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State of GST

GST transfers to States are falling short of what was promised under law. This needs to be resolved

With Central GST collections falling short of expectations, States too are feeling the pinch. Under the GST Act, States which experience a tax revenue growth of less than 14 per cent per annum are liable to be compensated by the Centre for the first five years, as part of the transition plan. Under the Act, a compensation cess will be levied on select goods and services, including imports, till July 2022 to raise this sum. However, at least five States have said that the Centre owes ₹40,000 crore by way of dues. It is a fact that GST collections are lagging behind the generally accepted monthly benchmark of ₹1 lakh crore, including the compensation cess. The unprecedented economic slowdown would suggest that this crunch is here to stay for a while. Yet, to preserve the sanctity of contract, the Centre must address this problem amicably, at the earliest.

The GST process is a triumph of cooperative federalism, with the States ceding their taxation powers for the larger goal of creating a uniform, business-friendly tax landscape across the country. A plethora of taxes was done away with in this grand bargain, in the hope that higher economic activity would eventually offset any revenue loss. To be sure, efficiencies in logistics have been realised, while uniform, largely predictable rates (the GST Council seems to have gradually stabilised matters on this score) have removed a significant element of uncertainty for investors. However, any hint of a breach of faith can rock the GST project. It must not be forgotten that about 60 per cent of the States' revenues come from the GST, which includes the SGST collection, the States' share in IGST collections and the compensation cess. The IGST revenues account for half the total collections (in October it was ₹46,570 crore out of ₹95,380 crore) while the cess accounts for about 7 per cent. The Centre's present practice of making adhoc part-payments of its IGST dues to the States has given rise to heartburn. The GST collections are down for a number of reasons. If the economic slowdown is the single biggest factor, fake invoicing and compliance headaches have also complicated matters. Tax harassment, despite numerous assurances by the Finance Minister, remains a reality on the ground. Under pressure to meet revenue targets, the tax officials have been contesting tax payouts, often moving arbitrarily against enterprises. Such actions impact business sentiment; meanwhile, delays in GST tax credit disbursements have played a major role in the liquidity crunch in the industrial sector. Tardy implementation, a factor flagged by the CAG earlier this year, comes with an economic cost.

An economic recovery will take care of most of these concerns of States, while a friendly tax administration will improve tax buoyancy, which has not been impressive in the post-GST phase.

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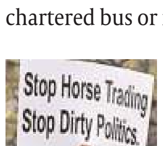
FROM THE VIEWSROOM

The 'new normal' in politics

Shifting allegiances, bus-and-hotel politics can't be tolerated anymore

It's with a sense of bewilderment that many in Maharashtra see the ease and brazenness with which their political representatives switch allegiances. Voters who supported the BJP now watch in horror as the person pilloried in pre-election campaigns for his role in multiple agricultural scams, suddenly becomes kosher for the post of deputy Chief Minister, only to have him resign hours before a floor test. On the opposite side, the Shiv Sena, the NCP and the Congress have buried the hatchet and put away their divergent ideologies for another day.

But for Indian voters, this is not without precedent. From Bihar to Goa to Karnataka in the recent past, voters have seen switches, allegations of inducement and the now ugly "new normal" of carting elected political representatives off in a chartered bus or flight to a "secure" hotel. So no more juicy carrots can be dangled by anyone to lure representatives from one party to another.



Contrast this with a speech that gained much visibility recently, when the longest-serving Republican in the US' Iowa Legislature announced that he was switching parties, earlier this year. "...my decision to switch political parties has been a very difficult decision for me and has only come after considerable reflection, much prayer, and many restless nights,"said Andy McKean, who described himself as a registered Republican for close to half a century and a Republican officeholder for 35 years.

He spoke of the coarsened political discourse that prevails, unprecedented polarisation and the creation of a breeding ground for hateful rhetoric and actions. And to those justifying this culture of "telling it like it is" as the "new normal", he said: "If this is the new normal, I want no part of it. Unacceptable behavior should be called out for what it is ..."

Many voters in India may well be echoing similar thoughts as they watch the political crisis unfold in Maharashtra. If inconsistent ideologies and bus-and-hotel politics is the "new normal", time for the voter to say she wants no part of it.

PT Jyothi Datta Deputy Editor

Has India's financial sector lost the plot?

