Why local body taxes in films are a bad idea

The battle between theatre owners and the Tamil Nadu govt over additional taxes could set a bad precedent

MEDIA SCOPE

VANITA KOHLI-KHANDEKAR

On Monday, over a 1,000 cinema screens in Tamil Nadu shut down indefinitely. They are protesting a local body tax of 30 per cent, over and above the goods and services tax (GST), which came into effect on July 1. The GST is 18 per cent for tickets below ₹100 and 28 per cent for those priced above. What complicates the situation is a price cap on cinema tickets in Tamil Nadu: ₹50 for single screens and ₹120 for multiplexes.

"The effective tax will be 52-53 per cent (on a ticket capped at ₹120) There will be nothing left for guys (theatre owners and production firms) to earn," says Nitin Sood, chief financial officer, PVR Cinemas. The government has held several meetings with representatives of the local film industry. At the time of writing there had been no resolution.

If the additional tax goes through, it will set a terrible precedent. It could end up harming not just the GST roll-out, but also the ₹14,200-crore Indian film industry, which desperately needs more investment in screens, especially if other states follow suit. More than three fourths of the industry's revenues come from the box office. However, there are only 9,000 screens left in India — one for every 154,000 Indians, compared to, say, one for every 7,950 Americans. About 150-200 screens are added every year, but twice as many shut down. The gap keeps getting larger thanks to the excruciating process of opening new screens and taxation. The result: Revenue growth has been crawling over the last three years. *Dangal*, the biggest Indian hit, sold twice as many tickets in China, a foreign market, than in India because it was released across more screens there.

You could argue that entertainment tax, which varies wildly across India, has always been a state subject. Allowing local body taxes was one of the compromises under the GST. The Tamil Nadu government is simply using its discretion just like the one in Kerala did by stating that it would not impose any.

There is, however, more to it, says trade analyst Sreedhar Pillai. "In Tamil Nadu, whoever controls the film industry controls the state," he says. The film-crazy state has had five chief ministers from the industry. In 2011, a vetting process was introduced to grant tax exemption to local films. A government-constituted panel allows all kinds of films, many of which have nothing to do with 'Tamil culture', to get exemptions. This has led to allegations of dodgy dealings. It was along with the price caps the state's lever for controlling the industry, say analysts. "Once GST comes, the local minister's power is zero," says Pillai.

Ignore the politics for a while. Could the local tax be a simple case of the state government trying to make up for a shortfall in revenues due to the GST? Not really, says Sood as he explains the arithmetic. "About 65-70 per cent of the box office is Tamil films, most of which are exempt. So, the average realisation (of tax) was 17 per cent (on non-Tamil films) before GST. This will now be 14 per cent since half of the 28 per cent GST will be shared with the state. And (under GST norms) the central government will make up for the shortfall in revenues for five years after the GST implementation," he says.

This then was the perfect time to let go of price caps, as the industry had been demanding. There is talk about how average occupancy in the state is a high 50-55 per cent compared to the usual 35 per cent in other states because of price caps. But the fact is that selling tickets in black and unaccounted revenues is an issue in Tamil cinema. In the Hindi film industry, where there are no price caps, multiplexes and studios have helped clean up the system completely. If the price cap goes, more investment in a grossly under-screened state is bound to flow in. This will in turn benefit the production sector, too. More screens mean more revenues per film and therefore more taxes and jobs.

GST along with the removal of price caps can still herald a new beginning for the Tamil film industry. Can local politics rise above itself to make it so?

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CHINESE WHISPERS

Repetitive success

Ujwal Discom Assurance Yojana (UDAY), the financial turnaround and revival package for electricity distribution companies announced by the government last year, has been hailed as a success and both public and private sector utilities seem to have taken it upon themselves to drive the point home. Last week, a major public sector utility under the power ministry sent out a prepared note outlining the achievements of states under UDAY. Other public sector undertakings began circulating the same note. The document, which detailed the status of debt, revenue and operational progress of discoms, was then shared by private sector companies through unofficial mails and messages. The Press Information Bureau, the government agency that disseminates information to the media, is the latest to jump on to the bandwagon. It sent the document to journalists on Tuesday.

Barbers to stop child marriage

In an effort to curb child marriage, the West Bengal government is roping in barbers, priests, decorators and others, who can report to local authorities if an underage bride or groom is forced into marriage. Typically, a Bengali marriage is not complete without a barber, who is required to dress the groom; a priest, who officiates the marriage; and decorators, who make arrangements for the ceremony. State officials believe these professionals, sine qua non in a Bengali wedding, will have requisite information, including the age of the bride and groom. In the last two months, the state administration was able to stop 30 such marriages but is of the view that many go unreported.

