A Welcome Warning From Prime Minister

Vigilantism cannot be tolerated in a democracy

It is welcome that Prime Minister Narendra Modi has come out clearly against vigilantism in the name of the cow. People cannot take the law into their own hands, whatever the provocation. But even as the prime minister was admonishing cow vigilantes and declaring that the law will take its own course, a man was beaten to death in Jharkhand by a bunch of people who said he was transporting beef. Law and order is, indeed, a state subject. The prime minister must tell all chief ministers to ask their police forces to be extra vigilant against mob attacks on religious grounds. These people are provoking communal enmity and division, which could lead on to schism in society that has the potential to produce persistent and intermittent violence and social disruption. Modernising, fast-growing India cannot afford to murder its democracy and kill growth in the process.

The Opposition has dismissed the prime minister's denunciation of violence in the name of the cow as less than sincere. The fact is that he had criticised cow vigilantes in the past, without that having the desired effect of energising state administrations to stem the rot and the political formations allied to his Bharatiya Janata Party calling on its followers to stop this heinous, undemocratic practice of targeting minorities and Dalits in the name of the cow. The fact remains that those who had been arrested for the murderous attack on Mohammed Akhlaq in Dadri near Noida, in 2015, on suspicion of storing beef in the refrigerator, were treated as heroes, and one who died in jail was hailed as a martyr and draped with the tricolour. The man who thus valorised vigilantism in the name of the cow remains a member of the Union council of ministers. The recently issued rule banning sale of cows for slaughter also emboldens a violent fringe to think that the state is behind them.

The prime minister is clear that development is the national priority and sectarian violence is bad in itself and for pursuing the goal of development. The rest of the political establishment should fall in line, and make sure vigilante killings do not recur.

GST: True Product of Political Cooperation

It is a pity that the Congress and some other Opposition parties chose to boycott the special Parliament session to launch the goods and services tax (GST). True, the ruling party will do some self-promotion while kicking off the tax. But that is only to be expected. This is the biggest tax reform in Independent India's history, involving consultation and collaboration between the Centre and the states.

It was part of the reforms agenda set out in the very first Budget presented by Dr Manmohan Singh as P V Narasimha Rao's finance minister in 1991, and was simply called a value added tax. It has taken 16 years since then, during which five prime ministers and six Union finance ministers toiled to build the structure of the tax, for it to materialise. Naturally, the ruling party will celebrate this as a historic occasion and some of the occasion's glory will rub off on it. The Opposition can well point out that the BJP's obdurate objections had stood in the way of the tax being realised earlier and that the United Progressive Alliance government's entrusting of the task of creating the technical infrastructure to technocrat Nandan Nilekani, with the support of P Chidambaram as finance minister, had created the GST Network that will make filing and paying taxes relatively a painless affair. The BJP, in turn, can take credit for the masterstroke by Yashwant Sinha as finance minister of appointing an empowered committee of state finance ministers headed by a communist to bring the states on board, and for Jaswant Singh's role in appointing the Kelkar committees on tax reforms that did the initial technical spadework.

The fact is that GST is the fruit of political collaboration across the board. It would have been proper for all political parties to together kick off the tax.

Farmer charging for photographs in his sunflower fields is a canny move

A Cash Crop in the Era of Sunny Selfies

A farmer in Karnataka making a cool ₹40,000 over a single weekend by charging ₹20 for permission to use his sunflower crop as backdrops for selfies by passing motorists is a fine example of entrepreneurship in the era of the selfie. It would be difficult for many of those driving along the highway to resist thousands of nodding golden heads, so the farmer monetising their urge to trample on his crop for sunny-faced selfies is commendable. This certainly adds a different connotation to the term "cash crop" and offers an attractive seasonal bonus for the canny farmer. Mustard and saffron cultivators, not to mention orchard owners, should take due note.

The notion that vistas are valuable is an important lesson, and those in possession of such panoramas cannot be blamed for cashing in or protecting them. The recent move of the Taj Mahal Hotel in Mumbai to get itself trademarked — like the Empire State Building in New York and the Eiffel Tower in Paris — so that its familiar image cannot be used for commercial purposes, was probably done with that in mind. Given the relative speed with which this first Indian building was trademarked, more may well be encouraged to follow suit. The good news, of course, is that selfie seekers and tourists will not be prevented from using such buildings as backdrops even after trademarking.

ONE TAX, ONE COUNTRY It's the biggest tax system reform in India's history. So, will we be better off now? That depends on what the effective GST rate will be in the state you live

THE TAX DRIVER

Partha Chatterjee

India made the biggest tax system reform in its history when it transitioned to the goods and service tax (GST) regime on Friday night. This is not only a change in the tax system, but this will also usher a big change in the federal system in the country. The states are giving up arguably much of their most important power: to impose taxes. So, on balance, will we, the people, be better off?