Reforms have failed to boost public investment or provide relief to financial institutions. A comprehensive review is needed

BANDI RAM PRASAD

The outcome of reforms in India, in a broader sense, is remarkable. The breadth and depth of finance have vastly increased — be it in banking, financial markets, insurance, or fund management. Investment opportunities have grown with newer asset classes, an expanded market infrastructure and innovative distribution.

If that is the impression of the whole, what is happening in the individual parts may not seem impressive. The critical concerns are often camouflaged under the glare and glamour of markets. Distortions that are creeping into the fabric of finance could pose a hazard of pushing it away from the very purpose for which it was reformed.

Let us begin with the bias in banking. In 1990, rural areas accounted for 15 per cent of deposits and 24 per cent of credit, both of which fell to 10 per cent in 2018. Metro areas sucked in a large part of business — with deposits jumping from 39 per cent to 51 per cent and bank credit from 37 per cent to 59 per cent. Semi-urban/urban areas saw some minor changes.

The decline in rural banking may slow the pace of development and the achieving of the UN's Sustainable Development Goals, despite interventions like the Jan Dhan Yojana. It would not do much good for public sector banks to overlook rural and semi-urban areas, which are traditional venues for raising low-cost deposits. The scene on the side of markets, too, is discomforting. For a benchmark index that accounts for about 70 per cent of domestic market cap, only half of the companies listed in stock markets are traded on any day; liquidity concentration in a few stocks only, in the absence of independent research to promote newer companies that hold potential, is considered routine. There are structural issues that are gaining gravity and need scrutiny.

Resource mobilisation

Three sectors — banking, finance and insurance — mobilised anywhere up to 60 per cent of the resources from the primary markets during 2010-18, leaving questions on how 'Make in India' will be made possible as manufacturing hardly has a fair share. Regional inequities become glaring as the western and northern regions account for 80 per cent — the South and the East are way behind with 14 per cent and 6 per cent respectively — of resources mobilised.

Reforms are meant to expand the base of investors in public markets. India's public markets have not widened the investor base enough to the potential it holds, as could be seen from resources mobilised in the private placement corporate debt market (seven times higher), and Qualified Institutional Placements accounting for about 50 per cent of the primary market issuance, during 2010-18.

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This surely is a distinction for Indian markets, but the lingering concern is about its questionable contribution to either economy or development, when the notional value traded in equity derivatives (mostly index options) is 30 times the size of spot market turnover, the benefit of which is largely derived by a small fraction of smart traders specialising in the zero-sum game of taking complex bets using sophisticated strategies supported by latest trading technologies.

Banking woes

NBFCs depend on banks for up to 30 per cent of fund requirements, and many at present are in dire straits. The write-downs from this put additional strain on banks' profitability.

New private sector banks began with a big bang in the early 1990s with less than a handful turning successful. While four of them chose to merge, from the others, two are now facing governance issues and two — licensed recently — are yet to stir up any excitement.

Older private banks are struggling under various types of stress. Urban cooperatives are primarily meant to be local, but management lapses are hurting their sustained growth.

Commercial banks still struggle to fulfil demands for short-term finance, but were made to lend long-term under the lure of universal banking — this hit them badly.

While the likes of China Development Bank, with $2-trillion assets; BNDES of Brazil, $272 billion; and the recently-formed VEB.RF of Russia, $50 billion; are playing a pivotal role in providing development finance for their respective markets, India had lost this important opportunity by neglect and the conversion of a couple of strong development banks into commercial banks that are now under different degrees of stress.

Reform outcome Critical concerns are hidden behind the glamour of markets

DFIs in India were doing two-thirds of total disbursals in industrial finance prior to their conversion.

Development finance

Mutual funds began to increase awareness (*Sahi hai*) when they found two of the big players deferring redemption obligations, stoking investor concerns. Corporate finance faced intense pressure. Private equity flows have surged from $4.5 billion in 2009 to $16.8 billion in 2017, but remained unchanged in 2018 as start-ups began to see a struggle ahead.

Of the $512 billion of climate bonds issued globally till 2018, India could make $7.2 billion, as the pace of green finance began to stutter after an initial start. SME capital markets could barely raise ₹5,000 crore in the last five years.

Recapitalisation and merger of PSBs, rehabilitation and resolution of distressed companies, tax concessions, and adhoc support to stressed sectors at best could provide temporary relief on the side. India has yet to come up with a wholesome plan and clear strategy how to make finance work for the country.