Curry favour

A Japanese restaurant chain has launched a "Thank you for curry" campaign in India, that includes placing a billboard in Gurugram that says "Thank you" in Japanese. According to the restaurant chain, which has no outlets in India, its "Indian curry" is a bestseller in Japan and was introduced by Indian freedom fighter Rash Behari Bose 90 years ago. The campaign will continue till September in Japan, with the restaurant chain encouraging its diners to post images on a company website to show their appreciation for curry to people in India. A portion of the proceeds would be donated to the Japan-India Association. Bose (1886-1945) was involved in the Delhi conspiracy case, the attempt to assassinate Viceroy of India Lord Hardinge in 1912. Bose escaped to Japan in 1915.

GST-compliance blues will melt away

Several decisions have been taken by the GST Council to ensure that migration to the new system is easy for small and medium businesses

V S KRISHNAN

The goods and services tax (GST) has been rightly hailed as a transformational tax reform. It is likely to have a salutary effect on the economy and also nudge the non-compliant towards compliant tax behaviour. The worry is that in the immediate short term, small and medium businesses will have to acquire habits of documentary discipline and electronic filing of returns.

In the two months preceding the GST enforcement, a number of decisions were taken by the GST Council to make implementation easier for small and medium businesses. First, the turnover limit for the composition schemes, which was earlier between ₹20 lakh and ₹50 lakh was raised to ₹75 lakh. This meant that all small businesses with an annual turnover of less than ₹20 lakh would be exempt from payment of GST and units with a turnover between ₹20 lakh and ₹75 lakh would have to pay a flat rate based on annual turnover. The rates were fixed at one per cent of turnover for traders, two per cent for manufacturers and five per cent for restaurants. Under the composition schemes, taxpayers would be required only to file a simple quarterly return without having to submit the details of invoices. Only turnover details are required to be furnished. On the flip side such units would be ineligible to avail of input duty credit and pass it on. Therefore, only units with an annual turnover above ₹75 lakh would really have to comply with all the requirements of the GST procedures.

The scare of technology created is also slightly misplaced. For example, today, more than 90 per cent of payment of duty with respect to Customs, central excise and service tax are made electronically. In many states, value-added tax returns are also filed electronically. Filing a return is not difficult for those familiar with the operation of smartphones.

The most important feature of the GST is that every taxpayer has to get a registration number and file a return to the central portal created by the GST Network (GSTN). This implies that every transaction in the GST system would be registered. Out of the expected eight million registrants, seven million are small and medium businesses. To help them file the returns, the GSTN has released an offline utility that can be filled up by small and medium business in an Excel format, much like they do while submitting their income tax returns today. The offline utility avoids the problem of requirement of continuous internet connectivity, which is not available in many parts of the country. Further, the GSTN has also made available an offline software that converts the information in an Excel format to the standardised format required for uploading to the portal. Many of the companies like Tally are also making available software that can filter out errors such as wrong assignment of revenues, duplicate invoice entries and incorrect display of HSN classification codes. This will ensure that error-free returns are submitted by small and medium businesses to the portal.

