



A wider net

As the tax base widens, the Finance Minister should cut the share of indirect taxes

The demonetisation of high-value currency notes and the advent of the goods and services tax regime have triggered a surge in the number of those filing taxes in the country. The Economic Survey argues that the large gains on the indirect and direct tax fronts indicate that the primary intentions behind the two big-bang economic strides – of formalising the economy and bringing more income into the tax net – have been met to some extent. From about 59 million individuals who filed income tax returns or whose tax was deducted at source in 2015-16, the number of tax-filers rose by 10.1 million since the note ban. Stripped of statistical adjustments to avoid a bias in findings, the Survey assesses that roughly 1.8 million, or 3% of the existing compliers, started paying up. Many of them are reporting incomes close to the ₹2.5-lakh threshold for personal income tax, so this may not swell the exchequer much. But it holds potential for growth as the new taxpayers progress in their vocations. Personal income tax collections are expected to rise to a historic high of 2.3% of GDP in 2017-18, compared to 2% between 2013-14 and 2015-16. This may seem glacial progress but could be considered a tipping point in a country where just 4% of adults pay personal income tax, though the government reckons that number should be 23%.

The Survey finds a 50% increase in unique indirect taxpayers in the first six months of GST, with around 10 million registered taxpayers now compared to an estimated 6.5 million pre-GST. The GST regime, despite the initial chinks, could end up boosting India's macro-economic stability by breaking what the Survey terms 'inertia' of the tax-GDP ratio. This ratio for the Centre has remained at the same level since the 1980s, though the economy grew at an annual average of about 6.5%. The Survey has noted that both of India's underlying macro weaknesses – the fiscal and current account deficits – tend to get exacerbated when oil prices move up. A wider tax base could at least help tackle the former. Fixing exporters' GST woes and continuing to ease the transition pains under its new features, such as e-way bills to deter evasion, would be critical to attain the 7%-7.5% growth projected for the coming year. At the same time, the government needs a road map to expand the direct tax pie by pruning blanket exemptions for vocations such as farming and using a more proactive Big Data-driven approach to target evaders. The government must reward this tax base expansion by offering the 'compliant' some relief in the Budget, even if it means slashing high duties on petroleum products. After all, high indirect taxes pinch the poorest the most.

Siege of terror

The Taliban and the Islamic State are exposing Kabul's growing inability to keep the peace

With four attacks in 10 days that killed at least 158 people in Afghanistan, terrorists have sent a loud message to the government and its international backers. Of the four, two were claimed by the Taliban – the raid on January 20 in Kabul's tightly-guarded Intercontinental Hotel and the January 27 ambulance bombing in a busy street. The Islamic State attacked a British children's charity in Jalalabad on January 24 and an army post outside the capital days later. Though the IS and the Taliban are opposed to each other in the complex conflict landscape, both share a goal: to destabilise the state that has been built since 2001, and throw the country into further chaos. In recent years, despite the government's claims of cracking down on militants, threats from the IS and Taliban have only grown. The IS, which lost territory in Iraq and Syria, is trying to build networks elsewhere, particularly in war-torn Afghanistan. From an enclave in Nangarhar in eastern Afghanistan, the group has planned and orchestrated several attacks, mainly targeting Shia minorities. Last year, the IS claimed at least 15 bombings in Afghanistan, while the Taliban is steadily expanding its firepower. Earlier, the Taliban had said it was targeting Afghan military facilities and soldiers, not civilians. As the ambulance bombing that killed more than a hundred people shows, the facts are to the contrary.