There seems to be a variety of taxation systems in place in several federal systems. For example, Australia has adapted a GST system in which the central government administers the GST, and the revenue is shared between the Centre and the states.

United States of Taxes

In Canada, it is a mixed model — a harmonised sales tax (a value-added tax, VAT) — that is administered by the central Canada Revenue Agency. But one state, Québec, imposes its own state-level taxes. In the world's largest economy, the US, each state imposes a different sales tax, which differs across states, and there is no revenue-sharing.

How can adopting GST as a tax system across the country benefit us? The obvious answer is that by replacing a really messy system of indirect taxation, it will be easier for firms to do business across the country. This will increase investment and, through that, growth in the country. With added growth, welfare of citizens will rise. This is the strongest argument favouring the implementation of GST.

Till now, there were multiple and complex set of taxes that differed across states. This was a deterrent in establishing and expanding business. Anything simpler is welcome. So, indeed, there will now be gains through this channel. Though even in this regard, the actual implementation of GST leaves something to be desired.

Instead of one single GST rate, there will be several. A variety of goods and services will be taxed at different rates, reducing the simplicity that GST promises to bring with it. Also, adding complexity and cost is the requirement to register with both the central tax authority and state tax authority for each state a firm wants to do business in. This will certainly increase complexity.

GST is also supposed to reduce the administrative cost of tax collection. Till now, the number of indirect taxes, central and state, were in double digits. Often, different agencies were involved in collecting taxes, which was costly. This reduces the net tax collected. Since all these taxes have now been subsumed under GST, the cost of administering and collecting indirect taxes is likely to come down.

FILE PHOTO

Lovely doing ease-of-doing-business talk with you

However, GST will have two different components: state GST (SGST) and central GST (CGST), and a firm has to pay one to the state tax authority (authorities, if it does business in multiple states), and one to the central tax authority.

This will increase the cost of tax collection compared to the situation where a single authority collects taxes (as in Australia and Canada) and the revenue is shared. Moreover, multiple and possibly overlapping jurisdictions can cause conflict, further reducing the benefits of GST.

Poof! Which Taxes?

An important aspect of this transformation of tax system is that individual states will no longer be able to change their tax rates. The tax rates will be decided by the GST Council, which has representation from all states and the Centre. This has serious implications.

First, both central and state governments have obligations to provide public goods and services. Though there is some overlap between the public goods provided by the Centre and the state, they mostly provide different public goods.

For example, the Centre has the responsibility of providing defence for the country while, primarily, states are responsible for law and order, health and education. Thus, each state has to garner enough revenues to pay for these.

State governments will earn the SGST part of the GST (and a share from the consolidated revenue of the Centre, as determined by the Finance Commission). But it will not have the ability to change that to respond to local shocks like droughts or floods. The only instrument that will remain with states is borrowing.

The maximum amount a state can borrow is limited by the Fiscal Responsibility and Budget Management (FRBM) Act, 2003. In the future, we can expect this to be severely tested.

This is also precisely the insight from the 2008 paper, 'Is It Is Or Is It Ain't My Obligation? Regional Debt in a Fiscal Federation', published by Russell Cooper, Hubert Kempf and Dan Peled in the International Economic Review (goo.gl/gy7ZHs). They find that if the central government is unable to commit to bail out the states, states may borrow excessively.

Only Less Taxing

Note that holders of a particular state bond are not limited to the residents of that state. So, we can expect a spillover effect, and the welfare of residents across states may be affected. Given this context, in the paper, 'Optimal Taxation in a Federation and GST in India' (goo.gl/TjBpXH), this author and Trishita Ray Barman try to understand the short-term and long-term dynamic effects of this change to GST.

The paper finds that the variability of aggregate consumption can be expected to be lower under the GST system. However, whether aggregate consumption will increase depends on the relative weight of public goods and services provided by the Centre and the state. In such a situation, if the ability of states to provide the state-level public good is impaired, then people may be worse off.

The study uses currently available data to calibrate the model used to further understand the differential effect of the GST across states. First, let us think about the short run.

The big discussion point in the short run is whether the state governments' revenue post-implementation of GST will increase or decrease. This has been at the heart of the political negotiations between the states and the Centre in adopting GST across the country, and something that held up the transition to the GST system for nearly a decade.

The stated objective in setting GST rates is to make the GST rate revenue-neutral — that is, with GST now kicked in, the revenue will be unchanged. But the question is: for whom will it remain unchanged? Given the variation in government revenues and consumption across states, the revenue-neutral GST rate for each state will be unique and different.