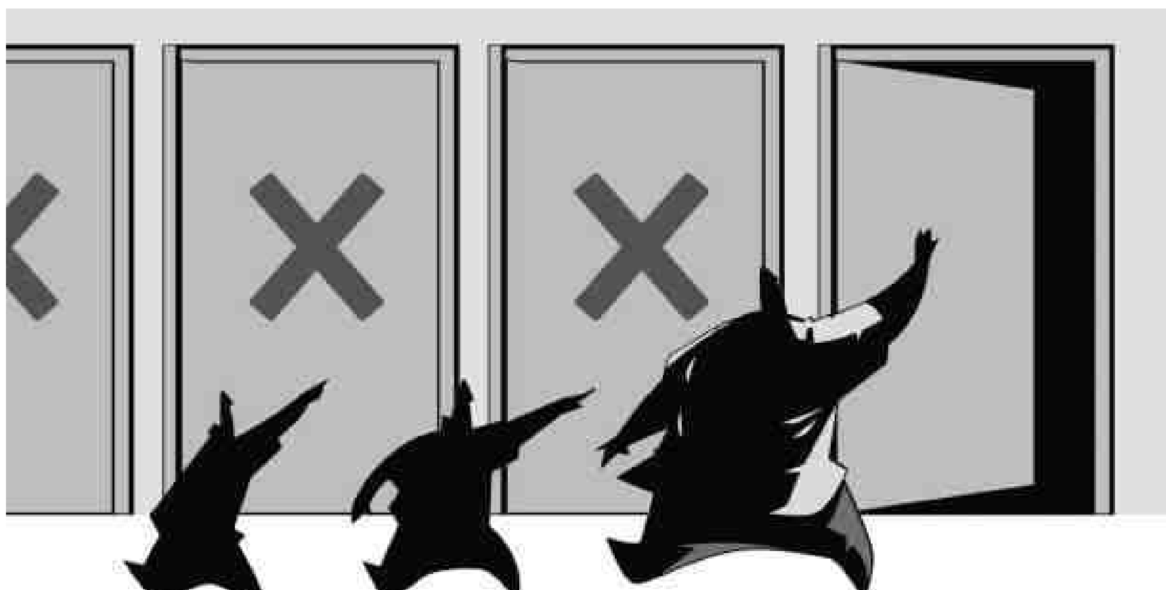

ILLUSTRATION: BINAY SINHA

There is a lot of disquiet about the large number of returns to be submitted under the GST. One of the publications in a recent piece refers to the filing of 37 returns annually by a taxpayer. This is not true. The assesse only has to submit the details of his outward supplies on the 10th of every month giving details of his outward supply in what is called the GSTR 1 returns. His inward supply is auto-populated by the system in the GSTR 1 and by the 15th of the month, the taxpayer has to validate the details of the auto-populated inward supplies. The validated inward supplies appear in the GSTR 2; the GSTR 3 is also system generated by the 20th of the month, which gives the computation of the duty liability of the taxpayer. Therefore, only one return submitted by the assesse every month in three parts of which two and a half parts are system-generated. Therefore, in some sense return filing under the GST is more in the nature of interactive dialogue in which suppliers and buyers converse on a common platform. The matching of invoices is again done by the system and will greatly reduce non-compliance. Therefore, all small and medium businesses have to do is to correctly record and furnish all their outward supplies. The invoice details along with the HSN classification codes are to be given only to business-to-business transactions and not to business-to-consumer transactions.

Further, if one were to look at the information furnished today and under the GST, one would be surprised by the information overload in the pre-GST system. The current central excise, service tax and VAT returns have varying periodicity and seek a host of information imposing compliance burden on the taxpayer. In contrast, monthly returns under GST are much simpler and all the information required for compliance verification is captured in the annual returns. While submitting the annual return it is expected that it is reconciled with the returns submitted to the Income Tax Department in form 3CD. Such a reconciliation will obviate the need for a detailed GST audit.

The simplicity of the GST compliance system comes out starkly when one compares it with the existing system. By giving a two-month window for full compliance with GST procedures, taxpayers, especially small and medium businesses, will have the opportunity to complete their registration formalities, acquaint themselves with the return submission procedures and correct their errors. The system will settle down as taxpayers learn by doing.

There is no reason to presume that taxation blues will linger for very long, except for those who are non-compliant and revel in documentary indiscipline.

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BUSINESS LIFE

Used goods could be the new thing in Asia

Japan's Bookoff tempts consumers with cleaned-up cast-offs

ADAM MINTER

On the second floor of a 24,000-square-foot, used goods superstore in the suburbs of Kuala Lumpur, Koji Onazawa pauses beside some old Japanese surfboards. He's spent nearly two decades at Bookoff Corp — a corporate legend in Japan that's barely known outside it, with 832 secondhand shops across the country. Now he's running Jalan Jalan Japan, the company's first true foray into selling more than just used books abroad. "We're not a representative of Bookoff here," he says. "We're a representative of Japanese secondhand goods."

He's not being melodramatic. According to data supplied by the *Japan Re-use Business Journal*, more than two dozen Japanese companies have set up at least 62 shops or distributorships selling secondhand Japanese goods in eight South-east Asian countries in recent years. (Bookoff plans to open four more superstores in Malaysia alone in the next three years.) Those stores receive much of the nearly $1 billion in used goods that Japanese companies legally exported in 2015 (illegal shipments were at least as large). While Japanese secondhand goods will never overtake new ones in South-east Asia or elsewhere, they're rapidly growing into a multibillion-dollar industry — and one of Asia's most surprising export growth stories.

Two dozen Japanese firms have set up at least 62 shops or distributorships selling secondhand Japanese goods in eight South-east Asian countries ISTOCK

The used goods trade is as old as capitalism, of course. In fact, its downmarket reputation is relatively recent — a result of the industrial revolution, mass-market production and the introduction of the endless upgrade cycle. In Japan, public perceptions of secondhand goods soured in the 1950s as consumers embraced Japan's new wealth and flashy products. By the time Bookoff was founded in 1991, Japanese were hooked on the upgrade cycle, secondhand goods were synonymous with pawnshops, and used bookstores were niche businesses popularly perceived as dingy and dark.

