Mass and mid-market hotels set to benefit

GST exemption for small hotels and lower tax for budget hotels are welcome steps, but more clarity is needed on other issues

RITESH AGARWAL

The goods and services tax (GST) is finally in force. While the new tax regime will ultimately deliver what it set out to do — establish a uniform tax, simplify collection, bring in greater transparency and revenues and facilitate ease of doing business — it is not without hiccups.

For budget hotel rooms charging less than ₹1,000, zero per cent GST is most welcome. For small hotels offering rooms in the ₹1,000 to ₹2,499 bracket, too, the 12 per cent GST slab is reasonable. These tax rates will ensure that small hotels can continue upgrading room quality and infrastructure and provide a better experience to mass-market travellers. However, while GST slabs for specific price brackets are uniform across the country, the impact will not be the same. This is because different states levied different taxes earlier. In Odisha, there was no luxury tax and nine per cent service tax. Therefore, hotels in Cuttack or Bhubaneswar that were taxed at nine per cent earlier, will now attract 12 per cent GST. So, a uniform tax does not mean standard impact across India thanks to previous tax distortions.

Complex compliance

There is the issue of compliance complexity. The government has clarified that companies will have flexibility in filing during the first two months. Yet, multi-level filings mean a huge increase in the time and effort required for filings. So, compliance will be taxing (pun intended) till teething troubles are sorted out.

There is another sector-specific anomaly. As per a recent notification, the government has indicated that tax rate will be determined based on the published price. Like airlines, hotels operate in a cyclical environment — there are peak or leisure season and off-peak season and tariffs deviate significantly to accommodate customer demand. In fact, many hotels follow a dynamic pricing model to optimise their inventory and ensure better revenue management. In the new regime, the hotel industry is probably the only one where published or pre-discounted price would be used to determine the tax slab, instead of the actual price the room is charged at. It would be fairer (and much simpler from the standpoint of compliance and record maintenance) for tax to be computed on the invoice price, as in all other industries and services.

The other issue is of tax collection at source (TCS). In a situation where one hotel lists its properties on one online travel agency (OTA), which in turn lists on another OTA or platform, the current law is ambiguous, leading to TCS on the same transaction at multiple levels — that is, TCS by one OTA to another and then from OTA to hotel owner. However, credit of TCS is limited only to the person, who ultimately sells to the customer. This leads to loss of credit in the chain and is an unintended fallout.

Employment and revenues

On the whole, GST will benefit small and mid-market hotels. With the former exempted and the latter attracting 12 per cent GST, this can be the game-changing moment for mass-market hospitality. The government's decision to lower tax rates for budget hotels will help deliver better quality accommodation to millions of middle-class travellers, besides creating thousands of new jobs.

Additional tourist inflows can translate into millions of new jobs, benefiting all sections. As tourism spends generate multiple jobs in associated sectors, its cross-country positive impact will be tremendous. In 2016, the industry generated 40.3 million jobs, accounting for 9.3 per cent of the total jobs and placing the country second in total employment created. Significantly, these jobs also benefit unskilled and semi-skilled workers.

Since aspirations are rising in emerging India, delivering standardised accommodation for millions of middle-class tourists will stimulate more travel. As per the latest report of the World Travel and Tourism Council, India's travel and tourism sector earned ₹14.1 trillion ($208.9 billion) in 2016 — ranking seventh-largest globally in size — amounting to 9.6 per cent of gross domestic product (GDP). With hotels being the biggest contributor to tourism and the sector ranked the third-largest forex earner, the beneficial impact of lower taxes can ensure an escalating impact. The industry is expected to contribute $280 billion to India's GDP by 2026 and will pass on the benefits of uniform taxation to travellers.

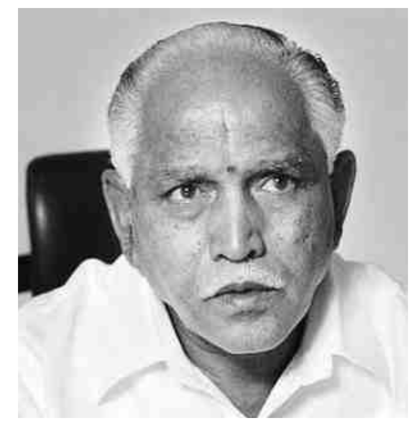
The lower rates are in harmony with an inclusive agenda, so that hospitality services remain within the reach of common people. Ultimately, such rates will promote greater transparency and tax compliance, increasing revenues and thereby benefiting the industry, the nation and its people.

