



Intermission

With higher taxes post-GST, Tamil Nadu must lift the price controls on cinema tickets

Taxes are of two kinds. A progressive tax can be an instrument of state policy, yielding benefits for the many at the expense of a few. But a tax can also be debilitating. A higher rate can sometimes be counterproductive, restricting the growth of the sector, and eventually resulting in lower revenues. With the introduction of the Goods and Services Tax, the Tamil Nadu film industry is squeezed on every side; in protest, cinema halls across the State have downed their shutters indefinitely. What is hurting is not the 28% GST on tickets priced above ₹100, or even the 30% levy imposed by local bodies as entertainment tax, but the fact that these come on top of the existing State government-imposed cap on ticket rates. The cap of ₹120 means that the exhibitors might earn more from their lease of cinema space to popcorn vendors than from screening the film. Indeed, given the differential rates, the exhibitor might not be able to earn much more from charging ₹120 for a ticket than he could from charging ₹99. Increasing tax rates while maintaining an overall price cap makes no sense at all. Governments are free to not incentivise certain services or forms of consumption. However, in this case, the end result of the squeeze on the margins of exhibitors and distributors is making the entire film industry unviable. The price cap on tickets was sought to be justified on the ground that otherwise there would be exploitative premiums charged on keenly awaited films during the early days of their release, when demand runs high. It was believed that this protected members of fan clubs of popular film stars, most of whom are from the lower social strata. But with the piling up of different taxes, it is the exhibitors who are at the wrong end of the exploitation.

Although some Tamil films qualify for exemption from entertainment tax, on account of their 'social messaging', such certification depends all too often on pulling the right political strings. In an industry where politicians of every hue are involved, tax exemption has been open to widespread abuse. Local bodies have not earned much from entertainment tax, but what the government loses in terms of revenue, the party in power gains in terms of power and influence over the film industry. Given that the GST rates cannot be altered, being fixed nationally, the sensible solution is to give up the price cap on tickets and reduce the entertainment tax. Price caps on tickets have inhibited the building of new cinema halls in Tamil Nadu, even as old ones shut shop. Also, if the government's true objective is to safeguard the interests of the filmgoer, then it must be ready to forego tax revenue. The lesson that Tamil Nadu needs to understand is that a high rate of taxation can be debilitating in a price-controlled situation.

Open to capital

China takes a positive step to globalise its bond market

China opened itself to foreign investors on Monday by liberalising rules that regulate participation in its massive bond market. The new Bond Connect scheme, which was keenly awaited for months, allows large foreign investors such as banks and pension funds to buy and sell mainland Chinese bonds through offshore accounts in Hong Kong. China's bond market, the third largest in the world, is estimated to be over \$9 trillion in value and is expected to double in size over the next five years. Yet foreign investors own less than 2% of the overall bond market, thanks to China's policy of raising significant barriers to the free entry and exit of capital. Further, its central bank, the People's Bank of China, of late has been tightening monetary policy to squeeze out liquidity, which has, in turn, led bond yields in China to be higher than in many developed economies. So it was no surprise that investors rushed in to make use of the scheme to trade in Chinese bonds and later announced their entry. It is noteworthy that the present move to liberalise bond investment comes after the Chinese authorities took significant steps to ease the purchase of mainland stocks by foreign investors. The Shanghai and Shenzhen stock exchanges were connected to the Hong Kong stock exchange in 2014 and 2016, respectively, which allowed the entry of hundreds of Chinese stocks into international indices such as the MSCI. Chinese bonds can now expect similar international recognition.

