-Tax Act can be further amended to provide for mandatory maintenance of books of accounts as a precursor to availability of tax exemption and also subject to satisfactory explanation of any diversion of income from non-farm to farm.

As a good practice, the Budget documents should contain details of

tax forgone (by states) due to exemption. As an ease of administrative measure, the taxable category could be divided under three groups: one, those who are fully exempt; two, by prescribing a suitable threshold, those who would be liable to pay tax on a presumptive basis, say, 8-10% of gross sale proceeds; and three, those whose turnover exceeds ₹2 crore and are liable to be taxed at normal rates.

This will accentuate to tax extension of crop activity such as agro-processing by large units, particularly ones benefiting from rural credit, concessional electric power, etc. This shall promote large-scale activity, the potential of which remains untapped. Alternatively, and to alleviate difficulties, a distinction can be made between crop-type activity and plantations, which are easily locatable sources of agriculture activity. Levy of tax on agriculture can be restricted to plantations and commercial crops, keeping in mind earnings potential, measured by land holdings.

To deal with constitutional constraints, the tax collection machinery can be implemented by the Centre, which shall ensure uniformity of tax, consistency in administration, and its net proceeds be fully assigned to states. Experiments with various states on the levy of land revenue and agriculture tax have been patchy. This could be a path-breaking reform, if implemented.

The writer is managing partner, BMR Legal

## LETTER FROM WASHINGTON

# Modi-Trump: Keeping It Short



Seema Sirohi

US President Donald Trump is forcing us all to grow up fast without time off for teenage confusion and self-pity. The training wheels are off the bicycle. The 'balancing' is hard, and finding support here and there even harder.

The accelerated pace has pundits declaring Europe is 'it' now, and will fill the vacuum. Over the past week, German Chancellor Angela Merkel has been christened 'leader of the free world', French President Emmanuel Macron the new hot thing after Canadian Prime Minister Justin Trudeau, and Chinese Premier Xi Jinping the 'climate change king'.

Whatever happens in and to the Trump administration, it's one thing to denounce Trump's trade, security and environmental policies, but quite another to crown Xi the saviour of Planet Earth. FYI, China's is not being 'green' to others.

For starters, China is 'building dozens of polluting, subsidised coal plants in other countries' that could 'lock them into dirty development', according to Lauri Myllyvirta of

Greenpeace. While China's domestic record has improved, it is "by no means a saint". But mainstream opinion in Europe and the US is so disappointed in Trump, people are ready to worship at the Chinese altar.

India is caught in the storm, but it's navigating the choppy waters carefully and looking for islands of stability. Prime Minister Narendra Modi has put new energy into old relationships, as with Russia, and refocused on Europe, a continent neglected as difficult and moralistic. Engagement all around is the only answer.

Modi is expected in the chaos capital later this month to meet Trump and ensure the safety of the India-US partnership. Yes, despite the fact that Trump and his nationalist brigade have been beating up on India. Last week, the US president falsely accu-

sed India of using the climate change agreement to get "billions and billions of dollars" in foreign aid from the west. Fake news, if there ever was some.

It was an extreme charge even on the Trump spectrum. Some in the White House are embarrassed. The speech was reportedly written with inputs from Steve Miller, the other Steve besides Bannon, who sits firmly in the 'nationalist' corner.

With Trump's America, Modi has no choice but to exercise what's called 'strategic patience', something that Washington has needed in plenty with New Delhi over the years. Now we need to return the favour.

So what might happen when the two finally meet? Anything is possible: a rollicking good time, a testy encounter, and everything in between. Too bad Mar-a-Lago, 'the' place to be seen for foreign leaders, is shut down for the summer and Modi can't walk down the garden hand-in-hand. And no rounds of golf for obvious reasons. Rapport between Modi and Trump, or something resembling that, will have to build in the confines of the White House. Will there be a state dinner? It's a question that hovered over Modi's last three visits during the Barack Obama administration. None, included a formal dinner, for one reason or another, leaving a lingering sense that it was not a full embrace. Trump could try to one-up Obama on this.



He'll be back: Modi (left) outside the White House, 1994



# Your Life is a See-Saw

ULLHAS PAGEY

We have our ups and downs, successes and failures, elations and disappointments. Nothing is certain but change. Winners turn losers and vice versa, for that is the law of nature.

Twenty virtues have been elaborated by Krishna in the Bhagavad Gita that can lead us to the Ultimate Truth. The first one is humility, amanitvam, considered the most important quality for spiritual evolution. The second quality is modesty, adambhitvam, the state of egolessness, which helps in enhancing one's emotional quotient.

The third quality is non-violence, ahimsa, which refers to not only the physical injury but also to the psychological injury. Forgiveness is the fourth quality. Forthrightness, arjavam, the fifth, refers to transparency; to being straightforward. Respect for the guru, purity of thought and action, consistency of purpose and self-restraint are other important qualities we should cultivate to face dualities in life. Krishna also talks of detachment to the sense objects through vairagya.

Further, we should strive to eschew egotism. Birth, death, old age and sickness should be perceived as natural phenomena. Next, develop an attitude of non-attachment and avoid excessive affection and reliance on the near and dear. Above all, an unflinching devotion to the Divine, staying away from crowded places and company, love for solitude, continuous indulgence in the knowledge of 'Self', and an everlasting focus on the 'Ultimate Knowledge' are the virtues necessary to achieve spiritual uplift.

## Chat Room

### Now Get Real on Farm Income

State after state is getting trapped in a farm-loan waiver syndrome that neither does good to fiscal propriety nor to the hapless farmer. A broad-based approach is overdue, with due care for small-scale retail and small-scale farming, the largest self-employment sectors in the country. The measurement of domestic agricultural growth in terms of the growth rate must relate to the real income of farm families. There have to be avenues for non-farm income in villages to even out seasonal earnings, keeping the youth from migrating to cities.

R NARAYANAN  
Ghaziabad

### Green Tech Gets US Greenbacks

The US threatening to pull out of the Paris 2015 COP and asserting that countries like India gain financially from developed countries appear incongruous. This is a misrepresentation since the developed nations shall, in the process, get back part of the money by selling carbon-reduction technologies to developing countries that can ill-afford the related R&D expenditure. Moreover, natural justice requires that the largest per-capita emitters have the responsibility to mitigate the past damage for the benefit of future generations.

N K MATHUR  
New Delhi

### Solar Energy is the Future

Appropos 'India's Place Under the Sun' by Urmi A Goswami (Jun 6), GHG emissions-led development by EU and the US has led to ozone depletion. Unfortunately, the same US is bargaining on non-conventional energy technology transfer to developing countries, including India. All countries must come under a common umbrella, develop indigenous solar technology, promote mutual transfer of technology, leverage their carbon trading and sensitise their populations towards less carbon consumption. India and China can take lead in climate dialogues.

SANJAY TIWARI  
Hisar

Letters to the editor may be addressed to editet@timesgroup.com