Where could it start? To begin with, an honest review of the fault lines of finance by a truly independent commission with interests of India at the core and domestic economy as the priority, without the peddling of worn-out Anglo-Saxon models. Second, finance should be dealt with utmost sanctity and integrity, avoiding shocks like demonetisation that severely dent the public's trust and confidence.

Third, public capital markets must be entrusted with a charter, with capital raising being the key responsibility, not just showcasing of technology prowess or excessive indulgence in speculative products. Fourth, banks should be made frontline providers of finance for SMEs, and consumption should be boosted by creating specialised institutions for long-term finance for various reasons.

Fifth, India could strive to promote a subcontinental perspective in financial development, that could enhance its regional influence and power of engaging with global financial policy. Sixth, the government and the public sector must be the trend-setters and display financial discipline and corporate governance, rather than being shielded through the various exemptions and exceptions.

Now is the time to review and retrospect in right earnest. It would do a lot of good for a course correction.

The writer runs the consulting firm 'Growth Markets Advisory Services'. Views are personal

The pursuit of too much labour flexibility

Proposals in the Code on Industrial Relations give employers excessive room and may start a race to the bottom in labour standards

KR SHYAM SUNDAR

There have been news reports that the Union Cabinet has approved the Industrial Relations Code with some significant changes. The fact that the Central government had taken up the reform measures by starting with the so-called worker-friendly wage code reflects the sensitive nature of the Code on Industrial Relations (CIR).

The existing law stipulates that industrial establishments (factories, plantations and mines) employing 100 or more workers must secure prior permission from the appropriate government for layoffs, retrenchment of workers or closure. The Central government in the draft CIR (March 2015, *https://www.prsindia.org*) proposed raising the threshold from 100 to 300, which was opposed to vehemently by all central trade unions (CTUs), including the BMS.

In March 2018, the Centre introduced the fixed-term employment (FTE) contract option, which was also criticised by the CTUs. Meanwhile, a few State governments (like Rajasthan and Assam) amended the Industrial Disputes Act, 1947 to change the threshold from 100 to 300. It is in this context the proposed changes need to be seen.

Employment threshold

The proposed CIR retains the present threshold of 100 while empowering the appropriate government for "changing 'such number of employees' through notification (executive order)." It is quite evident that the Centre has at one stroke sought to appease both CTUs and the industry.

The industry can look forward to "such government notifications", which do not need legislative processes (which makes lobbying for flexibility easier and lowers transaction costs).

The Central government will tell the CTUs that the Central law remains unchanged and since "labour" is on the Concurrent List, the State governments can change the threshold as they deem necessary.

So, the labour law reform battle has shifted from the 'national' to the 'regional' terrain. The measure is a double-whammy, because the proposed hike in the retrenchment/closure compensation (from 15 days to 45 days of average salary) will be dropped,no change in the threshold in the law; even if an executive order provides for it, it may not be uniform.

Temporary jobs No safeguards in FTE

The proposal will lead to a "race to bottom" in labour standards. What prevents one State from not altering the threshold more radically than another, to provide "labour flexibility sops" to potential and existing investors? The incentive to do so is strengthened by two institutional factors at the regional level — absence or limited use of social dialogue forums; and weak bargaining power of trade unions *vis-à-vis* the government and industry (thanks to unbridgeable political differences amongst trade unions).

Permanent FTE

The Centre is also proposing to 'legalise' FTE with attendant benefits as enjoyed by comparable regular workers. A scrutiny of the existing FTE law shows that apart from extending proportionate benefits, it is bereft of job security safeguards. For example, there is no bar on the tenure and the number of renewals of FTE contracts: this means a worker could be on a FTE contract for any periodand the FTE may be renewed indefinitely, which will add to another precarious labour situation — "permanently FTE".

In several countries, FTE can be used only on certain grounds — for example, as replacement for pregnant or injured workers or for seasonal business. But in India, these conditions are not specified. Thus, the probability of conversion of the "regular vacancies" in the future (as regular workers retire, resign etc) into FTEs will be higher.

Also to be noted are the amendments made to the Contract Labour (Regulation and Abolition) Act, 1970 by States such as Rajasthan and Maharashtra, to apply this law to contractors and principal employers with 50 or more workers. Further, the proposed Code on Occupational Safety and Health provides for special-work contracts even if the contractors are not able to comply with the requisite criteria in the Code. This means petty contractors who are more likely to violate labour laws will go unregulated.

