

# Slow creep

Taxes need to be eased to make petrol and diesel more affordable to consumers

trol and diesel prices have crept up slowly over the last three months, but without inviting the kind of anger and criticism usually directed at such fuel price hikes. The price of petrol in Delhi, for instance, has cumulatively increased by almost ₹5 since the introduction of the daily pricing policy on June 16 this year. Daily pricing is now being seen by many as a ploy to increase prices while allowing the government to escape any political backlash. The government, for now, has ruled out any change to the current pricing policy arguing that it, in fact, ensures that the benefit of lower international crude oil prices is passed on to domestic consumers. A comparison of crude oil prices with domestic petrol and diesel prices, however, suggests that this argument is far from convincing. In 2012, when India purchased a barrel of crude for around \$120, a litre of petrol was sold at around ₹65 in retail fuel stations. Today, when the Indian crude basket price has dropped to around \$50, the retail price of petrol is well over the ₹70 mark. This does not come as much of a surprise. The deregulation of petrol and diesel pricing, in 2010 and 2014 respectively, caused fuel prices to be determined primarily by the forces of supply and demand rather than input costs. Traditionally, fuel prices were determined on a cost-plus basis, which led domestic prices to fall in line with the cost of inputs like crude oil.

Still, lower international crude oil prices should have led to lower domestic fuel prices even under the free pricing regime, if not for the heavy taxes imposed on domestic fuels. Excise duty and value added tax are the main culprits in this regard. In fact, about half the price paid by the Indian end-consumer for petrol goes towards paying these taxes. The government's excise duty collection, for instance, has more than doubled during the period 2014-17, from ₹99,184 crore to ₹2,42,691 crore. This suggests quite clearly that the government, not the consumer, has been the biggest beneficiary of lower crude oil prices since 2014. These taxes impose an artificial limit on the amount of supply that can be profitably sold to the Indian consumer, which in turn leads to consumers paying higher prices for petrol and diesel. In fact, an alternative tax such as the goods and services tax (GST), even at its highest slab of 28%, would substantially lower the current tax burden on fuels. Apart from making petrol and diesel more affordable to many more people in the lower rungs of the economy, it will also decrease the economic distortions caused by extraordinarily high taxes imposed on automobile fuels that are widely used. Along with lower taxes, greater competition in the fuel retailing market will allow further cost efficiencies to kick in and lead to lower prices for consumers.

## Shattered dreams

U.S. President Donald Trump has put another category of immigrants in legal limbo

Tearly 800,000 people in the U.S. now face the possibility of losing their jobs, driver's licences and university seats and even of being deported to a country that was not their home. The looming legal limbo for this sizeable cohort, which includes around 8,000 Indian nationals, is a direct result of President Donald Trump's decision on September 5 to rescind the Deferred Action for Childhood Arrivals (DACA) policy. This is a major Obama-era executive action designed to protect those who arrived in the U.S. as children accompanying their undocumented migrant parents. The logic of the Obama administration was that so long as such childhood arrivals integrated lawfully and productively into American society, not committing any crimes, paying their taxes and being upstanding members of the broader community, there could be no reasonable argument to uproot their lives and send them to their parents' country of origin. Now Mr. Trump has turned that logic on its head in an apparent effort to deliver on his campaign promise to crack down on all forms of undocumented immigration. While he previously appeared sympathetic toward DACA, Mr. Trump has effectively passed the buck to Congress by calling on it to come up with legislation for a lasting solution to the problem "through the lawful democratic process". No new applications are being processed. Existing beneficiaries requiring renewal of permits for a further two-year period have until March 5, 2018 to get it done.

Beyond that deadline, their continuance in the U.S. would require lawmakers to come up with a bill similar to the Development, Relief and Education for Alien Minors (DREAM) Act, a legislative proposal that went beyond piecemeal benefits, granting its recipients residency and setting out a path to citizenship. Such a bill, encapsulating widely acceptable principles underpinning a path to citizenship for deserving migrants, has eluded Capitol Hill for decades. During Barack Obama's presidency, the comprehensive immigration reform package proposed by the Gang of Eight bipartisan Senators came close to resolving this gaping hole in the immigration policy. Had it been passed, the 11 million undocumented workers in the U.S. may have found a modicum of solace in the knowledge that one day they could emerge from the shadows into the mainstream. Painful questions surrounding visa issues, including the political soft target that the H-1B visa is, could have been laid to rest and this would have, for example, fostered a climate of greater predictability for manpower planning at tech companies. Yet that bill never did pass into law, owing to the partisan bickering that Americans have come to despise of their representatives in Washington. Given the hostile political climate and bitter polarisation of the U.S. electorate along party lines, there is a real risk that short-term point-scoring on specific aspects of immigration reform could trump the need for a more robust, sustainable remedy.