The author is founder and CEO of OYO

CHINESE WHISPERS

Fight over PhDs

As the finance ministry takes on the Reserve Bank of India (RBI) for being "systematically one-sided in overstating inflation", a former central banker sought to know how many PhD holders the finance ministry had. "How many? Four? Five," he asked. The RBI had 75 PhDs, at least at the time he was there, he emphatically pointed out. The statement on wrong inflation forecasts was made by Chief Economic Advisor Arvind Subramanian, an Oxford D Phil.



'Dalit lunch' at Dollar Road

First he went to Dalit homes to have breakfast. After the Opposition alleged that the food had been procured from outside those Dalit homes, former Karnataka chief minister and state Bharatiya Janata Party (BJP) President B S Yeddyurappa (*pictured*) decided to invite those families over for lunch at his Dollar Road residence, sometime towards the end of this month. This is seen as part of the BJP move to raid Congress' Dalit vote bank in the state. While explaining the reason for hosting the "Dalit lunch", Yeddyurappa said leaders such as Rahul Gandhi visited Dalit homes for mere symbolism; on the contrary, he had been "moved" and "touched" by his interactions with them.

Money in, money manager out

"Stay invested for the long haul in stock markets," is something almost every fund manager preaches. However, given the recent spate of exits of top-tier money managers from the ₹19-lakh crore mutual fund industry, investors are beginning to ask if the people, with whom they have parked their money, are going to remain for the long haul, after all.

How much public debt is too little?

Govt debt is the only interest-yielding risk-free asset in any country and therefore central to a wide range of key economic variables and decisions. Unless these aspects are taken into account while assessing the 'optimal' level of public debt, any fiscal rule would be flawed

PRONAB SEN

In a recent article, I had examined the recommendations of the Fiscal Responsibility and Budget Management Act (FRBM) Review Committee through the prism of the debate contained in the note of dissent by Chief Economic Advisor Arvind Subramanian, a member of the committee, and the rejoinder of the committee to the note. Despite their differences on several important counts, both protagonists implicitly agreed that a secularly declining public debt-to-GDP (gross domestic product) ratio was unambiguously a good thing, and indeed recommended fiscal rules, which led to precisely such an outcome.

Intuitively, I found this view seriously problematic, despite it being entirely in consonance with the established view of the economics profession. Virtually the entire literature is on determining how much public debt is too much, beyond which it becomes a systemic threat to the economy. My discomfort primarily stems from the fact that government debt is the only interest-yielding *risk-free* asset in any country, and is therefore central to a wide range of key economic variables and decisions in a modern economy. Unless these aspects are explicitly taken into account while assessing the "optimal" level of public debt, any fiscal rule would be seriously flawed, perhaps even dangerous.

The purpose of this article is to outline some of the considerations, which should be taken into account while determining the desirable stock of public debt and of its flow counterpart, fiscal deficit.

Monetary considerations

In all modern economies, national currencies are backed by some form of sovereign debt. Central banks such as the Reserve Bank of India (RBI) issue currency on the basis of their holdings of sovereign bonds and sometimes of gold. In an autarchy, therefore, the *minimum* level of public debt held by the central bank would be equal to the value of the national currency in circulation minus the value of gold holdings. In India this would amount to roughly 14 per cent of GDP. In an open economy, however, this tight relationship between currency and public debt can be loosened by the central bank holding sovereign assets of other countries, that is, foreign exchange reserves.

As things stand, the rupee is backed almost entirely by foreign assets as per the RBI's balance sheet. Nevertheless, the RBI always needs to hold a certain amount of central government debt instruments in order to carry out its monetary management responsibilities in a credible manner. There is no hard and fast rule governing how much public debt a central bank should carry in its books; but as a rule of thumb, if the currency is not convertible, then the more open the country is to foreign portfolio flows, the higher should be the quantum. At present, the RBI holds 15 per cent of the stock of central government securities, which is 10 per cent of all government securities.

ILLUSTRATION: BINAY SINHA

This does not seem excessive for the roles that the RBI has to perform.

Fiduciary considerations

In any country, a large part of household wealth is held for precautionary purposes and for meeting post-work-life consumption needs. For such investments, the return is less important than the security of the principal. By and large, countries with low risk thresholds and poor or non-existent social security systems, like India, will tend to place much more importance on and have a higher share of such assets in the total household wealth.