Taxable to the T

Using a calibrated model to calculate the revenue-neutral rates corresponding to each state, one finds that it varies from 5.1% (corresponding to Manipur) to 20.1% (corresponding to Tamil Nadu). The median rate is 11.4%. That means if the effective GST rate is 20.1%, then the Tamil Nadu government's revenue will remain unchanged. Anything less, there will be a dip in Tamil Nadu's revenues. However, if the effective rate turns out to be 20.1%, then revenues for all other states will increase post-GST.

So, is adopting the highest revenue-neutral rate good? Hold on. Using state-level data from the past few years, the study shows that higher taxes will reduce the growth rate in the state.

Thus, by adopting a high effective GST, even though there will be a bump in the revenue collection in the short run, in the long run, the governments' revenue may be less than what would have been possible with a lower tax rate — not to mention the welfare loss due to higher tax rate.

Note that the states have agreed to move to the GST system only after the central government has promised to compensate them for five years for any loss in their revenues.

What really happens across states depend crucially on what the effective GST rate turns out to be. The GST Council, in its wisdom, has decided to go for multiple tax rates. So far, it has bunched an array of goods and services into five different rates: 0%, 5%, 12%, 18% and 28% (gold and raw diamond have their own rates). In addition, there will be cess.

So what the effective tax rate in the economy will be is still a mystery. And, in balance, will we be better off? It depends on this unfolding mystery. What should have been a simple countrywide tax rate, like many things in life, is anything but simple.

But we shall know soon enough, as India has taken the first radical step towards the removal of clutter in its tax system. Let many more required for further simplification follow.

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An important aspect of this tax transformation is that individual states will no longer be able to change their tax rates, which will be decided by the GST Council

CYBER SECURITY

Standing e-Gilant at the Gates

Siddharth Vishwanath

A new wave of the Petya ransomware variation has been affecting a significant number of organisations across a wide range of industries since June 27. Petya has now been redubbed as 'NotPetya', and increasingly tongue-in-cheek variants of that name — Petna, Pneytna, etc — have also been given to the virus that has been wreaking havoc.

Many victims have already been observed, including multiple entities within Ukraine, Spain, the Netherlands and Britain. This is reminiscent of the WannaCry outbreak in May, which also had a worldwide reach, compromising a similarly broad range of organisations at speed.

Petya is known for its unusual encryption method, which seeks to encrypt data at a more basic level, preventing the machine from booting. And if administrator privileges are unable to be obtained via the Petya malware, encryption can still occur using the typical ransomware approach of encrypting at the file level.

Many companies have issued technical advisories to their client information technology (IT) and cyber security teams on preventing, detecting and responding to the malware. However, doing the basics right cannot be overemphasised. The threat is far more complicated than what meets the eye.

Immediate measures would include actions such as the patching of systems in a timely manner, and updating anti-virus signatures. These are the basic controls that, when rigorously followed, would go a long way in safeguarding the proverbial crown jewels.

There are many pragmatic steps that organisations can take to reduce the likelihood of incidents, limit their impact when such a strike does occur, and to recover swiftly and effectively. These span several aspects of IT operations and security.

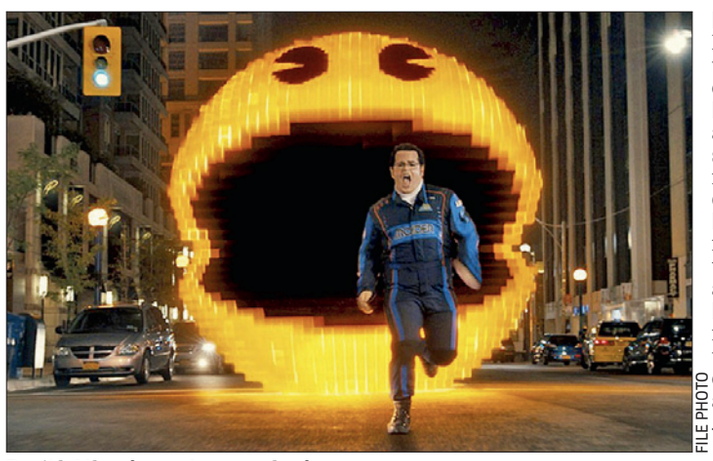
Some of the steps include the ability to restore systems rapidly from backups. It is important that at least the mission-critical assets have a robust backup mechanism. Another important step is to have effective incident-response plans in place.

The golden tenet continues to be having strong security hygiene policies and user awareness to prevent ransomware entering your IT environment through both technical controls and vigilant employees. Rigorous patch and vulnerability management is another area to be constantly monitored since this ensures that you make effective use of work already done to address vulnerabilities.

The focus of cyber criminals who launch ransomware is usually monetary gains. But at times, they could also be purely focused on disruption of services. The latter is usually the case if it is a targeted attack.