Hence, even the "good" proposal by the Finance Minister of provision of "gratuity" to the contract workers lacks credibility. Will labour-cost minimising employers prefer FTE to cheaper (no proportionality rule still in the law) and easily dispensable contract workers? And if contract workers must be provided "gratuity", then other flexi-category workers will be preferred to them, given higher transaction costs of the latter apart from the rise in labour cost. The irony is the hierarchical preference of flexible labour, without accounting for productivity effects.

Now employers have too much flexibility to toy with. At the same time, the resultant unemployment (even short-term), underemployment (a FTE in place of a "job"), income and social insecurities, etc., arising from an aggressive flexible labour market will further weaken aggregate demand even as the economy is on a downward spiral.

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LETTERS TO THE EDITOR

Send your letters by email to bleditor@thehindu.co.in or by post to 'Letters to the Editor', The Hindu Business Line, Kasturi Buildings, 859-860, Anna Salai, Chennai 600002.

Coal production

Apropos 'How to make coal mining sustainable' (November 26). Even though India is one of the largest producers of coal , due to high demand and insufficient output of good quality coal, the country has resorted to importing coal. Impeding of supply, corruption, issues in land acquisition and environmental clearances, lack of integrated planning for production, problems in final mine closure, adverse effects of mining on the ecology of the local area are the key problems of the industry. Indeed, enacting a sustainable Coal Mining Code for a unified authority will bring in a plan-based atmosphere to increase the production of coal and reduce imports.

NR Nagarajan
Sivakasi

Maharashtra imbroglio

With reference to 'Constitution more powerful than money, muscle power: Congress on Supreme Court order' (November 26). The reported claim of senior Congress leader Prithiviraj Chavan stating that the "reality of the BJP's claim will be exposed tomorrow" should not be taken at face value. The Shiv Sena has already started distributing sweets after the Supreme Court's direction calling for a floor test in the State Assembly on Wednesday. As is well known, the Shiv Sena-NCP-Congress combine openly claimed the support of 162 MLAs on Monday.

Let us wait and watch the emerging situation at the floor of the State Assembly. Needless to say, anything can still happen in this roller-coaster case. Dirty politics sans morality just keeps growing nowadays.

SK Gupta
New Delhi

Political games

Irrespective of the outcome of the vote on the floor of the Maharashtra Assembly on Wednesday, its repercussions will move beyond the State. The patent overreach of the Centre in the hush-hush swearing-in of Fadnavis has invigorated a rare resolve in the other parties to unite. The dramatic withdrawal by the Centre of many serious criminal cases against Ajit Pawar and the reinforcement of a popular notion that the government misuses its agencies for political gain is sure to hang in the air. While a win for the Fadnavis government on Wednesday could well invite crticism on a national scale, a loss may prove useful to the BJP in the longer run . The ides of November are sure to dog the BJP .

R Narayanan
Navi Mumbai

Labour laws

The nod given by the Union for a labour code on industrial relations is welcome, as it would enable the companies to hire workers on fixed-term contracts across all sectors, providing more flexibility to industry while ensuring equitable treatment and social security benefits to workers. Coupled with this long-overdue measure is the push towards the amalgamation of 44 national labour laws into four codes on wages, industrial relations, social security and occupational safety and health, and working conditions.

Given the proven link between flexible labour markets and improvements in productivity and job creation, it is time States took the lead and effect a transition towards flexible labour markets. With countries like Bangladesh, Vietnam and Indonesia turning more competitive in labour-intensive sectors by effecting flexibility in labour laws, we cannot afford to lag behind.

M Jeyaram
Sholavandan, TN

Pre-poll alliances

The Election Commission of India should immediately issue orders that pre-poll alliances between political parties be binding, at least up till one year after the election.

It has become a regular practice for political parties to form alliances to contest election, which are in turn becoming contests between one front of the political parties and others.

People exercise their franchise in favour of one front or the other, expecting the winning alliance partners to form the government. However, in practice, this is not happening. On many occasions, parties switch loyalties immediately after the poll. This has made mockery of the election process and disregards the verdict of the electorate.

The EC must take immediate action in its power as a Constitutional body. Certainly, the people of India would applaud the move, as it will serve the cause of healthy Indian democracy.

NS Venkataraman
Chennai

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