All countries recognise this imperative and impose fiduciary status on institutions offering specific forms of assets. The common forms are life insurance, pension/provident funds and certain types of mutual funds and asset management company products. In India, there is an additional asset class called small savings instruments for which the government itself is the fiduciary, that is, it bears 100 per cent of the liability. This amounts to about 11.5 percentage points in the total public debt stock of 68 per cent of GDP.

The other assets, which bear fiduciary protection, comprise another 25 per cent of GDP. The laws governing these assets, which take into account the fiduciary commitment, specify that *at least* 50 per cent of the value must be invested in public debt instruments, which includes both central and state securities. Therefore, just for compliance with the law, the stock of public debt must be a minimum of around 12.5 per cent of GDP on this count alone.

Although legally, commercial banks are not fiduciaries, the perception of the depositors is usually quite different and they tend to view bank deposits as a form of low-yield secure assets. Therefore, even if banks don't have legal fiduciary status, they certainly bear a moral fiduciary responsibility. Most governments recognise this tension between the legal and the moral/perceptual status of banks, and address it through "prudential regulations". In India, prudential regulations stipulate that 20 per cent of the total net liabilities of banks (called the statutory liquidity ratio or SLR) must be held in government bonds, which works out to 18 per cent of GDP.

Therefore, if we add up the minimum amount of public debt required *by law* to meet fiduciary responsibilities in India, it comes to *42 per cent of GDP*, comprising 11.5 per cent for small savings instruments; 12.5 per cent for insurance, provident funds, etc; and 18 per cent for commercial banks.

The author is country director, International Growth Centre (IGC) India.
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In the concluding part that will appear tomorrow, the author discusses the interest rate considerations, and implications of all of these considerations for the desirable level of public debt and fiscal deficit.

BUSINESS LIFE

This is one inheritance you don't want

You're at risk of making the same financial mistake as your parents

SUZANNE WOOLLEY

If a parent was in default on a loan at the end of the year, the chance of default for their children was more than four times as high as for those whose parents were model financial citizens, a study has found PHOTO: BLOOMBERG

You may have received a big inheritance, even if you're not aware of it: How you handle your money.

Economics professors at the University of Copenhagen have found that if a parent was in default on a loan at the end of the year (their study looked at data from 2004 to 2011), the chance of default for their children was more than four times as high as for those whose parents were model financial citizens. And that's across all levels of parental income, loan balances and other measures, including that of intelligence.

The study analysed about 30 million personal loans held by some five million Danes aged 18 to 45. It linked that information to government data, including income level and education for the borrowers and their parents.

The key finding: The share of 30-year-olds in financial trouble — narrowly defined in this study as being at least 60 days late on a loan at the end of the year — was five per cent among those whose parents showed no similar sign of financial trouble. It was 23 per cent for kids whose parents' records showed financial trouble.

The study follows other research concluding that risk attitudes (PDF) seem to be handed down by generation. It couldn't rule out the chance that long-lasting health shocks had an effect on income that carried over to the next generation, but it did find evidence that shared common shocks tied to the business cycle, such as a parent and child unemployed at the same time, weren't likely causes for the correlation.

An earlier study that lends support to the Copenhagen work found that adoptees with parents who take on more investment risk in their portfolios tend to make financial decisions for their own portfolios that reflect similar levels of risk. It concluded that nurture plays a substantially larger role than nature in financial risk-taking among parents and children.

That's not to say our hard wiring plays no role. A 2015 study of identical and fraternal twins in Sweden concluded that "genetic differences explain about 33 per cent of the variation in savings propensities across individuals", finding that parenting plays a part in the differences in the twins' savings behaviour early on but that the effect waned over time. The researchers used different methods from those of the Copenhagen professors.

The Copenhagen authors also found that for the same interest rate, the default incidence was substantially higher for those whose parents were in default than for those whose parents weren't. Loans with an interest rate of five per cent had a probability of default within the next seven years of 0.5 per cent if a parent wasn't in default in 2004, but the probability rose to 1.75 per cent if a parent was, the authors write.

That means that "individuals with parents who are not in default on average pay an interest rate penalty to cover the losses incurred by individuals who default because they have adopted the financial behaviour of their parents", the study found. That's because the two types of borrowers pay the same rate, all else being equal.

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LETTERS

Study bottlenecks

The editorial, "Reboot e-NAM" (July 15), is absolutely right when it says that e-NAM is not supposed to be a parallel marketing structure; it is essentially a means to leverage the physical marketing infrastructure of existing *mandis* to enable sellers and buyers to participate in countrywide trading on an electronic platform.

