



## Clouds of war

The United States needs to dial down on its 'maximum pressure' tactics with Iran

U.S. President Donald Trump's decision to pull back from air strikes on Iran, after the latter shot down an American drone near the Strait of Hormuz, was a rare moment of restraint amid otherwise escalating tensions between the two countries. The rationale behind the pull-back, according to Mr. Trump, was that he did not want to cause any loss of Iranian lives as no American lives were hurt by the Iranians. Clearly, Mr. Trump, who had campaigned against the costly wars of the U.S. overseas, does not seem to be in favour of launching an open conflict with Iran. A war with Iran could be prolonged and disastrous. Iran has ballistic missiles, proxy militias and a relatively vibrant navy. And the Strait of Hormuz, through which one-third of the world's seaborne oil shipments move, is within its range. Mr. Trump does not want to take a risk unless there are provocations from Iran targeting American lives. While this approach is better than that of Mr. Trump's National Security Adviser, John Bolton, who has threatened Iran with war several times, what the U.S. President overlooks is that the current state of tensions is a product of his "maximum pressure" tactic. A year ago Mr. Trump pulled the U.S. out of a nuclear deal with which Iran was fully compliant, setting off the escalation. His plan was to squeeze the Iranian economy and force Tehran back to the table to renegotiate the nuclear issue as well as Iran's missile programme and regional activism, for a "better deal". A year later, the U.S. and Iran are on the brink of a war.

The problem with Mr. Trump's "maximum pressure" approach is that he doesn't seem to have a plan between the sanctions-driven pressure tactics and a potential military conflict. Iran, on the other hand, is ready to take limited risks, as its actions such as the threat to breach the uranium enrichment limits set by the nuclear deal and the downing of the American drone suggest, to break the stranglehold of the sanctions. As a result, Mr. Trump has a situation where maximum pressure is not producing the desired result, and both countries are edging towards a war he doesn't want. This is a strategic dilemma that warrants a recalibration of policy. Mr. Trump's decision to call off the strike and the new red line he set for Iran could create an opportunity for such a recalibration. He could seize the moment to assure Iran that his primary goal is engagement, not conflict. What Iran wants the most is relief from the sanctions. Instead of sticking to a policy that has proved to be counter-productive and risky, Mr. Trump could offer Tehran some reprieve in return for its remaining in the nuclear deal, which could be followed up by a fresh diplomatic opening. If he continues with the pressure tactics, tensions will stay high, the Strait of Hormuz would be on the brink, and further provocations by either side, or even an accident, could trigger a full-scale conflict. That is a dangerous slope.

## Lacklustre meet

GST Council has missed the chance to send positive signals to boost consumer demand

The Goods and Services Tax Council's first meeting under the new government did not deliver any big surprises. Apart from some minor changes to the existing structure and procedures under the GST, the council's meeting on Friday, under Finance Minister Nirmala Sitharaman, was largely a lacklustre event. There was some expectation that the council would consider a significant cut in tax rates across the board in order to help spur consumer demand that has been sagging in recent quarters. But none of that happened. The meeting ended with some changes in procedure that are expected to tackle tax evasion and make GST filing easier. In particular, Aadhaar has been approved as sufficient proof to obtain GST registration. Even the expectation that there would be a cut in the tax imposed on electric vehicles, from 12% to 5%, was not met. The government may be worried about the revenue implications of any significant across-the-board tax cut. Although GST collections have been encouraging in the past couple of months, monthly tax collections have largely been modest since the introduction of the tax regime in mid-2017, failing to meet the government's own targets most of the time. But such caution may not help the larger cause of the economy, which urgently needs a boost in some form. A significant cut in rates could have sent out the strong signal that the NDA government is serious about pushing through serious pro-growth reforms during its second term in office.