Bond Connect is a significant step in China's march towards a more open capital account. First, the inflow of foreign capital will help Beijing control the yuan. In time, the scheme will boost the borrowing potential of the Chinese sovereign as well as of corporations, while improving bond market liquidity by offering access to a wider pool of international capital. The entry of more private capital into the Chinese economy can encourage investments in economic projects as well. Also, after the inclusion of the yuan in the International Monetary Fund's basket of currencies in 2016, the present bond reform gives a further boost to the Chinese currency. In the long run, greater participation of foreign investors in Chinese financial assets will increase the usage of the yuan, and thus aid Beijing's efforts to internationalise the currency. This trend will also help bring more stability to China's financial markets, known for their high levels of volatility, by improving transparency and the quality of business practices. It is worth noting that currently about 70% of bonds in China have a maturity period of less than five years, and a quarter of less than one year, as investors are wary of the risks involved in lending money over longer periods. Going forward, the challenge for Chinese authorities lies in allowing free price discovery, which can lead to painful turmoil in the short run in its bond market. It will indeed be a test of whether they have learned the right lessons from the stock market crash of 2015.

The terrorisms we overlook

The state's association with terror – in mob lynchings or in extortion – is not compatible with freedom



PULAPRE BALAKRISHNAN

Over a century ago, an Indian subject living in London wrote a pamphlet that was to become a rallying point for India's nationalists. Dadabhai Naoroji's *Poverty and un-British rule in India* was not merely an indictment of economic imperialism but also served to call the bluff on the claim that the British Empire was necessary to ensure fairness in the governance of an India misgoverned by its native rulers.

His suggestion was that British rule in India could hardly be deemed fair if it was associated with a drain of wealth engineered by the colonial state. Two sets of events that have taken place in India recently point to a state that continues to remain at odds with the aspirations of most Indians. Both involve death of our fellow citizens in which the state is implicated at least indirectly. That the state can be so placed leaves us to ponder the democracy we actually have. Only, unlike Naoroji's salvo against the colonial state, today we would want to engage with ours in order to ensure that it is fit for a democracy.

Terror, within and without

Most of us seem to have an idea of what we mean when we utter 'the T-word'. It unambiguously refers to attempts to destabilise if not actually destroy India from the outside. It is this conception of terrorism that the Prime Minister employed when, on his most recent trip to the United States, he teamed up with its President to declare a commitment to fight global terrorism. We may query the wisdom of aligning India with a United States



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whose historical role *vis-à-vis* terrorism is dubious. U.S. foreign policy incubated the Taliban, which spread terror in the name of Islam, and rained terror on Iraqi children in the name of keeping the world safe from weapons of mass destruction. However, it cannot be doubted that India faces the threat of terror from outside its borders. '26/11' is only the most egregious instance of this. Then, armed thugs had gone about massacring innocent Indians in public spaces in Mumbai. To characterise, as some do, the horror this had evoked across the country as some reactionary nationalism is to miss the threat such terror holds out to the 'idea of India', at its core a vision of diverse people living in harmony.

India though is also besieged by terrorism emanating from within its borders, and this needs to be addressed with at least as much urgency as that which Prime Minister Narendra Modi brings to the issue of the external threat to India. Two forms of this may be earmarked, one more recent and highly visible and the other centuries old and honed to perfection. Ending both would require addressing how the machinery of government functions here.

Over the past two years or so we

have seen a rising tide of violence, mainly in northern India, against Dalits and Muslims. This has revolved around the treatment of the cow. Indians have been physically attacked by rampaging mobs accusing them of storing beef or transporting cows for slaughter. Upon this excuse, Dalits have been assaulted and Muslims actually killed. Finally, on June 28, aroused citizens across the country gathered to protest against this violence under the banner 'Not In My Name'. It is the most significant protest against intolerance that we have witnessed so far and appears to have had success, for the very next day the Prime Minister remarked in a speech made at the Sabarmati Ashram in Ahmedabad that individuals had no right to kill in the name of *gau bhakti*. He had gone on to add that Mahatma Gandhi would not have approved of their action.