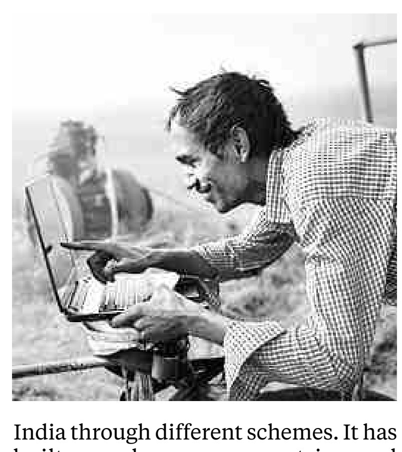
It would be in the fitness of things if the rural development department of the National Institute of Bank Management could be approached to survey/study bottlenecks across a sample of 585 *mandis* and provide vital inputs to strengthen and provide further momentum to the e-NAM model.

We have the best agriculture universities, which could be entrusted to provide worthy inputs for the betterment of the electronic agriculture market. Besides, new small finance banks equipped with the latest technology have adequate potential to market current accounts in all agriculture markets and *mandis* with a digital push, resulting in innovative products that suit different dimensions of e-NAM.

There is a huge opportunity to bootstrap credit-linked schemes for cooperative banks and new small finance banks in e-NAM. Before our all-important National Payments Corporation of India comes up for interoperability of ATMs, it is imperative that banks go through various stages like Swadhan, BANCs, Cashnet, MITR and the National Financial Switch to revolutionise the banking industry.

Similarly, cooperative banks and new small banks might have to go through a couple of stages to finally capture the entire electronic national agriculture market, resulting in scaling up of their bottom lines.

The National Bank for Agricultural and Rural Development (Nabard) recently completed 36 years and has been doing painstaking work across



India through different schemes. It has built up a huge movement in rural India. Hassle-free movement of schemes by Nabard to push surplus produce anywhere in India for e-NAM would be timely.

N K Bakshi Ahmedabad

Reverse the trend

Apropos the editorial, "Gold rush, again" (July 13), the propensity of households for investing in the yellow metal is increasing rapidly and leading to the channelling of savings into unproductive investment. This would otherwise be essential to augment investment for economic growth and social development. Despite the presence of a developed financial market and the availability of a number of financial products, the savings habit of households is skewed towards investing in gold.

Hardly any of the savings in this particular segment is flowing to capital markets due to low risk appetite and inadequate financial literacy. Investments for various productive activities in the realty sector are sluggish because of persisting uncertainties. Financial products of banks and other financial institutions, though comparatively safer, are now not attractive enough due to diminishing returns and people preference for converting their financial assets into gold.

Illiteracy about new tax reforms and fear of higher taxation are prompting savers to block their money in the form of gold. This trend needs to be reversed to enable the flow of these savings for augmenting investment. Revisiting the income tax structure and prices of various financial products is essential in this respect. Increasing volume of gold imports is negatively affecting the current account deficit and is detrimental to the growth of the economy.

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HAMBONE BY MIKE FLANAGAN

Business Standard
Volume XXI Number 236
MUMBAI | MONDAY, 17 JULY 2017

NSE at a crossroads

The new MD, who takes over today, has his task cut out

National Stock Exchange (NSE) Chairman Ashok Chawla recently talked about the "difficult times" that the country's largest stock exchange was going through. While his statement with the broad message of "we shall overcome" was understandable, given that it was aimed at boosting the morale of NSE employees, the task ahead of Vikram Limaye, the new managing director (MD) and chief executive officer (CEO) who takes charge on Monday, is formidable indeed. There is no doubt that the NSE, which controls about 80 per cent of India's derivatives market, is facing its toughest phase. And the technology glitch that halted trading for almost three hours last Monday was just the latest in a series of controversies that has engulfed the exchange in recent times.

While the markets regulator, the Securities and Exchange Board of India (Sebi), has asked for a detailed report on what led to the technical snag and has also asked the exchange to submit a detailed plan as to what measures are going to be taken to avoid such recurrences, the matter that is of real concern is the enquiry into whether the exchange allowed some traders preferential access to its hi-frequency trading that allowed them faster access to prices — an issue that will certainly delay a proposed initial share sale by the exchange. An independent agency appointed by the exchange had said that there were indications that some trading members got preferential treatment. Sebi's technical advisory committee also found evidence that the NSE violated norms of fair access and allowed some brokers to benefit.