Another notable decision taken by the council was the one to extend the tenure of the National Anti-Profitteering Authority by two years, till November 2021. Further, the council increased the quantum of penalty that could be imposed by the authority on profiteering companies, from the current maximum of ₹25,000 to an additional 10% of the profiteered amount. Given that the government has increased the powers of the anti-profiteering body, it would not be surprising if the body becomes a permanent feature under GST. This does not send a promising message to the business community ahead of the Union Budget, scheduled to be presented in Parliament on July 5. The anti-profiteering clause assumes that government action is absolutely necessary in order to pass on the benefit of tax cuts to consumers, or else tax cuts may simply end up adding to the profits of businesses. This is wrong. While businesses naturally try to profit from lower taxes, the forces of competition make sure their profit margins are driven back down to normal. The alternative of having a bureaucracy to deal with the issue makes profit look like a bad word, and encourages rent-seeking by corrupt authorities.

# Reimagining the NITI Aayog

The institution can play an important role in refreshing India's fiscal federalism



VIJAY KELKAR & ABHAY PETHE

India's Constitution-makers thought of India as a union of States with a centripetal bias, done, advisedly, to preserve the unity and integrity of a newly fledged nation. Since then, the Indian economy, polity, demography and society have undergone many changes. The new aspirational India is now firmly on a growth turnpike. It is in this context that we revisit India's fiscal federalism and propose redesigning it around its four pillars.

Typically, federations (including the Indian one) face vertical and horizontal imbalances. A vertical imbalance arises because the tax systems are designed in a manner that yields much greater tax revenues to the Central government when compared to the State or provincial governments; the Constitution mandates relatively greater responsibilities to the State governments. For example, in India, post the advent of Goods and Services Tax (GST), the share of States in the public expenditure is 60% while it is 40% for the Centre to perform their constitutionally mandated duties.

The horizontal imbalances arise because of differing levels of attainment by the States due to differential growth rates and their developmental status in terms of the state of social or infrastructure capital. Traditionally, Finance Commissions have dealt with

these imbalances in a stellar manner, and they should continue to be the first pillar of the new fiscal federal structure of India.

**Understanding the imbalance** However, in India, the phenomenon of horizontal imbalance needs to be understood in a more nuanced fashion. It involves two types of imbalances. Type I is to do with the adequate provision of basic public goods and services, while the second, Type II, is due to growth accelerating infrastructure or the transformational capital deficits. The latter are known to be historically conditioned or path dependent. Removing these two imbalances clearly comprises two distinct policy goals and calls for following the Tinbergen assignment principle, which are two different policy instruments. It is here that we believe that NITI Aayog 2.0 must create a niche, assume the role of another policy instrument and become the second pillar of the new fiscal federal structure.

In the past, the Planning Commission used to give grants to the States as conditional transfers using the Gadgil-Mukherjee formula. Now with the Planning Commission disbanded, there is a vacuum especially as the NITI Aayog is primarily a think tank with no resources to dispense, which renders it toothless to undertake a "transformational" intervention. On the other hand, it is too much to expect the Union Finance Commission to do the dual job. In other words, there is an urgent need for an optimal arrangement. It is best that the Union Finance Commission be confined to focussing on the removal of the horizontal im-



GETTY IMAGES/STOCKPHOTO

balance across States of the Type I: i.e. the basic public goods imbalance. We need another institution to tackle the horizontal imbalance of the Type II; for this the NITI Aayog is the most appropriate institution. It can be argued that the Finance Ministry is the other alternative to deliver the goods in this regard but it is ill-suited to do this; its primary duty is to concern itself with the country's macro-economic stability and the proper functioning of the financial system rather than be an instrument of growth at the sub-national level.

Towards this task of cooperative federalism, NITI Aayog 2.0 should receive significant resources (say 1% to 2% of the GDP) to promote accelerated growth in States that are lagging, and overcome their historically conditioned infrastructure deficit, thus reducing the developmental imbalance. In short, the NITI Aayog should be engaged with the allocation of "transformational" capital in a formulaic manner, complete with incentive-compatible conditionalities. The variables or parameters used in this formulaic transfer will be very different from those traditionally used by the Finance Commission.

NITI Aayog 2.0 should also be

mandated to create an independent evaluation office which will monitor and evaluate the efficacy of the utilisation of such grants. In doing so, it should not commit the mistake of micro-management or conflicts with line departments. It must be also accorded a place at the high table of decision-making as it will need to objectively buy-in the cooperation of the richer States as their resources are transferred to the poorer ones.