After Japan's bubble burst and consumers starting looking for bargains, Bookoff upended that image. Their stores feature bright lighting, wide aisles and well-organised shelves filled with books that look new (thanks to a machine that shaves off yellowed and frayed edges). To a contemporary American visitor, the shops don't look much different than a Target, Walmart, or — if you squint — a Uniqlo. Thanks to Bookoff and its many imitators, secondhand retail now accounts for 4.36 per cent of Japan's total retail market. (For luxury brands, secondhand accounts for more than 10 per cent of the market.)

Bookoff eliminated not only the shame associated with buying used goods, but that of selling one's unwanted stuff. Their cheery slogan — "Please sell us your things" (it sounds better in Japanese) — and friendly, customer-centric store clerks eased doubts among middle-class Japanese who wouldn't have been caught dead near a pawnshop.

Today, Bookoff executives consider their ability to source high-quality goods one of the company's great competitive advantages. They might even be too good. In 2015, the company bought 489 million individual items from its customers, while it was "only" able to sell 331 million of them.

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LETTERS

Calm troubled waters

With reference to the editorial, "Choose to negotiate" (July 4), China has often raised suspicion over its shared commitment with India to fighting terrorism by repeatedly exploiting legal loopholes in international agreements to protect terrorists operating from Pakistani soil.

China has a notorious record of thwarting India's attempts to get permanent membership of the UN Security Council and membership of international non-proliferation alliances such as the Nuclear Suppliers Group. It has always tried to play the devil's advocate and blocked moves by India for membership of the Shanghai Cooperation Organisation by insisting on simultaneous admission of Pakistan. Its indulgence in cross-border aggression is another example of muscle-flexing to intimidate India into recognising its supremacy.

However, it is imperative for both India and China to deepen their friendship and promote cooperation in various spheres in the larger interest of bilateral relations and for the cultural and economic development of both the civilisations. Difficult issues, particularly the border dispute, should not become an obstacle in the path of development or prevent either nation from becoming an anchor of world peace.

As both the economies have embarked on a path of social and economic development improving people's standard of living and enhancing trade relations are the primary objectives both the nations should achieve. It is time both sides calmed the troubled waters and steadily pushed forward the negotiation process to find a reasonable and mutually acceptable solution to all their differences.

Shreyans Jain New Delhi

Why the change of heart?

Air India, by itself, was never on the verge of collapse. The present situation has risen due to the inept decision of merging

Air India and Indian Airlines by the political masters of the United Progressive Alliance, unopposed by the National Democratic Alliance (NDA) in 2007.

To get out of the situation of getting Air India out of trouble, NDA's political masters have decided to privatise the national carrier. Is this an apt decision?

The Narendra Modi government has been using the services of Air India for rejuvenating India's global reach, image and appeal but has failed to turn it around into a profit-making public sector undertaking. Is this not a major failure of the NDA government? Has the route of privatisation been taken by the NDA government to sweep its lack of success under the red carpet of the Maharaja? Changing the minister of state for civil aviation has not come in handy.

Vital issues need to be addressed:

- Who is responsible for the debt trap of Air India — the ruling political class, bureaucrats, self-serving executives and professionals of Air India or the depressed morale post merger and lack of competitive spirit among employees?
- Isn't Air India still economically viable?
- Is privatisation the only remedy?
- Why did the NDA oppose the privatisation proposal in 2013 but is now pressing for it?
- Why did the NDA not oppose the merger of Air India and Indian Airlines and the purchase of new aircraft?
- Who is accountable for the gross mismanagement of Air India?
- Why has the NDA's revised turnaround plan not brought about the desired results?

It is a weak move to put the state-owned carrier in private hand(s). A more viable decision would be to separate its international and domestic operations and put them under independent managing directors reporting to an executive chairman of the airline. Professionalism, merit, efficiency and integrity should be the criteria for selecting key executives. Each of the independent international and domestic wings should be given a free hand. The government should infuse equity capital one last time to reduce debt and give Air India another opportunity to regain its glory.