The Afghan government is caught in a classic security bind. Over the years, whatever it has done, including stepping up the military campaign against the Taliban, has only deepened the security crises. The protracted war and the indiscriminate use of airpower by the U.S. have turned a substantial portion of the rural population away from Kabul, a resentment the Taliban has tapped into. The group now controls almost a third of the country. And as the war drags on, other militant groups such as the IS have also swept in, making a solution to the crisis even more elusive. The Taliban is now too strong to be defeated outright, but not strong enough to unseat the government in Kabul. This is the stalemate the war has entered. When U.S. President Donald Trump announced more troops for Afghanistan in August, the plan was to break this logjam. But since that announcement, the Taliban has increased its attacks, in an apparent message to Washington that a military solution is not possible. Even the tough line the U.S. has taken vis-à-vis Pakistan, which has direct links with the Taliban and its allies in the Haqqani network, by withholding military aid doesn't seem to have had any immediate impact on Islamabad. The problem is the lack of a cohesive strategy. The U.S. focusses too much on the military aspects of the problem, while the Afghan government, plagued by corruption and infighting, remains incompetent in tackling the challenges it faces. In such a scenario, it's advantage Taliban.

A road map for renewal

Will the Budget address the concerns raised in the Economic Survey or will it go its own way?



AJIT RANADE

The Economic Survey, a statutory document tabled in Parliament, is meant to be a scorecard of the economy for the current fiscal year. But over the years, it has morphed into a sourcebook for data and policy analysis. Indeed, economists and even academicians look forward to its scholarly content, even though it may have a partisan outlook.

Sober realities

This year's Survey too does not disappoint in being a veritable feast and also presenting fairly sober realities. Under the leadership of Chief Economic Adviser (CEA) Arvind Subramanian, one quirk of the Survey is its thematic catchphrases. For instance, a few years ago, the CEA, in the Survey's preamble, said that the Indian political economy was not capable of big bang reforms. Instead, reforms would be persistent, creative and incremental. It's a different matter that in November 2016, India got the world's biggest bang announcement in the form of demonetisation. Last year the Survey introduced the catchphrase JAM (the Jan Dhan, Aadhaar and Mobile trinity) indicating their potent combination of enabling direct benefit transfers and using technology to deliver subsidies as well as trim leakages.

In its first chapter, the latest Survey highlights 10 new facts about the Indian economy. Unfortunately some are not so new, and some are inane. For example, the fact that adverse weather affects agricultural yields and that parents in

India have a preference for male children are hardly new "facts". But others are significant, such as the finding that demonetisation and more formalisation of the economy have led to a huge jump in the number of taxpayers, for both direct and indirect taxes. Or that the formal part of the non-agricultural payroll is much bigger than believed. Unfortunately, this new "fact" is not substantiated with latest data; the Survey presents data from 2012. Surely the government is not stuck in a time warp, is it?

Another interesting fact is that India's export sector is more diversified in comparison to other peer countries; that is, the top 1% of exporting firms account for a much smaller share of total exports, compared to East Asian countries. It is heartening to note the important role of small and medium enterprises in industrial employment and exports. On the other hand, this could be due to the inability of Indian firms to achieve global scale. Are the scale aspirations being thwarted by restrictive labour laws?

A populist hint

One of the most sobering facts in the Survey has been on the rural and agricultural sector. Farm incomes have remained stagnant for the past four years, hit by a drop in crop prices, output glut, and possibly demonetisation. So what is the prospect of doubling farm incomes in the next few years? Given that the Budget will be the last one before the 2019 general election (a fact reiterated by the Survey), it is almost a foregone conclusion that there will be great emphasis on the farm sector. This also means a tilt towards populism.

How then will the fiscal limits be obeyed? Here the Survey hints that some slippage from pre-announced fiscal deficit targets are to be expected in this pre-election



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Budget. The bond markets hate fiscal slippage and already there is sell-off of bonds. This will lead to a rise in interest rates. The biggest loser from a higher interest rate is the biggest borrower in the system, the Government of India. Even an increase of 0.5-0.6% rate over one year is an increase in the interest burden of more than ₹40,000 crore, equivalent to the full budget of the Mahatma Gandhi National Rural Employment Guarantee Act.