# Time for course correction

Both public and private investment must pick up for the Indian economy to get back to high growth rates



C. RANGARAJAN

That do the latest numbers on national income indicate? What are the chances of the Indian economy moving out of the current phase of relatively low growth? Or are we stuck at a new 'Hindu' rate of growth?

#### Recent trends

About a week ago, the Central Statistics Office (CSO) released the estimates of the gross domestic product (GDP) for the first quarter (April-June) of 2017-18. The numbers showed that in Q1 of 2017-18, GDP grew by 5.7%. Gross value added (GVA) at basic prices grew by 5.6%. Whichever measure you take, the growth rate has fallen below 6%. In the corresponding quarter of the previous year, GDP grew at 7.9% and GVA at 7.6%. What accounts for the decline in growth rate by almost 2 percentage points? Certainly, demonetisation must have had a negative impact. Also, the destocking of goods which might have happened prior to the introduction of goods and services tax (GST) must have also had a negative impact.

However, it might be inappropriate to attribute the entire decline of 2 percentage points to the two factors. What has been happening is a steady decline from the first quarter of 2016-17 when the growth rate of GVA was 7.6%. By the third quarter of 2016-17, the growth rate had declined to 6.7%. Since then it has fallen by another 0.9 percentage point. Given the growth rate of 5.6% in Q1, it is unlikely that the growth rate for the year as a whole will exceed 6.5%. For this to happen, the growth rate in the next three quarters will have to be 7%. The most disappointing



aspect of the first quarter numbers is the steep fall in the growth rate of manufacturing to 1.2%. Because of the good monsoon, agriculture will do better. Since agricultural growth rate last year was also good, the increase may not be that much.

If the economy has to get back to the high growth rate seen earlier, we need to understand the factors that might have been operating to bring down the growth rate.

One of the arguments attributed to the low growth rate is the poor performance of the external sector. Growth is fuelled broadly by two types of demand, domestic and external. High export growth has propelled the growth rate of many countries, including China's. In India's own experience, the high growth phase between 2005-06 and 2007-08 saw exports growing at an average annual rate exceeding 20%

India's declining growth rate has also coincided with poor export performance. Export demand has been weak because of the tepid growth rate of the advanced economies. Both in 2014-15 and 2015-16, the export growth rate was negative. However, the export growth rate has become positive since the second half of 2016-17. While undoubtedly export demand is critically important to sustain high growth, the sharp decline in growth rate noted in the last few quarters cannot be attributed to

poor export performance. In fact, as compared to the previous year, the export performance has improved.

#### Fall in investment rate

The fundamental problem has been the sharp fall in the investment rate. Gross fixed capital formation rate stood at 34.3% in 2011-12. This started falling steadily and touched 29.3% in 2015-16. It fell further to 27.1% in 2016-17.

According to the latest numbers, in the first quarter of 2017-18, it stood at 27.5%. Since the public investment rate has not shown any decline (it stands at 7.5% of GDP), it is the decline in private investment, both corporate and households, that has been responsible for the steady fall. While the fall in corporate investment is steep compared to what was achieved in 2007-08, it has more or less stabilised at a lower level of around 13%. Household investment, however, has continued to decline even in recent years. Household here includes not only pure households but also unincorporated

enterprises. Deep concerns have been expressed about the fact that the growth that we have seen in recent vears has not resulted in an increase in employment. The current period has therefore been described as one of 'jobless growth'. It may be noted that data on em-

Firm data are available only for the organised sector. The rest are estimated through surveys. In fact, in the case of unorganised sectors, very often the position is one of 'underemployment' rather than unemployment. Growth can occur because of two reasons. One, it results from better utilisation of existing capacity. Two, it can come out of new investment. Whatever growth we have been seeing recently has come out of better utilisation of capacity rather than new investment. It is real growth spurred by new investment that generates more jobs.

Another intriguing factor about the falling investment rate is that the last few years have shown a steady and substantial increase in foreign direct investment (FDI). FDI inflows in 2016-17 were at an all-time peak of \$60 billion. In the first quarter of 2017, the inflows were \$10.9 billion. With this type of inflow and if the investment rate has not grown, the one surmise that one can make is that much of the FDI has gone into acquiring old assets rather than going to greenfield projects. All this implies is that domestic investors continue to remain shy.

#### Private investment

What can be done to stimulate private investment? First, in creating an appropriate investment climate, reforms play an important role. Some of the noteworthy changes that have happened in the last few years are the passing of the bankruptcy code and GST legislation, and modifications in FDI rules.