Dalip L M via email

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HAMBONE BY MIKE FLANAGAN

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Learn to be efficient

India must try to emulate Israel's excellence in water use

Since the establishment of diplomatic links between India and Israel in 1992, relations between the two countries have steadily evolved into a multi-dimensional partnership. Narendra Modi is the first Indian prime minister to visit Israel and his meeting with his counterpart, Benjamin Netanyahu, can be expected to deepen mutual cooperation in areas such as macroeconomic management, trade liberalisation, environment protection and the fight against terrorism. Such a push will stimulate bilateral trade and investments that have remained more or less static. For instance, defence ties between the two countries can be expanded further. The fact that India is one of the world's major importers of defence equipment and Israel is already one of the top four military hardware suppliers to it is a clear indication that this alliance can be further strengthened. Greater collaboration in the use of drones and space technology for defence and anti-terrorism activities can help further cement the bilateral relationship. But beyond the diplomatic and strategic ties, Mr Modi's three-day sojourn can prove highly rewarding if it further enhances bilateral cooperation in fields such as precision farming and water management. These are areas where Israel excels.

Efficient use of available water and augmenting its supplies through recycling of saline and waste water continue to be among the key areas for advancing mutual collaboration. Israel was a water-starved country at the time of its formation about 70 years ago with 60 per cent of its landscape being desert and the rest arid. The rainfall, too, was on the decline. Yet, it has not only managed to meet the water needs of its growing population but is also exporting it to its neighbours. Apart from desalination of sea water, which now accounts for about a third of Israel's water consumption, Tel Aviv has developed remarkable technologies to extract water from the air and make it potable even at places which lack any source of fresh water. India has plenty of such areas and these technologies can potentially help meet the drinking water needs of the Indian people.

Similarly, much on the lines of what the Indian PM has urged Indian agriculturalists to achieve when he gave the motto "more crop per drop", Israel has made notable breakthroughs in getting high crop yields with minimum use of inputs such as fertilisers and pesticides. Israeli expertise can help India achieve a tremendous boost in farm productivity. An Indo-Israel agriculture project is already in operation at several places to showcase precision farming techniques. However, its impact has remained confined largely to the close-by areas partly because of the capital intensive nature of the technologies involved and partly because of the incompetence of the Indian extension agencies in relaying these lessons to the farmers tilling the soil. Besides, most small and marginal farmers, who need such techniques the most, cannot afford them because of high initial investments. Indian farm research bodies are also working on refining drip irrigation and other micro-irrigation systems to make them affordable for farmers. Joint Indo-Israeli efforts, which hopefully will be buttressed during Mr Modi's current visit, can go a long way in providing Indian farmers with the cutting edge technical support that at present eludes them.

Cash is back

Rising currency, slowing digital transactions raise questions

A day after launching the goods and services tax regime, Prime Minister Narendra Modi reasserted his government's commitment to curbing black income and tax evasion. This time he was addressing a huge gathering of chartered accountants, whom he urged to "safeguard society's economic health". The PM alluded to the role CAs played after demonetisation was announced and he warned that the government had zeroed in on over 300,000 companies which were found to have indulged in dubious transactions. He also announced that the government had deregistered 100,000 such firms and was probing more than 37,000 shell companies which were involved in converting black money. It is heartening that the government is rightly focused on the need for mining the data on currency deposits in the wake of demonetisation so that action can be initiated against those who hoarded black money.

However, the latest financial stability report of the Reserve Bank of India, released last week, points to an area of concern that arose out of the government's decision on November 8 last year to demonetise close to 85 per cent of the currency in circulation. This pertains to the level of remonetisation that is desirable and the extent of the use of digital transactions to reduce the need for cash in the economy. It goes without saying that the two issues are largely interconnected: Higher the use of digital transactions, lower will be the need for having more currency in circulation.

According to the RBI data, the total currency in circulation, as of June 23, was ₹15.3 lakh crore — over 85 per cent of what it was just before demonetisation was announced. This represents a 70 per cent rise over ₹8.9 lakh crore, as of January 6, the lowest point since demonetisation. Clearly, the demand for cash in the economy is pushing the central bank to increase the pace at which it has been bringing back currency into circulation. What further buttresses this preference for cash is the trend on digital transactions, which, after the initial bump, has slowed down considerably. The RBI data show that digital transactions fell both in value and volume terms in April. The RBI report attributes this fall to "normalisation of notes in circulation". This raises two big questions for policymakers. One, what is the level to which they want to remonetise the economy? Two, based on the current trend, if the total currency in circulation is getting close to what it was before demonetisation, does that mean the surprise announcement of November last year failed in driving more people to digital transactions? The government should, only after ascertaining what factors led to the slow growth in digital transactions, devise ways to create incentives for people to move away from an excessive use of cash. And that should also give it an approximate idea of the level of remonetisation that is considered necessary. In short, there is need for deliberations within the government on both the issues.

