

Welcome Aboard The Tax Prodigals

Do not scare off new, post-GST taxpayers

The Employees Provident Fund Organisation added over 10 million new subscribers after employers got an opportunity to file declarations for their unregistered employees with a nominal fee of ₹1 per annum. The amnesty proved a pragmatic way to improve compliance. The income-tax department must learn from this example. Demonetisation has induced many to file their tax returns. It has also convinced many unlisted companies to bring their concealed incomes onto their books, boosting sales, profits and tax collection. Now, the goods and services tax, which induces people to pay tax and maintain formal accounts, will bring many individuals and companies into the tax net. The question is, should these new taxpayers be badgered for their past absence from the ranks of taxpayers, or welcomed aboard as future good citizens? There is a strong case for pragmatism, given that the prospective benefits of expanding the tax base far outweigh those of retrospective retribution.

GST creates an audit trail of value addition across the income and production chain, resulting in a unified base of tax potential that can be tapped into by collectors of both direct and indirect taxes. It gives the government the handle to increase more direct tax revenues. But the government should not go after the past undisclosed incomes of businesses that start paying GST — just as it had not when it allowed EPFO employers who had not been enrolling their employees in the EPF to turn legitimate. Once their income becomes above board, the base of taxation would rise permanently, and the exchequer will be the loser if they are made to stay below the honesty line.

About 4% of people file tax returns; and just a few thousand admit to having incomes higher than ₹1 crore a year. The focus should be on systemic changes to stop generation of black money, not on punitive expeditions into the past. Remove the glaring exemptions in GST, incentivise people to come out of their old mindsets. The threat of harsh penalty should not impede a possible mass migration to tax compliance.

Waived loans bring little benefit to farmers. Only loans taken from commercial or cooperative banks can be waived, not loans from moneylenders. Many so-called farm loans go to people who own land but have leased it out to others to do the actual farming. When these loans, subsidised and used for cultivating anything but a crop, are waived, it ends up swelling unaccounted wealth in the hands of absentee landlords, while the actual wretch, who borrowed money from the local moneylender to grow a crop that turns out to be worthless, eats his heart out.

Remunerative prices are what farmers need, not subsidies and loan waivers. Demonetisation played a role in the recent wave of farmer unrest. Traders who normally purchase the harvest or finance such purchases had a cash crunch and could not come up with the money. Alternate buyers did not materialise.

Do Not Grant Terror Design to Escalate

We condemn the terrorist attack that killed seven pilgrims in Anantnag while they were returning from Amarnath. While the loss of innocent lives is tragic, it is heartening that there has been unqualified condemnation of the attack from across the political spectrum in Jammu and Kashmir and outside. Attacking pilgrims is against Kashmiri culture and against self-interest. Pilgrims are an important sub-segment of tourists, giving whom bed and board sustains many livelihoods in the state. Does the current attack portend a new terrorist policy of targeting civilians? This seems unlikely. This is not the first time Amarnath pilgrims have come under attack. In 2000, terrorists had killed 21 pilgrims and injured 30. There has been no recurrence of such an attack since then, till this Monday.

To prevent further attacks, security forces must step up intelligence gathering and follow-up action. The bus that came under attack had not registered with the Amarnath Shrine Trust and thus did not enjoy any security cover. Bus operators who put lives at danger by offering services outside those sanctioned and supervised by the relevant authorities must face stringent action. The bus driver Salim has been praised and rewarded for driving the bus out of the terrorists' range, after the initial burst of firing. But he should also face questions as to why he risked lives by ferrying pilgrims around in an unregistered, unguarded vehicle. Rules meant for safety of the pilgrims must meet with full compliance.

In India's current febrile political atmosphere, it is vital for political parties and governments to send out a clear signal that what happened in Anantnag will stay in Anantnag and that no attempt to retaliate against innocents in other parts of the country would be tolerated.

Go all-veg to corner the lucrative 'green' market; and leave others eating crow

Air India Should be the First Satvik Airline

Air India's move to exclude meat from its domestic economy class flights — to ostensibly save ₹8 crore annually — is too timid. The vegetarian initiative should be scaled up to include all classes and flights so that Air India can be marketed as the world's first satvik airline. The advantages are obvious. There are at least 350 million vegetarians in the world, according to the Meat Atlas brought out by Heinrich Boll Stiftung in 2014. Most are presumed to be Indian or of Indian origin, with a significant number of animal lovers, health-conscious Hollywood celebrities and their groupies too. Moreover, not only are 'flexitarians' — who often choose to eat vegetables over meat for various reasons — increasing worldwide, there is a statistically noticeable phenomenon of more younger people going green than older ones in traditionally meat-eating regions. No wonder international airlines offer special meal options so that peripatetic vegetarians are not left munching only nuts and chips.