Hence the government will have to think very carefully on how to avoid slippage and keep bond markets happy. The disinvestment target was overachieved this year which is quite impressive and could be continued next year, given the euphoria in the stock markets. The Survey does point out that India's stock markets have a different dynamic when compared to global markets. Stock markets all over the world are at record highs and there is concern about a bubble formation. In fact, a new phrase in the international lexicon is melt-up, which is the opposite of melt-down. So whether it's oil prices or commodity prices, and now stock markets, it's all going up and this may be the big surge before a crash, big or small.

But in India, according to the Survey, stock market valuations may not be in bubble territory. That is why the disinvestment target for next year may be higher. Also, the widening of the tax net can

be positive for revenues, thus cutting the deficit.

Global factors

The Survey mentions key macro-economic headwinds from abroad. First, oil prices are going up. This would mean that the triple advantage that the government enjoyed since late-2014 for almost two years of a lower import bill, lower oil subsidy burden and lower inflation is going to go away. Every \$10 increase in oil prices can reduce GDP growth by 0.2-0.3%. And oil prices have gone up by almost 60% in the last six months. The second headwind comes from the tightening stance of the world's most influential central bank, the U.S. Fed. As rates are being tightened in the U.S., it is likely to lead to a reversal of dollar flows, which can impact India's domestic liquidity situation, the stock market, and perhaps the exchange rate.

In addition, there are domestic challenges. The Budget priorities are clearly in these five areas: job creation; revival of private investment spending; revival of exports; focus on rural and agricultural economy; and bringing the banking sector back to a healthier condition. To this one, in the medium to longer term, add worries about increasing inequality. On the eve of the recent World Economic Forum at Davos, Oxfam released a report which said that 1% of India owns 73% of its wealth. This was reportedly mentioned by the Prime Minister in his meeting with Indian corporate leaders at Davos. One cause of inequality is the strain of indirect taxes, which tend to be regressive because they affect the poor disproportionately. The goods and services tax is an indirect tax. Excise duties on petrol and diesel are indirect taxes. In the last three years, the share of indirect taxes in total taxation has

gone up steadily, which needs to be reversed. So there is an expectation that there will be action on the direct tax front to correct this trend.

Tax disputes

Finally, the Survey points out that India's rank in ease of doing business has jumped significantly, but an area which remains a cause for concern is the settlement of disputes or litigation. A telling statistic is the large amount stuck in tax litigation. By definition, one party to the litigation is the tax department, and quite often the other party is also a government company. The total amount estimated to be locked up in tax disputes is more than ₹8.2 lakh crore. And this happens despite the lower authorities or tribunals ruling in favour of the tax-payer; it is automatically escalated to the higher level till it goes to the courts. There is an incentive problem because tax officers are not incentivised to settle claims for fear of being accused of collusion or corruption. The Economic Survey points out that such a high rate of pendency and the huge amounts stuck in litigation are hurting India's ease of doing business. Another telling statistic is the pendency in settling or granting of patents. These are "property rights" arising out of innovations. More than two lakh applications are pending, and isn't this a bad sign for innovators?

The Survey is overall an excellent document which doesn't shy away from painting a realistic picture whether it is about jobs, investments, growth outlook or burdensome litigation. Now all eyes are focussed on the Union Budget. Will it address concerns raised in the Survey or will it go its own way?

Ajit Ranade is an economist

The balancing act

It is now time to draw up a 'to-do' list and begin the heavy lifting in India-ASEAN ties



RAJIV BHATIA

When you stand at the peak of a mountain, you get a full view of the path travelled and the road ahead that will take you to the next peak. The principal gain of the Association of Southeast Asian Nations (ASEAN)-India Commemorative Summit, held in New Delhi last week, is to provide ample clarity on what their partnership has achieved and where it should move in the future.