ILLUSTRATION BY BINAY SINHA

Lessons from milk for agriculture

White Revolution, based on improvements in milk processing and distribution, provides pointers for horticulture

The recent farm loan waivers across states totalling around 1-1.5 per cent of 2017-18 gross domestic product (GDP) point to something fundamentally wrong with agriculture. It has brought the issue of agricultural reforms to the centre stage. The waivers cannot be undone. But, they call for a scrutiny of the direction and pace of reforms in agriculture to put the sector on a path of sustainable growth. Three lessons from the White Revolution involving milk may be relevant in this context.

ASHOK K LAHIRI

Production of milk had gone up in two decades from 17 million tonnes in 1951-52 to only 22 million tonnes in 1971-72. Milk was "cheap, but not available" through the government outlets in urban centres in the late 1960s and early 1970s. With the White Revolution, output more than doubled in each of the next two decades to 56 million tonnes in 1991-92 and 128 million tonnes in 2011-12.

The National Dairy Development Board (NDDB), founded in 1965, launched Operation Flood with the sale of skimmed milk powder and butter oil gifted by the European Union through the World Food Programme. The triple objectives of "a flood of milk", augmenting rural incomes, and ensuring reasonable prices for consumers were not only attained but also in a sustainable way. The backbone of the programme was the Anand Pattern of co-operatives of milk producers in different parts of the country. Amul, the brand name of the Gujarat Co-operative Milk Marketing Federation, owned by more than 3.5 million milk producers in Gujarat, became a household name. Over time, government undertakings, such as the Delhi Milk Scheme (DMS) or Bihar State Dairy Corporation (now, Bihar State Milk Co-operative Federation), were handed over to the NDDB.

Generally, success in agriculture has been limited in areas other than milk. Indeed, milk has got some unique characteristics relative to many other agri-products. For example, milk is more homogenous than rice, making it easier to procure, transport and store. Rice comes in many varieties such as basmati, gobindabhog, and sona masuri. Furthermore, milk is produced every day through the year unlike many seasonal agricultural commodities, such as mangoes. Yet, despite these unique characteristics, three important lessons, particularly the "soft touch" nature of government intervention, may be learnt from milk.

First, not government undertakings, but co-operatives, successful in many countries such as New Zealand, the Netherlands and Denmark since the 19th century, were promoted for milk. In milk, very little entry barriers, without the shadow of a gigantic public sector undertaking (PSU), promoted competition in procurement, transportation, storage, and distribution. Milk was delicensed in 1991 and subjected to the Milk and Milk Product Order (MMPO) of 1992 under the provisions of Essential Commodities Act, 1955. But, the MMPO, even before its repeal in 2011, was more for maintaining the quality of milk supply by large dairies.

The nature of government intervention in wheat and rice was starkly different. The Food Corporation of India (FCI) was set up in 1964, a year before the NDDB. The FCI's mandate was to carry out price-support operations for safeguarding the interests of the farmers, to distribute foodgrain throughout the country for the public distribution system, and to maintain adequate levels of operational and buffer stocks of foodgrain to ensure National Food Security. There was even a 10-month-long abortive move to nationalise the wholesale trade in wheat in April 1973 under Indira Gandhi!

A monolithic and gigantic central PSU to deal with vital foodgrain along with the system of minimum support price (MSP) and procurement at MSP made the economics of wheat and rice, including where to procure and at what price, and also the wage bill of the FCI, vulnerable to political pressures. Before the Punjab polls in February 2014, Prime Minister Narendra Modi had suggested unbundling the FCI into three parts for procurement, storage and distribution.

In January 2015, the high-level committee (HLC) under the chairmanship of Shanta Kumar gave its report on restructuring the FCI. The HLC recommended handing over all procurement operations of wheat and rice in Andhra Pradesh, Chhattisgarh, Haryana, Madhya Pradesh, Odisha and Punjab to state governments, as they have sufficient experience in and reasonable infrastructure for procurement. It recommended that the FCI should "move on" to help the states in the east – such as Uttar Pradesh, Bihar, West Bengal, and Assam – which still awaited the green revolution, and where small farmers dominate and sell much of their produce below the MSP. It is time to act on either the prime minister's suggestion or the HLC's recommendation.

Second, there has been no MSP for milk. MSPs, as the HLC has pointed out, continue to distort the market for 23 agricultural goods. Furthermore, the FCI procurement is restricted to wheat and rice, with MSPs doubling up as procurement prices. As recommended by the HLC, the government should revisit its MSP policy.

Third, the country has made considerable progress in horticulture with its output of 269 million tonnes surpassing that of foodgrain for the first time in 2012-13. But there is scope for much more progress in horticulture. Its demand is going up rapidly with increasing income. Because of the labour-intensive nature of fruits and vegetables and higher value realisation, their promotion can also generate prosperity for the small farmers. For this, a major requirement is cold chain or logistics support for storage and distribution to maintain the inventory within predetermined ambient parameters. Particularly glaring is the acute shortage of pack-houses with conveyer belt systems for sorting, grading, washing, drying, weighing, packaging, pre-cooling and staging, and of reefer vehicles with active refrigeration designed for environment-controlled carriage of products.