But the crisis didn't end here. The regulator also issued show cause notice to the exchange and 14 officials — former and current — over the findings of the Sebi panel and the report of the forensic probe, following which Ravi Narain, one of the founding members of the NSE, quit as vice-chairman and board member. This came shortly after Chitra Ramkrishna resigned as MD from the NSE, an institution she had helped build from scratch. It could not have been a mere coincidence that her departure followed a controversy over the high pay package of a chief operating officer who was not part of the designated key management personnel.

It is indeed unfortunate that the NSE, which became a world-class institution in a short span of less than 25 years, is in the midst of such an overwhelming crisis of confidence and credibility — something that to a large extent is its own making. For example, when the allegations of preferential access to a limited few first came up, all that the NSE management did was to fight them tooth and nail. As later events proved, this was like living in a deliberate state of denial. The new MD has made all the right noises so far. In an interview to this paper, he has talked about addressing regulatory issues as his most important task, the other two being strengthening systems and processes for effective working and a detailed plan on listing of the NSE to give an exit route to investors. He could add one more thing to his list of priorities: The NSE has a dedicated set of employees who have all worked hard to build a great institution. His foremost priority thus would be to restore the credibility of the stock exchange.

Reverse cattle trade ban

Supreme Court provides an opportunity to Centre

Last month, the Madurai Bench of the Madras High Court (HC) directed that the central government's notification effectively banning the cattle trade nationwide should be stayed for four weeks. Two months ago, the Union ministry of environment and forests had released the Prevention of Cruelty to Animals (Regulation of Livestock Markets) Rules, 2017. These rules sharply restricted the trade in livestock as well as the transport of cattle to animal markets. Supposedly issued to address smuggling and to prevent cruelty to animals, they amounted to a ban in trading any cattle, including buffaloes, for slaughter at markets. Normally, high court directions are applicable nationwide, but given the doubts expressed in this case, it is welcome that the Supreme Court has explicitly indicated the stay applies to all states. Responding to a petition that sought to avoid confusion about the applicability of the Madras HC stay, Chief Justice of India J S Khehar specifically ordered that "the stay is extended to the whole of the country". Counsel for the central government indicated that the ministry of environment and forests was considering possible changes to the cattle trading rules, and that they might be re-notified after that process was complete.

The Centre should grab this opportunity with both hands. Its new rules on the cattle trade were justifiably seen as encroaching on states' rights and as an extension of a social agenda on cow slaughter into a new domain. The new rules, as when they are notified, should return the situation to the status quo ante. The ministry might be tempted to split the difference and just rewrite the ban to explicitly exclude buffaloes. Certainly, the leather industry and the bovine meat export business will be granted some relief by that step. But that will not be enough, even if the issue is examined purely from an economic standpoint. A ban on the cow trade, it is now amply clear, makes no sense. It reduces the value of cows to farmers. The dilemma for farmers on what to do with the animals that have outlived their utility is very real. Abandonment and starvation are hardly less cruel than the slaughter that the rules purported to address. Nor is it right to cause, at a stroke, many farmers' primary asset to so strongly lose value. Finally, the political implications of the ban should have become clear. It creates divisions between states, which is unhealthy for the Union of India and gives beef-eating states that hosted a vibrant cow trade the sense that the Centre fully intended to intrude upon their rights and their traditional practices. In the long term, such a feeling would only lead to alienation between various parts of the country, to the detriment of the national interest.

It is time for the government to think beyond its constituency politics and social agenda. For economic reasons alone the ban must go. There is certainly a suggestion, given the government's arguments to the Supreme Court, that a rethink is on. But that rethink must not be partial. It must be comprehensive. If it is, it will become clear that nothing less than completely dropping this ill-conceived proposal is satisfactory.

ILLUSTRATION BY AJAY MOHANTY

Declare victory over inflation?

The inflation enemy may have been weakened, but may be far from dead. A premature declaration of victory runs the risk of a deadly counterattack

ASHOK K LAHIRI

In a vibrant democracy, debates over any policy are always wholesome. Confabulations within the government — meaning thereby high-level discussions among various government departments and between the government and a regulatory body such as the Reserve Bank of India (RBI) — were, however, not only confidential, but sometimes even beyond the purview of the Right to Information Act. Things seem to have changed with the debate over inflation and monetary policy. There is a remarkable degree of openness in the exchange between North Block and Mint Street.