An Indian airline is best equipped to take such a bold step given the sheer diversity of vegetarian cuisines it can offer. The lure of meat-free galleys should prove especially irresistible to "strict" vegetarians who travel frequently for business and leisure. If AI can corner the vegetarian market, naysayers may well end up eating crow.

Farmers need remunerative prices, not debt waiver, to end rural distress

Political Opportunity on the Farm



TK Arun

Farmers are agitated. Loan waivers have not stemmed protests or farmer suicides. This is a multidimensional problem and also a huge political opportunity for parties that can think constructively.

Waiving loans is bad policy. It adds to the fiscal stress of states, straining under the electricity utility debt they have taken over. The states would undo the Centre's hard-wrought fiscal discipline, scaring rating agencies.

Waived loans bring little benefit to farmers. Only loans taken from commercial or cooperative banks can be waived, not loans from moneylenders. Many so-called farm loans go to people who own land but have leased it out to others to do the actual farming. When these loans, subsidised and used for cultivating anything but a crop, are waived, it ends up swelling unaccounted wealth in the hands of absentee landlords, while the actual wretch, who borrowed money from the local moneylender to grow a crop that turns out to be worthless, eats his heart out.

Remunerative prices are what farmers need, not subsidies and loan waivers. Demonetisation played a role in the recent wave of farmer unrest. Traders who normally purchase the harvest or finance such purchases had a cash crunch and could not come up with the money. Alternate buyers did not materialise.

Organising farmers to enforce procurement at support prices and to set up and run functional agro-processing plants will help both farmers and the parties that dare

se. Farmers threw away onion and tomato by the ton, rather than cart it back home to rot.

But this problem is one-off, whereas farm distress is perennial. The solution is necessarily multipronged but consists, in essence, in creating missing market linkages between the farmer and the end-consumer.

Missing Market Links

Policy on agricultural trade is ad hoc: export is banned now and then, imports face unpredictable bans or duties. Farmers are denied the higher price often available in export markets.

For all such restraints, Indian farm prices move in sympathy with global prices. This is one reason why it did not make sense for the current government to raise the minimum support price as often and as sharply as the UPA government did. Global commodity prices have been falling or subdued, unlike in the boom period of UPA's price revisions. India cannot have rice, wheat and lentil prices out of sync with global prices while being part of the interdependent global economy.

China does not waste its scarce farmland on low-value soya, used to feed pigs, preferring to grow high-value vegetables and fruit instead. It imports huge quantities of soya and other grain from the Americas, at rock-bottom prices. Global prices of farm commodities thus shape the cropping pattern in China and help keep farm incomes high in that country. Exposing Indian farm produce to global competition would help drive up productivity to competitive levels.

But farming cannot be treated like industry when it comes to trade policy. Tariffs can be set to move within a band on both exports and



Alas, poor Yorick!

imports, with predictable triggers for shifting from one level to another within the band, eliminating arbitrariness.

Organise Farmers

India has a functioning policy of minimum support prices for a variety of crops. These must be enforced. Whether a state agency buys up the produce or a private one does, this form of relief to the farmer can be sustainable only if what is procured is stored and processed. Creating storage facilities, processing capacity, transport links to consumer centres at home and abroad and functional commodity markets—spot, futures and options—as well as markets for farm inputs including high-yielding seeds and crop insurance that works, is the way to remove farm distress.

And this is quintessentially political. Mobilising farmers to demand procurement at the MSP is a legitimate method of drumming up political support for any political party when desperate farmers dump their produce at prices far below the MSP.

Getting the state to act in a particular fashion is straightforward politics. But what about the rest of the farm agenda? That too, is political, directly or indirectly.

Operation Flood transformed dairy farmers into owners of a sop-

histicated processing, storage and marketing operation. Verghese Kurien's organisational genius was a key factor, but so was state support, ranging from imported machinery to rural roads that permitted motorised transport of milk from a sufficiently large number of collection points to justify a processing plant of viable scale.

Washing, grading and packing fresh vegetables is primary value addition. If assorted farmers can bring their produce to a common centre where this is done, before its transportation in a refrigerated truck to a nearby town, the farmer would get a good price. This calls for organisation.

Setting up plants to create puree out of tomatoes or freeze-dry fruit calls for organisation and release from restrictive APMC laws. Farmers can be organised into cooperatives or producer companies, to own such processing plants. Finding finances and the managerial talent to run such companies and the will to keep the co-ops/companies running is beyond farmers. Parties can step in.