A weak response

Surely the latter is a little naïve in that the *gau rakshaks* represent a strand of thought that believes Gandhi emasculated Hinduism in whose name they themselves now act. The Prime Minister's response to the terrorising of Dalits in Gujarat and the killing of Muslims

across north India is far too weak in relation to the negation of democracy that this violence represents. It is expected of government to protect citizens from assault by fascist forces and he should mobilise the government machinery to do so. That law and order is a State subject is not an excuse and in any case most of this violence is taking place in States ruled by the Bharatiya Janata Party. It is clear that the civil administration code in India sufficiently empowers the district-governing authority to deal with the situations related to mob lynching. As vigilantism, often enacted while the police stand by watching, is completely unacceptable in a democracy, one would expect the government to outline in Parliament what it intends to do to eliminate it.

Terrorism of extortion

Meanwhile in southern India, we have a glimpse of the Indian state in an avatar different from that of a passive observer of murder. It is one of those in charge of its levers using their position in ways that can cause the death of citizens. In Kerala in late June, a farmer was found hanging within the premises of a village office in Kozhikode district. Piecing together entries in a suicide note and the statements of relatives and neighbours, we know the following: For some time the farmer, Kavilpurayidathil Joy, had been trying to pay the taxes due on his land. The village office was refusing to accept it. For him, evidence of taxes paid was the proof required to either pledge or sell his land, which he needed to do quite urgently in order to repay debt.

One version is that the village office was unable to accept the tax as the title to the land itself was under dispute, the property being forest land, thus rendering the private possession of it illegal. But this account makes a mockery of the fact that tax on the same property had been accepted earlier. An inter-

pretation of the stance of the representatives of the state, who constitute the village office, is that the farmer was being harassed for a bribe in return for their registering the payment. This account gains credibility when considered along with the public's perception that the Revenue Department in Kerala is among its most corrupt. Note that the farmer did not go quietly and in despair. He chose to hang himself in the premises of the village office to register his protest at the injustice meted out to him by the state. An almost similar incident had occurred only weeks before in the State's south when a woman, frustrated in her attempts to have a property transfer acknowledged by the authorities, attempted to immolate herself in a government office.

It is significant that these instances have been recorded in Kerala, a State praised for its record of human development and presently ruled by a communist party. When the government, with which the first point of contact for a farmer is the village office, causes mental agony for the citizen by denying him the opportunity to discharge his obligations, it is tantamount to terrorism. India cannot be deemed to be a democracy so long as the agents of state can generate insecurity among the people by the threat of punitive action if they are not extended gratification.

In the seventieth year of India's Independence, we must recognise that the machinery of government as we know it came into existence to ring-fence plunder by the East India Company. Its association with terrorism, indirectly in the case of the mob lynchings or directly in the case of extortion, is not compatible with freedom. India's state needs to be governed. To paraphrase our President, we can't be vigilant enough.

Pulapre Balakrishnan is an economist

Signs of a Persian gulf

New Delhi needs to work with Tehran to resolve bilateral irritants affecting economic ties



HARSH V. PANT

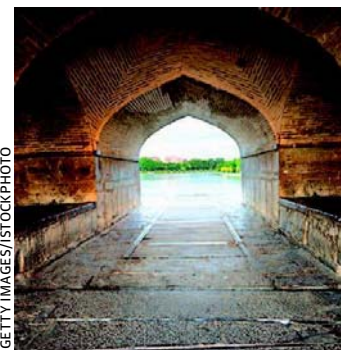
During his Id sermon delivered on June 26, Iran's Supreme Leader Ayatollah Ali Khamenei ended up equating the Kashmir conflict with those in Yemen and Bahrain. He is reported to have said: "Conflicts in Yemen, Bahrain, problems in all Islamic countries, are major wounds on the body of Islam. The world of Islam should explicitly support the people of Yemen, and express [its] disdain against the oppressors who've attacked the people in such horrible ways during the month of [Ramzan]... The same is true for the people of Bahrain and Kashmir: Our people can back this great movement within the world of Islam."