In the face of vigorous demands for policy relaxation, the Monetary Policy Committee (MPC), after its meeting on June 21, had recommended a neutral stance, and the RBI kept the repo rate, at which it lends to banks against securities, unchanged at 6.25 per cent. The Consumer Price Index (CPI) inflation of 1.54 per cent for June 2017, released recently, has led to renewed calls for a reduction of rates by the RBI.

Newspaper reports of North Block's demand that policymakers "reflect" after CPI inflation at a record low in June amid faltering industrial growth is a not-so-veiled reference to the shenanigans in Mint Street. Fortunately, Mint Street is still silent. Perhaps it believes that discussions among policymakers on technical matters such as monetary policy should be done in committees and expert bodies, and not in the Ramlila Maidan. While North Block and Mint Street settle their differences, what follows is a private citizen's public reflection on the appropriate monetary policy stance after the low inflation in June 2017.

First, has the RBI failed to achieve its inflation target of 4 ± 2 per cent? From 6.0 per cent in July 2016, the CPI rate, after declining every month except in February and March 2017, reached 1.54 per cent in June 2017. From August 5, 2016, with a Government notification, the RBI has a statutory and institutional inflation-targeting framework. The CPI inflation target is 4 per cent with upper and lower tolerance limits of 6 per cent and 2 per cent, respectively. The Monetary Policy Committee (MPC), with its five members and RBI governor as chairman, provides the RBI with an institutional framework for determining its policy.

The government was fully aware of the fact that inflation could over-or under-shoot the target of 4 ± 2 per cent for transitory reasons. Thus, it specified that the RBI would be considered to have failed in inflation targeting only when inflation is beyond the upper or lower tolerance levels, not for a single month or even a single quarter, but for any three consecutive quarters. Thus, in spite of the CPI inflation of 1.54 per cent in June, it is a bit premature to declare that the RBI has failed in its targeting endeavour.

Second, is the MPC off the mark in its inflation projection of 2.0-3.5 per cent during the first half of 2017-18? In the first quarter of the current year, CPI inflation was 2.24 per cent. Even with the 1.54 per cent rate in June, the MPC could still be proved right in its projection. For example, if the CPI goes up by just 1 per cent in July 2017 over the previous month and remains unchanged until September 2017, CPI inflation over the same month of the previous year will remain below 2 per cent in each of the three months of the second quarter. Yet, average CPI inflation for the first half of 2017-18 will be above 2 per cent. Thus, it is a bit premature to fail the MPC on the 'accuracy of projection' test.

Third, the decline in the consumer food price index (CFPI) of 2.12 per cent played a major part in keeping the CPI at 1.54 per cent in June. Food items have a weight of almost 50 per cent in the CPI. Inflation in June was well over 4 per cent for clothing and footwear, housing and fuel and light. Furthermore, the food price decline has been particularly steep for vegetables (-16.53 per cent) and pulses and products (-21.92 per cent). With the Food and Agricultural Organisation's (FAO's) food price index rising for two months in a row during May and June 2017, the decline in the CPI inflation rate in India carries a risk of reversal.

Fourth, is the RBI taking too restrictive a policy stance and hurting the economy? Gross domestic investment, which was 42.5 per cent of gross domestic product (GDP) in 2012-13, has been languishing at 38-39 per cent of GDP during 2013-14 to 2015-16. Indeed, there is a need to raise domestic investment, but the binding constraints on such investment may not be too high rates of interest but infrastructural deficiencies, governance deficit, and regulatory issues impinging on ease of doing business. It is instructive to remember the aphorism that sometimes monetary policy is like a string, you can pull on it, but not push.

Last, but not the least, is the question of inflation expectations. Inflationary expectations, by affecting both demand and supply, can be self-fulfilling. Some policymakers may see the imminent death of inflation the Goliath. But, because of entrenched inflationary expectations, many see inflation in India more like the demon *Raktabij* of *Markendaya Purana*. Clones, equally formidable, spring from drops of his blood.

The May 2017 round of the RBI's Inflation Expectations Survey of Households showed that only 27.3 per cent of the respondents believed that inflation would be negative, nil, or even less than the then prevalent rate. The average expected inflation three months and one-year ahead was both well above the RBI's target of 4 per cent. The enemy may have been weakened, but may be far from dead. A premature declaration of victory runs the risk of a deadly counterattack. It has happened before. After wholesale price deflation in 1968-69 and 1975-76, inflation soon returned with all its fury.