Another important, but often overlooked, aspect is the impact of paying ransom on future campaigns. Simply put, the criminal mastermind today has a greater incentive to carry out such attacks because of the monetary gains that it promises. And the advent of cryptocurrencies like bitcoin, with its promise of anonymity, only adds more fuel to the fire.

Such campaigns are no longer acts carried out by individuals, but a more sophisticated, coordinated global effort that mimics many of the collaborative and efficient practices modern-day corporates are known for.



FILE PHOTO

Don't let the virus eat up your business

And just like those corporate entities, a certain amount of the ransom received is reinvested to develop and enhance attacks in the future.

India is rapidly moving towards becoming a digital economy. Are we prepared for a threat of this nature? WannaCry and Petya are mere tips of the iceberg. The threat is real. It is an impending crisis that can not only cause financial loss but can also affect business continuity and reputations. Cybersecurity needs to become a priority for any business, any country. India needs to move faster with strategic procedures to prevent such attacks with the following measures:

Immediate measures:

- ▶ Patch all Microsoft systems.
- ▶ Update anti-virus on all systems.
- ▶ Strengthen the email filtering and spam gateway.
- ▶ Implement additional firewall rules, web gateway rules and detection mechanisms mentioned in detailed advisories.

Strategic measures:

- ▶ Robust IT disaster recovery plans: Ensuring that individual user systems and key servers can be restored rapidly from backups.
- ▶ Strong security hygiene policies and user awareness: Preventing ransomware entering your IT environment through the most common delivery vectors.
- ▶ Rigorous patch and vulnerability management: Ensuring that known vulnerabilities are not exploited by attackers.
- ▶ Crisis and incident response planning and exercising: Ensuring that there are organisational capabilities to restore service to employees and customers.

The writer is partner, cybersecurity, PwC India

the speaking tree

Of All Those Ramayanas

AMRITH LAL

Malayalam short-story writer V P Sivakumar once said that life teaches every individual to read the Ramayana. It took me a long while to understand what he meant. Now I wonder, does every individual write his own Ramayana?

Valmiki's Ramkatha lives off the limits of space and time. The story was there before the sage, and after him. The itihasa kavya continues to live in many forms, many tongues; each actually narrating a new story. How many Ramayanas are there? A K Ramanujan once attempted to answer the question. He first counted 300, added another 100, only to be told by a Kannada writer that there are over 1,000 of them in his language alone.

For each Rama, there is a Ramayana. Since there are many Ramas, there are many Ramayanas; each reflecting the age in which it is narrated. In the centuries when the Bhakti movement flourished across India, Valmiki's maryada purusha made way for the divine philosopher king of Kamban and Ezhuthachhan. For Kabir and Thyagaraja, who followed them, Rama was an abstract ideal. So was it for Gandhi who wove in an ethical concept of Ramrajya into his narrative of a free India.

Is the Ramayana, then, a mere story or an allegory on the struggle between good and evil? Or is it a chunk of history elaborated as a narrative of a nation? Ramayana is all these, and perhaps more. It is history, a story, an allegory; more than anything it is a tradition of narratives. Every individual continues to author it throughout his life to make it his own tale.

Citings

On Making in America

JAMES MANYIKA ET AL

The US always assumed that its forward momentum would carry the next generation toward greater prosperity, just as it took for granted that its technical prowess in manufacturing would guarantee its global market share. But now those assumptions have been upended.

Although unemployment is down and wages are ticking up again, these indicators can distract from the bigger picture. Tens of millions of workers are struggling to make it in America, and even a full-time job does not guarantee a decent standard of living. Manufacturing remains a pillar of the US economy and the primary industry in some 500 counties, of some 3,000, from coast to coast....

But manufacturing now accounts for just 9% of US employment, a much smaller share than two decades ago. Excluding computers and pharmaceuticals, value added in most other manufacturing industries is no higher today than it was in 1997. The US has lost share not only to low-cost countries in labour-intensive industries but also to other advanced economies in knowledge-intensive industries.

Today, there are 30% fewer US manufacturing firms than in 1997, and the sector has lost roughly a third of its jobs. Not only have plants closed, but fewer are opening. The US remains the world's No. 2 manufacturing nation, and the diversity of its industrial base presents multiple opportunities for growth.

From "Making it in America"

Chat Room

VAT is Dead, Long Live GST

Apropos 'Nothing to Be Fraud Of' by Raktim Dutta and B B Chakrabarti (Jun 30), indirect taxes like the VAT, which had become "fraudsters' delight", are now a thing of the past, thanks to the GST becoming a reality from today. However, if all the systems and processes are not already in place for the smooth implementation of the GST, it may disrupt economic activity, hurting the economy in the short term. It may even prolong the teething problems of the GST to 2018 unless the government and the tax administration solve problems that may arise on the go. The economy and all its stakeholders will benefit from the GST.

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