Though this took many observers by surprise, the Ayatollah has been talking of Kashmir for quite some time. In 2010, he had sermonised: "Helping the Palestinian nation and the besieged people of

Gaza, sympathy toward and cooperation with the people of Afghanistan, Pakistan, Iraq and Kashmir... safeguarding the unity of Muslims... and spreading awakening and [a] sense of commitment and responsibility among Muslim youth in all Islamic lands – these are great responsibilities that currently lie on the shoulders of prominent figures of the Islamic Ummah."

Politics in the Arab world

So there is nothing new in his recent statement, and New Delhi has done well not to give it too much weight. India's relations with Iran are important and the reformist regime of Hassan Rouhani is looking for a wider global engagement. The Ayatollah's statement probably reflects his country's concerns about getting regionally isolated at a time when the Donald Trump administration's hard line against Tehran seems to have emboldened Saudi Arabia and its allies to squeeze Iran out of the regional matrix. The de facto blockade of Qatar by Saudi Arabia, Egypt, Bahrain and the United Arab Emirates (UAE) after cutting off diplomatic ties last month underscores this complex reality. Qatar has been issued a 13-



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point list of demands which includes curbing diplomatic ties with Iran, severing ties with the Muslim Brotherhood and shuttering the Al-Jazeera news network. This has been rejected by Qatar. Riyadh has further warned that more punitive measures would follow if Qatar embraces Iran any further.

Saudi Arabia and Iran are engaged in a range of proxy wars across the region – in Bahrain, Syria, Yemen, apart from their growing hostility in Iraq. Ever since the Islamic Revolution of 1979, Riyadh and Tehran have struggled to shape the Gulf in consonance with their own interests, using religion instrumentally to hide their pursuit of power. An attack on Iran's Parliament on June 7, for which it

blames Saudi Arabia, has further heightened the tensions.

The Ayatollah's recent utterance on Kashmir might be a signal to India that its growing closeness to Saudi Arabia and the UAE is being watched closely in Tehran. It's a reminder to India that Iran too has a role in the Islamic world which can't be ignored.

Yet, the emergence of Kashmir in India-Iran bilateral discourse is nothing new. India has always been wary of Iran's support for Pakistan in the Organisation of Islamic Cooperation (OIC) regarding Kashmir. Iranian criticism of India's position on Kashmir has repeatedly sparked protests within the Indian government against Iranian interference.

Economic ties turn tepid

However, as regards bilateral relations, the recent decline in economic ties should be of greater concern to the two countries. Iran seems to be in no hurry to decide on awarding the contract for gas exploration in its Farzad B offshore field to ONGC Videsh. Pending a decision on the contract, India has decided to decrease the volume of Iranian crude oil it will be buying this year. There have been reports

that Tehran has signed an initial agreement for the gas field with Russian giant Gazprom. For India, which stood by Iran during the height of its global isolation, this is certainly galling.

Further, the slow pace of the Chabahar port project has irked the Iranians and they have indicated that despite India developing the project, it won't be exclusive to the country. Pakistan and China might also be invited to get involved. For India, this undercuts the very strategic utility of the port – viewed as India's answer to the Gwadar port that will allow it to circumvent Pakistan and open up a route to landlocked Afghanistan.

While New Delhi has done well to ignore the Ayatollah's provocation on Kashmir, it needs to work with the Rouhani government to ensure that the bilateral irritants in fostering economic ties are resolved soon. There are far too many issues, including the future of Afghanistan, that require closer coordination between the two countries.

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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.

Strong-arm tactics

Advocating non-violent resistance to the racially discriminatory Asiatic Law Amendment Ordinance issued by the Transvaal government in 1906, Mahatma Gandhi made a powerful statement to incite a non-violent rebellion against the state. While the struggle then was an assertion of human dignity, the disturbing pattern of intolerance and polarisation pervading the country now is a manifestation of state-sponsored majoritarianism. In order to have dissenters fall in line and make them "obey" the prevalent line of thought, emotive matters are being allowed to culminate into acts of lawlessness and violence. It is unfortunate that the legislation on cattle sale on the one hand and a communally venomous agenda on the other are being misused by fringe groups as a tool to harass and intimidate the minorities. Society is increasingly being coerced into conforming with an intolerant and

hate-filled interpretation of faith ("The organising principle of lynch mobs", June 4).