The writer is an economist

GST and our food

DOWN TO EARTH

SUNITA NARAIN

At the stroke of midnight on July 1, 2017, the government launched what is billed as the "biggest tax reform" since India's Independence. The goods and services tax (GST) is designed to bring the country into a common single market.

For public health, a big bang impact of the GST is the tax on "sugar-sweetened aerated and flavoured water", which is now pegged at 40 per cent. These beverages, which include all the colas and such junk drinks, with high sugar and hardly any nutrients, will have an additional 12 per cent cess over the luxury tax slab of 28 per cent. This cess is reserved for what is called the "sin" category of goods.

In 2014, Mexico became the first country to impose a tax on sugary drinks, or colas. A recent joint study by US and Mexican health academics found that this relatively small tax had decreased consumption by some 10 per cent by the end of the second year, most importantly, in the poorer sections of its society. This is when the tax is small — just one peso per litre of the drink (roughly ₹3.5 per litre). A bigger impact has been noted in California, where the tax is US $0.33 cents (₹21 per litre). This tax, finds a recent report from Euromonitor International, reduced cola consumption by 21 per cent and increased water consumption by 63 per cent. In contrast, there was an increase in cola consumption in the rest of the US. So, taxation counts. Now many other countries are looking at imposing a "sin" tax on all varieties of junk food.

For us this move to tax bad food is critical. In June 2017, British medical journal *Lancet* published a review of the prevalence of diabetes in 15 states of India. This study by a group of medical practitioners, funded by the Indian Council of Medical Research, has worrying numbers. It finds that while some 7 per cent people in India (based on 15 states' data) had diabetes, the prevalence of pre-diabetes (early signs, particularly elevated blood sugar levels) was a staggering 10-15 per cent, depending on the criterion used. This is no small health burden on a poor country.

Their conclusion is we are undergoing an epidemiological transition. States with higher GDP — Gujarat, Maharashtra, Tamil Nadu, and Chandigarh — have a high prevalence of this disease as compared to Bihar or Jharkhand. Delhi and Goa, with high income levels, are still awaiting sampling. Rural areas have lower diabetes rates than urban. But most worrying, the study finds that the poor in urban well-off states have a higher incidence of diabetes than the rich in the same cities. In other words, the rich in rich cities have started to learn good food habits.

But the poor are now falling into the trap of bad food. The study also found that conversely, in rural areas it was the more socio-economically advanced that were falling prey to diabetes. "It is an epidemic that is in a state of transition," it noted. With such large numbers of the poor in urban areas and such large numbers of the getting-rich in rural areas, this can easily get out of hand. We are going from lack of food or malnutrition to over-nutrition because of bad food. This is a transition that can be avoided.

That's why this move under the GST is important. The 40 per cent "sin" tax in India would add roughly ₹15.60 on one litre of colas. This is much higher than the tax in Mexico and hence will hopefully count.

The GST also puts other high sugar foods, including chocolates, in the "luxury" category, which will add to the cost and bring some restraint. The move to disincentivise junk food now needs to be supported with regulations on labelling that let us know how much added sugar, salt, and fat we are eating. The Food Safety and Standards Authority of India (FSSAI) is dragging its feet on this. It must not take its cue from the Donald Trump administration, which has succumbed to pressure from the big food companies. This month, the US Food and Drug Administration said it would delay the implementation of the planned food-labelling requirements devised to inform the consumers of this ever-fattening country.

This is not all. The GST also incentivises food that is not branded, packaged, and processed. Today, our food safety system willy-nilly pushes us to believe that only when the food is branded or processed can it be safe. Across the world this understanding of food safety has edged out small producers, who can't compete with high quality and enforcement standards. Today the FSSAI's rule on food establishments does not allow for the use of unbranded food. It is unsafe, according to them.

The mandarins of the finance ministry have understood that safety is about promoting food that is nutritious and connects with livelihoods. Let's hope the message hits home.

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America's banker-prosecutor complex

BOOK REVIEW

JAMES KWAK

On April 27, 2010, Senator Carl Levin summoned the Goldman Sachs CEO Lloyd Blankfein and his lieutenants before the Permanent Subcommittee on Investigations to answer allegations that the bank had misled investors prior to the 2008 financial crisis. Upon completing its investigation, Levin's committee recommended that the Department of Justice open a criminal investigation into both Goldman's business practices and the denials made by its executives before Congress.