Much of the White Revolution is due to the rapid development of milk processing and distribution infrastructure, such as developing and installing automatic milk collection units for quality verification and bulk coolers at the village level, processing and packaging plants, tankers to transport the milk at 4°C, and bulk vending machines. A lesson from milk for horticulture is the need to facilitate the development of the requisite infrastructure through private sector initiatives.

The writer is an economist

What GST means for BJP

A lot has been written about the transformational impact the roll-out of the goods and services tax (GST) will have on the Indian economy. In spite of its many current imperfections, the GST will yield many benefits simply because a broad architecture of a tax system is now in place to remove the cascading effects of indirect taxes, collapse a multitude of taxes and cesses into one tax and eliminate the inspector raj as well as physical controls on inter-state movement of goods. Hopefully, the newly created GST Council will soon weed out the imperfections in the current GST like the multiplicity of tax rates, a plethora of exemptions and procedural complexities, thanks largely due to a tax bureaucracy that refuses to be tamed either in states or at the Centre.

NEW DELHI DIARY

A K BHATTACHARYA

But treating the roll-out of the GST only as an economic policy reform would be a grossly incomplete assessment of what the Narendra Modi government has achieved. Equally important is the political message that the ruling party leaders have managed to convey through the way they hammered out a political consensus on the GST and launched it after reprioritising its political equations both within the Bharatiya Janata Party (BJP) and outside. The GST's significance for the BJP's politics is as important as its implications for the Indian economy. In this context, three important political messages cannot be ignored.

One, the launch of the GST is being consciously used by the ruling party leaders to advertise its politics of cooperative federalism. They are reminding the nation that cooperative federalism is an article of faith for them and the new indirect tax system is proof of their commitment to that idea. This is important because even before coming to power, BJP leaders including Mr Modi had talked about cooperative federalism as an idea that they would pursue once elected to form the government at the Centre.

But on many occasions in the past three years, the BJP government has failed to use the principle of cooperative federalism to drive policy reforms. Little action has so far been seen on the ground even though the NITI Aayog was expected to get states on board in pushing policy reforms across the country in a cooperative spirit. Remember that after the embarrassing setback caused by its failure to amend the land acquisition law, the Modi government had indicated its desire to bring about similar reforms in the states. The idea was to push states, particularly those under the BJP rule, to introduce land leasing to overcome the restrictive provisions of the land acquisition law. Similarly, labour law rigidities were sought to be relaxed by encouraging states to amend their respective laws within their respective jurisdictions. But there was little follow-up action to persuade the states to move on reforms in either land leasing or labour laws. Equally tardy has been the progress in implementation of reforms by states in agricultural produce marketing and real estate development, even though central laws in these areas have been suitably amended.

In this context, the roll-out of the GST is arguably the first big reform where the Centre has taken on board all states, irrespective of their governments' political affiliation. Indeed, cooperative federalism has been on display in the manner in which the states have been assured of protection against any revenue loss. Similarly, the states' voice has been heard while ensuring that the Centre has no veto power in decision making by the GST Council. That spirit is further endorsed by the fact that all decisions at the 18 meetings of the GST Council so far have been taken by consensus without seeking recourse to voting.

Not surprisingly, there was a large presence of state-level leaders representing different political parties at the Central Hall in Parliament, the venue of the GST roll-out function last week. The Congress and a few other political parties boycotted the function, but that could not dent the larger image the ruling party has carefully nurtured to present the GST as a symbol of cooperative federalism. Whatever little doubt anyone may have had on this count was quickly dispelled by Finance Minister Arun Jaitley, who in his speech acknowledged the contribution of all political parties and many governments at the Centre and in states in making the GST dream a reality.

The second big message is that there is now a political attempt to project the GST launch as part of the government's fight against black money. It is true that the GST would bring under the tax net a large number of transactions that would have otherwise escaped scrutiny. And the government did make an electoral promise of cracking down on black money. But to sell the new indirect tax system not just as a tax reform but more as an attack against black money shows the BJP leadership's political savvy. The irony of course is that the GST would turn out to be a more potent weapon against black money generation than demonetisation that at best could have tackled only the hoarded black money in stock.