The Communists formed and ran many effective co-ops in Kerala. What prevents other parties from using their capacity to mobilise people and inspire action to create new instrumentalities of farmer redemption?

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INDIA AT CANNES

Films Canned, Cannes-Do in Ads



Monojit Lahiri

It's strange, amazing, even curious, really. For over 50 years, the world's largest producer of feature films has been dutifully sending entries to the world's most celebrated film festival at Cannes. Established in 1939, ostensibly as a tourist attraction, this annual May event in the small resort town in the south of France has gained eminence from both the merchants and masters of cinema.

But on this intoxicating, seductive and competitive stage, how has India fared? We can quickly change the subject. Or register the fact that the last time any Indian film was awarded at Cannes was in 1999 when Murali Nair's Marana Simhasanam (Throne of Death) won the Camera d'Or for best first feature film.

Sure, the glitz and the photo-ops continue, courtesy L'Oreal's brand ambassadors Aishwarya Rai Bachchan, Sonam Kapoor and Deepika Padukone. But has the Cannes Film Festival jury totally lost interest in Indian cinema, only occasionally finding reason to identify and applaud — outside the competitive categories, mind you — the off-beat, small-budget gems?

Now compare it to the Cannes



Mud mud ke na dekh, mud mud ke

Lions International Festival of Creativity, showcasing advertising excellence. Established 60 years ago with just one category, today there are 24 sections. Last year, at the 'Oscars of advertising', India scooped up no less than 27 medals. This year, at least 12 of our finest professionals will grace the juries. India's Adville certainly enjoys an impressive pride of place in this celebrated global platform.

So, if our Adville rocks at their fest, why doesn't Indian cinema make the slightest dent at their fest? Why is the difference so huge? Is Indian cinema a case of tigers at home, but lambs abroad? Filmmaker Shyam Benegal — who started his professional life in advertising — believes that the Cannes film jury has always been "Euro-centric, with a definite bias to the French way of looking at cinema... which is why they admired Ray's oeuvre along with some of our earlier directors". They cannot, according to Benegal, really connect with our good contemporary films.

"The ad scene is different because [the juries] looked at the big picture,

reviewed it meticulously, accepted the challenge of an impossibly diverse market place — India — that demands creativity at the heart of a communication capsule that entertains as it sells," adds Benegal. Future Group CEO Santosh Desai points to context. "Since advertising is applied, not pure art, and at best is just an intermediary, it is market-friendly, consumer-specific and festival-driven. Over time, the industry has also evolved and grown to understand the rules of the game and the results are there for all to see."

Everything considered, India's Adville's momentum, desire to step on the gas, and improve their tally at Cannes is all-consuming, as their showing at this year's 64th Cannes Lions International Festival of Creativity, by scooping up an unprecedented 40 awards, indicate. Until that happens in the Indian feature film space — especially unlikely with the Bahubalis and Tubelight's hogging popular imagination and all available media space — it will continue to be canned at Cannes.

FISCAL DISCIPLINE

Now, Be Brave and Reboot



Chetan Ahya

Imagine a 27-year-old who has total debt amounting to almost 67% of his annual income. The debt was not used for starting a business. Instead, it was used to fund excessive consumption spending. Now, with the high levels of absolute debt, the interest burden consumes more than 5% of his annual income. This person is not a hypothetical one. Rather, he or she characterises the state of public finances in India today.

The outstanding level of public debt and consolidated fiscal deficit remains high at 67% and 7% of GDP respectively. If one takes into full account of a number of additional off-budget liabilities, the augmented fiscal deficit and public debt levels would be even higher. The high debt levels reflect the conduct of fiscal policy in India, which has been traditionally run with a short-term focus on pump-priming and redistribution. The less efficient forms of spending has resulted in continued high fiscal deficits and elevated levels of public debt, leading to macro stability risks, usually in the form of high inflation.

The other side of this weak state of

public finances is lower-than-required investment to GDP and still extremely low levels of per capita capital stock. Indeed, compared to many of its emerging market (EM) peers, India has a much higher public debt burden despite having a significantly younger population.

A comparison with some of India's successful Asian neighbours such as Japan, South Korea and China shows that lax fiscal policy and relatively slow pace of growth in capital stock is a key developmental challenge for it. During their initial years of development, these Asian countries had focused on maintaining low public debt, high saving and high investment-to-GDP for close to 30 years. This was to ensure that they are on a path to become high per capita income country —



Chi-ching for change

to grow richer before they age.

India needs a sustained high level of investment in the range of 40% of GDP to create adequate productive jobs that would match the pace of increase in its workforce and to be on a path to transition to a high income society. As per the World Bank, this will mean total per capita incomes above \$12,500 from the current \$1,700.