We must continue with the reform agenda and there is still a lot to be done in the area of governance. Second, financing investment has taken a beating because of the poor health of banks. Banks in India today are universal banks providing both short-term and long-term credit. The sharp reducalso put prospective investors in a difficult situation. To resolve the non-performing asset (NPA) problem, banks need to take a haircut. To bring banks back to good health, recapitalisation has become urgent. The government should go beyond the amount indicated in the Budget regarding disinvestment and fund banks through the money raised by disinvestment. Third, a close look must be taken at stalled projects to see what can be done to revive those which are viable. This is indeed a low-hanging fruit. In fact, this must be part of an overall effort to hold consultations in small groups with investors to understand and overcome the obstacles that come in the way of new investment.

Not all investor groups are plagued with intractable problems. Industry-by-industry consultations and analyses are needed to pinpoint problems and their solutions. Fourth, even though the progress of small and medium industries is very much dependent on the fortunes of the large, a separate look at medium and small enterprises may be needed to prod them into new investment.

#### Two engines of growth

To sum up, the growth rate in 2017-18 is unlikely to exceed 6.5%. Once the glitches and fears of the GST are over, the growth rate may pick up. Our goal must be to achieve and sustain a growth rate of 8% and above over an extended period. The Achilles heel is private investment, which has been steadily falling. However, there has been a slight pick-up in public investment recently. That is not enough. Only when the two engines of public and private investment function at full throttle will India fly high.

C. Rangarajan is former Chairman of the conomic Advisory Council to the Prime Minister and former Governor, Reserve

# An alliance on track

The Mumbai-Ahmedabad bullet train deal is also a geostrategic coup for Japan



PALLAVI AIYAR

Then Japanese Prime Minister Shinzō Abe meets Prime Minister Narendra Modi in Ahmedabad this week, the bilateral agenda will range from issues of maritime security to nuclear energy and trade. But at the centrepiece of their summitry will be the inauguration of India's first high-speed rail corridor from Mumbai to Ahmedabad, to be developed using Japanese technology and financing.

The image of the platypusblue and snouted Shinkansen streaking past a snowtopped Mount Fuji has become as synonymous with Japan as sushi. Since October 1964, when the first bullet trains collapsed the time it took to cover the 552 km between Tokyo and the commercial centre of Osaka to four hours (today it is down to 2 hours, 22 minutes), the Shinkansen has emerged as the symbol of Japan's post-World War II ascent to economic superpowerdom. It encapsulates the archipela-

go's engineering might and almost preternatural standards of safety punctuality. Shinkansen have carried over 10 billion passengers to date, without a single accident or casualty and an average delay of less than one

Yet, despite this admirable track record, Japan has struggled to export its bullet train know-how, even as Mr. Abe has made selling the technology abroad a cornerstone of his game plan to revitalise the stagnant Japanese economy. Before signing on India, Taiwan had been Japan's only successful sale. But Taiwan is hardly a poster child for the system, given that its high-speed line has suffered heavy losses since opening in 2007.

Profitability is a notoriously hard ask for high-speed train networks. Most lines across Europe, for example, are in the red. In Japan, some routes, notably Tokyo-Osaka, are profitable, but to achieve this requires high volumes of passengers and highly priced tickets. It costs around \$130 for a one-way Shinkansen ticket from Tokyo to Osaka. And over 350 trains operate on this line daily, ferrying about 163 million passengers a year. The region served is demographically dense, home to over half of Japan's population. These



conditions are not easy to replicate and other high-speed lines in Japan have struggled.

## Chinese competition

The latest challenge to Japan's ambitions is the emergence of China as the new emperor of the superfast train. Over the last decade China has developed a 22,000 km high-speed rail network. It boasts the 'world's fastest train', the Shanghai Maglev that hits speeds of 430 km. Its technology is also cheaper, making it an attractive proposition for the cost-conscious developing and middle-income countries of Asia.

In 2015, China pipped Japan to the post at the last minute by securing a high-speed rail project in In-

donesia that had been considered by Tokyo to be in the bag. One reason Beijing unexpectedly won out was because China offered to finance the line without any recourse to Indonesia's government coffers. In the years since, the project has stalled following land acquisition problems. Nonetheless, China has also beaten Tokyo to becoming Thailand's partner of choice for its first high-speed rail line, permissions for which were finally granted after a two-year

The battle to export bullet trains is clearly reflective of the broader rivalry between China and Japan for influence in Asia. Consequently, the India deal is not only a business coup for Japan but also a geostrategic one. Former Ambassador of Japan to India and President of the Japan-India Association, Hiroshi Hirabayashi, acknowledged as much. "India is not Indonesia or Thailand. It is a great nation, totally autonomous, And it's not as likely to submit to Chinese pressure," he said of India's decision to go with Tokyo.