Blankfein hired Reid Weingarten, a famous white-collar defence attorney who had once said of his work, "I feel like I'm in the French Revolution, defending the nobility against the howling mob." Weingarten was a friend of Attorney General Eric Holder; his children went to Georgetown Day School with the children of Lanny Breuer, head of the criminal division of the DOJ Breuer, who had spent much of the previous decade at the elite Washington law firm Covington & Burling, assigned the case to Dan Suleiman, a former Covington associate. Weingarten pestered Breuer, saying, "Close this ...case, will ya?" In 2012, the Justice Department announced that it would take no further action against Goldman or Blankfein. That's how the game is played. (A year later, Breuer and Suleiman both returned to Covington.)

Why was virtually no one prosecuted for causing the 2008 financial crisis, which devastated the global economy and cost the United States almost nine million jobs? Some people think the fix is in: Bankers control the government, so they can get away with anything. Others claim that the banks did nothing wrong to begin with — or, alternatively, that there was insufficient evidence to prove beyond a reasonable doubt that anyone in particular committed a crime. In this new book, the *ProPublica* reporter Jesse Eisinger tells a different story: Since the turn of the century, changes in the political landscape, the defence bar, the courts and most important the Justice Department have undermined both the ability and the resolve of America's top prosecutors to go after corporations or their executives.

'Twas not always so. After Enron collapsed in 2001, federal prosecutors convicted the company's accounting firm, Arthur Andersen, which surrendered its accounting license, as well as its three top executives. The former Enron CEO Jeffrey Skilling is currently serving a 14-year prison sentence. By contrast, Goldman is still the world's pre-eminent investment bank, and Lloyd Blankfein is still its CEO. Perhaps it was too hard to prove that the bank's actions — which included betting against structured financial products while it was selling them to clients — violated the letter of the criminal law. Eisinger does not address that question head-on, which may disappoint some readers. His point, however, is that the Justice Department's prosecutors didn't try very hard — and the few who did were reined in by their politically appointed bosses.

This solicitous attitude toward corporations was part of a larger cultural shift in the business and legal world. Defending executives became an increasingly lucrative practice for elite law firms, which recruited star prosecutors from the Justice Department. Corporations accused of misconduct lawyered up, offering extensive internal investigations but erecting imposing defenses around individual executives. Banks cultivated plausible deniability, their internal oversight systems too feeble to pin responsibility on any individual; Goldman executives used the abbreviation LDL — "let's discuss live" — to hide their traces. Prosecutors and regulators could either negotiate a modest settlement and declare victory or take on the daunting task of bringing actual people to trial — with the significant risk of losing. "A symbiotic relationship developed between Big Law and the Department of Justice," Eisinger writes.

Increasingly, the prosecutors and the defence attorneys on opposite sides of the table are the same people, just at different points in their careers. Conducting a criminal investigation of an executive isn't just risky; in addition to jeopardising a future partnership at a prestigious law firm, perhaps most important, it incurs 'social discomfort,' especially for the well-mannered overachievers who now populate the Justice Department. No one wants to be a class traitor, especially when the members of one's class are such nice people.

After decades in which Wall Street masters of the universe were lionised in the media and popular culture, star investment bankers — rich, usually white men in nice suits — just don't match the popular image of criminals. Democrats as well as Republicans cozied up to big business, outsourcing the Treasury Department to Wall Street and the Justice Department to corporate law firms. Even after the financial system collapsed, the Obama administration's priority was to bail out the megabanks — to "foam the runway," in Treasury Secretary Tim Geithner's words. The Justice Department became increasingly staffed by intelligent, status-seeking, conformist graduates of the nation's top law schools — all of whom had friends on Wall Street and in the defence bar. (The book's title comes from then—US Attorney James Comey's name for prosecutors who had never lost a trial.) Corruption can take many forms — not just bags of cash under the table, but a creeping rot that saps our collective motivation to pursue the cause of justice.

There's just one problem. While the "unelected permanent governing class" may have been willing to look the other way when highly paid bankers wrecked the economy, many of the workers who lost their jobs and families who lost their homes were not. Outside the Beltway, the fact that the Wall Street titans who blew up the financial system suffered little more than slight reductions in their bonuses only reinforced the perception that the 'system' is 'rigged' — with the consequences we know only too well. Many people simply want to live in a world that is fair. As Eisinger shows, this one isn't.

THE CHICKENSHIT CLUB
Why the Justice Department Fails to Prosecute Executives
Jesse Eisinger
Simon & Schuster
377 pages; $28