If India does not lift the pace of growth in its capital stock and aggressively create productive job opportunities, it will risk being trapped as a middle-income economy like some of the Latin American economies. The key reason for jobless growth in recent years is due to the prevailing weak private investment cycle. This has been, in many ways, due to the deep adjustment required after the expansionary fiscal policy in 2009-13 that resulted in five years of close to 10% inflation.

A clear commitment towards achieving credible fiscal deficit targets and public debt ratios will be critical. Some important steps have been taken in recent years. Policymakers have been cutting back on wasteful forms of expenditure. They have also significantly improved the efficiency of spending, especially with the help of Aadhar and digitisation. The implementation of the goods and services tax (GST) should also improve tax compliance and boost India's relatively low tax revenues-to-GDP ratios.

However, there are two key un-

resolved issues. First, there is still a lack of urgency to systematically reboot fiscal policy management. There is no clear plan to bring down the public debt-to-GDP to what is considered an upper limit of 50% in a reasonable timeframe.

Second, and more importantly, while there are fiscal deficit targets put in place, such targets ultimately remain at GoI's discretion. There are no serious legal constraints or consequences when the deficit target is breached.

In the last few years, while GoI has been steadily reducing its deficit, states' fiscal deficits have been rising. The recent announcement of farm loan waivers in select states has also raised further questions about the commitment towards fiscal discipline. Even if some of these state governments manage to contain the overall fiscal deficit, it will be at the cost of cut-back in capital expenditure.

Moreover, successive governments have tended to increase spending ahead of electoral cycles. With the next general elections due in 2019, there is a risk that GoI suspends its efforts on fiscal consolidation next year.

India urgently needs a strong and clear fiscal management plan, and a strong and binding law with all political parties coming together to commit to a hard fiscal constraint to secure India's transition to high income society.

The writer is managing director, Morgan Stanley, Research, Hong Kong



Tackling Neurosis

SADHURU JAGGI VASUDEVA

I know many people, especially young people, who had psychological problems. They were cured when they undertook physical activity. It expended energy and released pent-up tensions.

Today, neurosis is a common ailment. This is because your energy is trapped. You have not transcended your madness, and at the same time you're not working it out.

Pent-up energy builds up in your system. Then your physical and emotional energy needs an outlet. Hence the popularity of bars and discotheques. Full of smoke, the discos look like madness.

Dancing, you go bumping into everybody else, but it doesn't matter, you have to work it out otherwise you will go crazy.

There is another way to drop this madness and go ahead. Meditate. If you're dancing to work out, maybe it is therapeutic. But there is a certain ugliness about it. You can only dance out of lust, not love.

When you love, you settle down, nothing more is needed. Even your work is an effective and popular way to dump your lust.

Today, people just go on working because they don't know what to do with themselves. You have to guard that madness cautiously. Nobody knows that you have this within yourself.

All the entertainment in the world is needed to cover your madness. If you were perfectly sane, you would not need entertainment. If the need for entertainment vanishes, then you will become available to the magnificent exuberance of life.

Chat Room

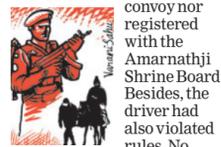
IDFC, A Clear Winner

Propos 'Bold Move in World of Listless Finance'. The proposed merger of the financial services business of the Shriram Group with IDFC is subject to regulatory clearances. If the RBI accepts the proposal, it would be a big boost to IDFC that can expand its retail footprint. It makes sense for IDFC to persuade the central bank to allow a common holding company to own both the bank and NBFC Shriram Transport Finance. Bridging the cultural chasm can be tricky, and calls for a sound strategy to tackle issues relating to human resources.

BAL GOVIND
Noida

Beef Up Security

The act of gunning down seven Amarnath pilgrims deserves the strongest condemnation. It is baffling that the bus ferrying the pilgrims was neither a part of the main



convoy nor registered with the Amarnath Shrine Board. Besides, the driver had also violated rules. No yatra vehicle is allowed on the highway after 7pm as security cover is withdrawn beyond that hour. It is imperative that security is beefed up along the route and no effort is spared to nab the assailants.

NJRAVI CHANDER
Bengaluru

Raise Farm Investment

Propos 'A Loss Difficult to Digest' (July 11). The wastage of food and vegetables leads to distortion in prices and distribution. The lack of infrastructure such as cold storages, road connectivity, warehouses and supply chain for perishable food items is a huge concern as well. The mismatch between demand and supply, and the lack of market accessibility forces farmers to dump their produce. The need is to enhance investment in farming in all possible ways.

SANJAY TIWARI
Hisar

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