SHREYANS JAIN,
New Delhi

■ Neera Chandhoke's views, though philosophically correct, seem exaggerated after a point. The crux of the situation should be read in terms of how uneducated sections involve themselves in such activities. There are still many safe havens in the country where such acts would never be thought of, especially where the educated constitute a majority in such regions. Hence, educating people is the antidote for the poison of communalism in whosoever it roils.

TEJASVI SRIVASTAVA,
Lucknow

■ Our society should understand the underlying consequences of such acts. We as a society must block this wave and protect the ideals of our democracy not only for ourselves but also for the generations to come. People should also shed the

idea that just because this government is scandal- and corruption-free, all is well. Mob attacks and vigilantism have no place in our democracy. We must ensure that the diversity within our country is protected.

KAPIL SINGH YADAV,
Bhattaganj, Jhansi, Uttar Pradesh

Questions and reaction

It is obvious that Kapil Sibal is trying to adopt an anti-Modi stance ("They may call it anti-national", July 4). It is strange that for Mr. Sibal, demonisation is more "shameful" than the Congress's bagful of scandals. Does the right to speech entitle you to disrespect your country? Should defending a terrorist not be considered anti-national? The BJP, with its quixotic right-wing ideology, might be no saint, but all said and done, the country seems to be in better hands than in being led by the Congress.

DEEPTI JAIN,
New Delhi

■ Mr. Sibal has posed pertinent questions on the

policies of the government. The government has yet to tell us how much demonised money has come back into the system. A spate of RTI queries has been met with a stony silence. The attempts to take on the *gau rakshaks* have been hardly convincing. The inexplicable push to have Aadhaar as an all-encompassing instrument of identity is baffling. On the internal security front, the situation in Jammu and Kashmir is turning from bad to worse. The government is clearly reluctant to cede any space to the views of other political parties, which is proving to be its biggest drawback. There is a need for consensus and conciliation with the Opposition.

J. ANANTHA PADMANABHAN,
Tiruchir

On GST

Mere innovative restructuring of indirect taxes will not lead to enhanced GDP of the Indian economy in the wake of the failed performance of the farm sector. In fact, unless

the agriculture sector registers a growth rate to the tune of not less than 4% per annum, the growth rate of GDP of the Indian economy can never be stable and permanent. After the introduction of GST, it is estimated that GDP growth rate will come down from 7.1% to 6.1%. The pattern of sectoral contributions to the economy is topsy-turvy. Agriculture accounts for 17% of the total contribution to GDP, industry accounts for 25% while for the service sector, it is 52%. Unless these policy errors in structural contributions are rectified, GDP growth rate cannot be increased in a stable and secure manner. Finally, reconstruction and rehabilitation as far as the farm sector is concerned is the need of the hour.

V. SIVAPRAKASAM,
Chennai

Fading to grey

Hair dye, or 'colouring' in modern parlance, is a money-spinner as far as parlours and salons in India are concerned. Gone are those days when one took

pride in having an avuncular image or when a 'grey eminence' symbolised intellectual achievement. The best option is to have a clean shave ('Open page' - "Looking for that silver lining", July 2).

J.V. REDDY,
Nellore, Andhra Pradesh

■ It is true that leaving one's grey hair as it is gives those who are middle-aged a respectable and dignified look. But what about those who go grey even at 20? Such people do face a dilemma and they mostly have no choice but to dye their hair. In my case, for instance, I developed greyness on both sides near my ears, at 28. I refused to follow the suggestion of family and friends to reverse matters. A relative began dyeing his hair at an early age and developed health problems which were traced to the dye used. When it comes to one's looks it is better to leave it to nature.

D. SETHURAMAN,
Chennai

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