Scope for cooperation

A good way to begin is to listen to ASEAN voices. The participation of ASEAN leaders in a second summit in Delhi in five years and their historic presence as chief guests at the Republic Day celebrations convey a clear message: India is important to ASEAN; it is viewed as a benign power; and huge scope exists to develop cooperation with it. "We believe," said Singapore Prime Minister Lee Hsien Loong as

co-chair of the summit, "that India makes a major contribution to regional affairs, helping to keep the regional architecture open, balanced and inclusive."

Recent developments in the Indo-Pacific region have lent special significance to the summit. China's economic progress is welcomed, with every ASEAN nation keen to derive optimal benefit from it. But Beijing's assertive diplomacy, strategic postures and coercive action in the South China Sea have combined to sour the environment. U.S. President Donald Trump, on the other hand, gives the impression that ASEAN's priorities and concerns are unimportant. This mix has impelled ASEAN states to expect and encourage India to enhance its role as a balancer in the region.

For India, ASEAN is of vital importance both for strategic and economic considerations. New Delhi seeks to redefine the contours of its neighbourhood. Constraints and setbacks in South Asia and opportunities in Southeast Asia have led it to blur the traditional distinction between 'immediate neighbourhood' and 'extended neighbourhood'. Friendly South Asians and welcoming Southeast Asians now constitute



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our new neighbourhood, with an eastward tilt.

Key areas

The summit's Delhi Declaration reflects a mutual commitment "to further deepen and strengthen" the strategic partnership. Of its 36 paragraphs, nine are devoted to political-security cooperation and socio-cultural exchanges each, while 11 paragraphs deal with economic issues. The remaining sections refer to connectivity and cooperation in narrowing the development gap. Taken together, the measures, spelt out with precision, reveal the bold path the two sides have pledged to follow.

On political and security cooperation, two themes stand out. Freedom of navigation and over-

flight "in the region" is of the highest importance. How the two sides deepen maritime cooperation and to what extent it is extended to practical collaboration among the navies of major ASEAN states and India will be watched closely. The other theme relates to India's support to ASEAN efforts to obtain a legally binding Code of Conduct with China in the South China Sea. An unspoken idea, which may have been covered in bilateral meetings, is how to engage nations such as Indonesia, Vietnam, Singapore and others in the deliberations that 'the Quad' members – the U.S., India, Japan and Australia – have already launched.

Consensus emerged on elevating the existing – rather limited – trade and economic cooperation to a higher level. Full utilisation of the ASEAN-India Free Trade Area and "the swift conclusion" of a modern, comprehensive and high quality Regional Comprehensive Economic Partnership (RCEP) are the next steps. Of course, the RCEP should be "mutually beneficial", but note that the adjective "balanced", preferred by India, is missing from the text. New Delhi does not have the option to stay out of the RCEP, but it needs ASEAN's support to secure an ac-

ceptable bargain. Tough negotiations lie ahead.

The plan to expand socio-cultural cooperation is straightforward: just scale up and diversify exchanges in the desired fields. Separately, Thailand's Minister of Foreign Affairs Don Pramudwinai built a case for "Moral Connectivity" which places people at the centre of inter-state relations.

Prime Minister Narendra Modi made a significant point by wisely including Islam in the list of common bonds, together with the Ramayana and Buddhism. "Islam, in many parts of Southeast Asia," he said, "has distinctive Indian connections going back several centuries." The Declaration commits the parties to enhancing physical and digital connectivity. It also reflects ASEAN's appreciation for India's assistance in bridging the development gap between its older and newer member states. As the year of celebrations and colourful spectacles ends, it is time to begin the hard work. Diverse stakeholders, both in India and ASEAN, have a huge responsibility to shoulder.

Rajiv Bhatia is Distinguished Fellow, Gateway House, and a former Ambassador to Myanmar

LETTERS TO THE EDITOR

Letters emailed to letters@thehindu.co.in must carry the full postal address and the full name or the name with initials.