## **Ironing out the niggles**

Mumbai-Japan, the Ahmedabad contract has been hard-won. It entails a loan worth \$12 billion, at 0.1% interest, to be

paid back over 50 years, taking care of over 80% of the project's estimated costs. Japan will also supplement the financing with a generous package of technical assistance and training.

Yet in India, concerns related to costs, safety and misplaced priorities persist. Tomoyuki Nakano, the Director for International Engineering Affairs of Japan's Railway Bureau, remained confident of ironing these out with some tweaks to the Japanese technology taking into account climatic differences, the possibility of electrical blackouts, as well as dust and other environmental conditions in India. He also pointed out that when Japan developed its first Shinkansen lines in the 1960s, it was a poor country as well that had required loans from the World Bank.

But what about the enormous software or cultural differences between Japan and India? Mr. Nakano was sanguine. "When we had Indians coming here (to Tokyo) for training, I noticed some of them were quite late. But after two weeks in Japan they became very punctual," he concluded.

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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.

## A six-day week

As there are a large number of criminal cases and appeals pending in courts, the Chief Justice of the Supreme Court of India, Dipak Misra, is justified in appealing to the Chief Justices of High Courts to explore ways to work on Saturdays ("Can't we work on Saturdays, says CJ", September 12). When some courts have agreed to go ahead with the project, the remainder must follow the lead. This way, most pending appeals are bound to be cleared to the satisfaction of clients and courts. Holidays for festivals and summer must also be cut short. Advocates should also desist from adjourning cases and instead strive to finish arguments soon. Teamwork is a must as far as bringing down the number of pending cases is concerned. J.P. REDDY,

Children under siege

The incident in Telangana of

a teacher punishing a class

V student for not wearing

the school uniform by making her stand near the boys' toilet at the school is shocking (September 12). It is unfortunate that the teacher did not have a humane touch as the girl is said to have given the reason of the uniform not being dry after having been washed. There is still widespread

belief among teachers that hitting or insulting a child is the best way to ensure obedience and discipline. Harsh steps can have a deleterious effect on the mental health of children. More often than not, when a teacher uses violence on children, it is an outburst of his/her personal frustration. R. SIVAKUMAR,

■ In an era where educational institutions are most often being run on profit motives, it is hardly surprising to witness holistic education taking a back seat and affecting the prospects of students evolving into the most responsible and

conscientious citizens of the country. The gruesome murder of student in a school in Gurugram is not only shocking but also a grim pointer to the lack of regulatory oversight to ensure the safety and security of our children in schools. Schools are more than just temples of learning and their managements must ensure a safe and happy learning environment. M. IEYARAM.

■ According to a study, the reasons for the high incidence of child abuse could be poor parenting skills, vulnerability of the child in conditions outside the family environment such as on the street, at work and in institutions, belief in punishmen shaping a child and dysfunctional families. Unfortunately in India, there is no separate or exclusive legislation to deal

with the problem of

awareness and open

extreme forms of child

abuse. Perhaps a lack of

communication within the family, fear of being stigmatised and not being trusted are what dissuade young victims from speaking up. VINOD C. DIXIT,

## A great rivalry

The fascinating tennis story of Rafael Nadal and Roger Federer has only added more punch to modern tennis. Despite being in the autumn of their sporting life, they have proved that they still have the power to outplay younger, talented and stronger contenders. In winning his 16th Grand Slam title, Nadal is all set to make this an exciting match with Federer (Editorial "Back to the future", September 12). GREGORY FERNANDES, Mumbai

■ The two champions have shown the world why they are among the top tennis players. The fact that they are still playing so well is a pleasant surprise especially when the younger crop of players are still trying in

vain to get close to these two giants. Ardent followers of tennis just hope that this dream run continues a lot longer. ABHIROOP SARKAR,

#### **Army recruitment** Every year, thousands of

vouth from across India try their luck at an open Army recruitment drive in Dehradun. These recruitment rallies are organised every year in the cantonment area of Dehradun. For residents, it is a common sight to find young men occupying almost every square inch in the competition to get the job. There are some who are kind-hearted enough to offer them food and shelter for free, but there are others

who use this as an opportunity to earn some money. The issue is that these rallies are organised for recruitments but does the responsibility of the Army end here? Is it so difficult to put up tents and provide mobile washrooms? One can well imagine the sanitary conditions after these recruitment drives. When no less than the Prime Minister is actively involved in spreading awareness about the need to maintain cleanliness, why does the Army fail to observe these standards? These are the little social issues that need to be addressed. SHRIYA GUPTA,

## CORRECTIONS & CLARIFICATIONS:

In an article titled "The resilience of our liberalism" (Editorial page, Sept. 12, 2017), Ashwani Kumar inadvertently referred to a former judge of the Karnataka High Court as the late Rama Jois. This mistake went unnoticed and the Editor regrets the error.

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