Finally, the launch of the GST has coincided with the BJP's attempt at repositioning its axis with its key political constituency. The government led by a party with close links with traders and shopkeepers has taken a step that would hurt these sections the most. And the BJP leaders are not shy of admitting that the GST would discipline those members of the trade who are errant. This seems to suggest that the BJP has reset its ties with the trading classes and the launch of the GST confirms that transition. How otherwise can one justify the manner in which BJP leaders have projected the GST as an instrument that would put an end to dubious account keeping by traders and shopkeepers?

Options on the future of banking

BOOK REVIEW

UDIT MISRA

Towards a Safer World of Banking by T T Ram Mohan, who is a professor of finance and economics at the Indian Institute of Management, Ahmedabad, is a nifty little book aimed at students of business management and bank executives. It makes sense to take a relook at the world of banking since it is almost a decade since some of the biggest banks in the financial world such as the Bank of America, the Royal Bank of Scotland, the Citigroup as well investments banks such as Bear Stearns and Lehman Brothers either failed or nearly did. Since then, governments and taxpayers have been bailing out the troubled banks in the hope that doing so would be, in the long run, cheaper than the cost of letting such entities sink. But this process has been arduous, with massive and unsavoury political and social repercussions. Not surprisingly, there is considerable interest in ensuring that such a contagion does not recur. This book, then, is an appropriate read for anyone wanting to understand whether we have done enough to ensure that.

The book is divided into five chapters. In the first two, the author discusses the financial and banking crisis that started in 2007 and the causes for the subprime crisis. Now, there is no dearth of reasons advanced for the meltdown. In fact, depending on who you might have read and what you do for a living, you could choose from the long list of causes and not be entirely wrong. This is known as the "Murder-on-the-Orient-Express" theory of the crisis. But therein lies a problem. Unless one can zero in on the exact problem you cannot even begin to provide a lasting policy solution. So the author helps the reader tussle with questions such as: Does an economic contraction cause a banking crisis or the other way round?

Similarly, the author analyses each of the 12 broad reasons given for the subprime crisis, such as the existence of a housing bubble in the US and elsewhere, loose monetary policies, greedy consumers, excessive financialisation or the global macroeconomic imbalances, to name a few. But many of these factors existed in the past and in other places without causing a global crisis. For instance, there have been periods of low and falling interest rates or instances of housing bubbles in several other countries. In the end, though, the author settles for "regulatory failure" as the principal culprit. According to him, there were "serious failures in relation to banks" such as lowering of loan writing standards, a focus on trading income by holding securitised assets and low amount of equity capital in relation to assets and so on. The author takes into account the analysis by Atif Mian and Amir Sufi in their book, *A House of Debt*, which gives primacy to the excessive buildup of private debt. But Professor Mohan Ram argues that this, too, only shows that the ambit of regulation should have been much broader.

The third chapter focusses on regulatory reforms since the crisis. Much has been done, from increased capital requirements and far more stringent norms for liquidity to tighter norms for securitisation and macro-prudential regulations. This has yielded results. As of 2015, in the US, for instance, the top five banks had a common equity Tier 1 ratio that was higher than that specified by Basel III and all but one bank surpassed higher requirements imposed by the US Federal Reserve. There have been similar improvements in the Europe as well. And yet, chapter four argues, not enough has been done to deal with the key problem that still exists: Banks being too big to fail. There is growing concentration in the banking sector, which, in turn, makes the whole sector more vulnerable.

Chapter five is about solutions. The author is among those who thinks that radical and out-of-the-box ideas are needed to disaster-proof the banking system. Some of the ideas discussed include the "shared-responsibility mortgages" proposed by Messrs Mian and Sufi. In such a mortgage, the lender offers downside protection to the borrower while the borrower agrees to give 5 per cent capital gain to the lender on the upside. Also discussed is the chairman of the Institute for New Economic Thinking Adair Turner's even more radical suggestion to limit the amount of debt creation itself.

But perhaps the most unusual solution is the one proposed by the author: India's experience with public sector banks (PSBs). These last 10 pages of the book are likely to elicit far more interest among the Indian readers who are at present witnessing an embarrassing bloodletting in India's PSBs. The author argues that the Indian experience, where PSBs account for 70 per cent of the banking system, as well as the Chinese set-up, where similar entities account for 90 per cent of the system, are responsible for these countries being the world's fastest growing economies.

But it is all too clear that Indian PSBs are holding back growth instead of delivering it. The author offers a spirited defence for the PSB functioning — but stops at 2013-14. That is exactly the point at which the problems starting showing up. The author's argument that PSBs' troubles in the past two or three years are the result of structural failings of a developing country (such as the lack of a well-developed bond market) is not entirely convincing. The truth is that the deep rot in Indian PSBs highlights the risks associated with government ownership of banks.

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