Simultaneous polls

Those in the ruling party and the NITI Aayog have, in recent times, been offering the suggestion that elections be held across the nation simultaneously for both Parliament and State Assemblies. This is impractical in a large pluralistic country such as ours. A fixed term for both is impractical ("Frequent polls a burden: President" and "PM pushes for simultaneous polls", both January 30). The assertion is based on the claim that every elected government, be it in a State or at the Centre, will last its full term of five years. But this has not been the case because of hung Assemblies, party hopping or on account of changes in coalition politics. Indian voters are discerning enough to know the difference between local and national issues which gets reflected in State and Central election results. Holding region-wise phased

elections will optimise the use of resources such as security forces and help the Election Commission of India scrutinise and manage polls in a better way. Cost is not a measure for freedom and the right to elect.

H.N. RAMAKRISHNA,
Bengaluru

The NDA Government appears to be eager to ride on the popularity of the Modi government by pitching for simultaneous polls, probably in the belief that the focus will shift to issues at the national level. It has nothing to do with the 'economics of costs' and is only a clever ploy to make hay while the sun shines. Simultaneous elections were possible up to 1967, and as long as the Congress held sway throughout India. Since then much water has flowed down the Ganga with a proliferation of parties, mostly formed on region, caste and communal lines, forcing their way into

government formation. With the Congress still reeling on the ropes, coalition governments are a reality, though shadowed by the prospect of political instability. Simultaneous polls would also pose issues in terms of providing security cover across India.

V. SUBRAMANIAN,
Chennai

Gandhi everywhere

It is often argued that Gandhi is no longer relevant in India. We have given up the charkha, gone in for massive industrialisation, and lapsed into communal frenzy. Gandhi was not "a man of the past obsessed with impractical fads". It is the real Gandhi in him that has always been prompting us to be modern, secular and democratic. Without the Mahatma, India may well have become free from the British, perhaps even earlier, but it would not have been a democracy (Editorial page, "Walking

with others on a tightrope", January 30).

C.V. VENUGOPALAN,
Palakkad, Kerala

Gandhiji epitomises the refinement and perfection that a person can attain. Purity of thought and an adherence to utter truthfulness were his moral forte, which embellished his greatness. In an age when hatred and fundamentalism and terrorism are threatening the world, the path of non-violence alone can bring about amity. That we still think about his ideals is proof of his lasting legacy.

R. RAMANATHAN,
Coimbatore

What the Survey says

The findings in the Economic Survey are encouraging and it is perhaps the right time for the Government of India to introduce universal health care for all its citizens. This will guarantee further growth.

C.P. CHANDRA DAS,
Collierville, Tennessee, U.S.

Chapter 7 of the Survey, "Gender and Son Meta-Preference: Is Development Itself an Antidote?", shows the urgent need to recalibrate our targets based on the unique set of challenges thrown up by Indian society. While schemes such as 'Sukanya Samridhi Yojana' are steps in the right direction, as the Survey points out, we need to work more on the actual implementation.

DEBATEYO ROY,
Burdwan, West Bengal

Learning outcomes The RTE Act along with government schemes may have the primary aim of enhancing enrolment in schools but there are only one-sided results to show

(OpEd page, "Three milestones in education", January 30).

Numbers may have increased, but the learning output has been neglected. The earlier 'no detention policy' is to blame for this. Surveys show that students in the higher classes are unable to solve even the simple math problems of the lower classes that they have already "passed". Students may have completed their education but are not equipped with the right knowledge and necessary skills. We must now focus on output-oriented study along with enhancing the learning potential of children.

NISHANT CHOUDHARY,
Nasirabad, Ajmer, Rajasthan

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CORRECTIONS & CLARIFICATIONS: A sentence in the Editorial page article, "A path to executive power" (Jan. 30, 2018), read: "Such posts are mainly to reward MLAs who do find a place in the cabinet." It should have read: "Such posts are mainly to reward MLAs who do not find a place in the cabinet."

The Readers' Editor's office can be contacted by Telephone: +91-44-28418297/28576300; E-mail: readerseditor@thehindu.co.in