### Ushering in decentralisation

The same perspective will have to be translated below the States to the third tier of government. This is crucial because intra-State regional imbalances are likely to be even greater import than inter-State ones. Decentralisation, in letter and spirit, has to be the third pillar of the new fiscal federal architecture. De jure and de facto seriousness has to be accorded to the 73rd and 74th constitutional amendments. For this, the missing local public finance must be birthed. One of the ways for this is through the creation of an urban local body/panchayat raj institutions consolidated fund. This would mean that Articles 266/268/243H/243X of our Constitution will need to be amended to ensure that relevant monies directly flow into this consolidated fund of the third tier.

Through such constitutional amendments, the Centre and States should contribute an equal proportion of their Central GST (CGST) and State GST (SGST) collections and send the money to the consolidated fund of the third tier. For instance, one-sixth sharing of the CGST and SGST with the third tier can generate more than

1% of the GDP every year for the financing of public goods by urban-level bodies. Such an arrangement will be the third pillar of fiscal federalism. Further, the State Finance Commissions should be accorded the same status as the Finance Commission and the 3Fs of democratic decentralisation (funds, functions and functionaries) vigorously implemented. This will strengthen and deepen our foundational democratic framework.

### Fine-tuning the GST

The fourth pillar – and in a sense what is central and binding – is the "flawless" or model GST. It is to the credit of our democratic maturity that the GST Bill was passed unanimously by Parliament; but in its present form, it is far from flawless. It needs further simplification and extended coverage. We need to quickly achieve the goal of a single rate GST with suitable surcharges on "sin goods," zero rating of exports and reforming the Integrated Goods and Services Tax (IGST) and the e-way bill. The GST Council should adopt transparency in its working, and create its own secretariat with independent experts also as its staff. This will enable it to undertake further reforms in an informed and transparent manner. Thus, India will be able to truly actualise the "grand bargain" and see the GST as an enduring glue holding the four pillars together by creating the new fiscal federal architecture and strengthening India's unique cooperative federalism.

Vijay Kelkar and Abhay Pethe are the Vice-President and Founder Member, respectively, of the Pune International Centre

# Walking a diplomatic tightrope

For India and the U.S., managing bilateral ties is linked to balancing nationalist, cultural and economic agendas



VARGHESE K. GEORGE

Is the die already cast for U.S. Secretary of State Mike Pompeo's forthcoming visit to India? Mr. Pompeo, and his Indian counterpart, External Affairs Minister S. Jaishankar, are the trusted lieutenants of their leaders, U.S. President Donald Trump and Prime Minister Narendra Modi, respectively, and largely aligned with their politics. But Mr. Pompeo and Mr. Jaishankar are also the links between the disruptive politics of their chief executives and the conventional strategic approach of professionals who work under them, and the legacy ecosystems in their respective countries. They have the tough task of managing a bilateral relationship that they both know is critical, without appearing to be undermining the nationalist, cultural and economic agendas of their leaders, which mirror each other, and hence create a situation of likes repelling each other.

A general presumption informing scholarship on international relations is that there is a non-negotiable and unchanging precept of national interest that determines the conduct of nations. Mr. Modi and Mr. Trump are two leaders who are rewriting the notion of national interest itself – for instance, secularism was considered

to be India's national interest until recently; immigration and trade were considered to be in America's national interest.

Mr. Trump and Mr. Modi are guided by nationalisms that have cultural and economic components. In both, their views converge in some aspects and conflict in some others. For instance, on the cultural front, they could cooperate on global Islamism. But the growing presence of Indians in America is a source of conflict – Mr. Modi's politics involves boosting the global Hindu; but Indian Americans are cultural aliens to Mr. Trump's supporters, besides being seen to be their economic adversaries. The sustained squeeze on Indian guest workers entering the U.S., particularly through the H-1B visa programme, is a case in point.

### Country-specific perspectives

What does Mr. Modi want for India from abroad? He wants investment, technology, arms, but does not want finished products (other than arms) or foreign ideas – Christianity, an open global market, the right to self-determination, human rights, Western strands of democracy coming through missionaries, international bodies and non-governmental organisations (NGOs). This has been expressed through higher tariffs on imports and restrictions on global NGOs. This list does not entirely correspond to what Mr. Trump wants to sell – he wants to sell only finished products at lower tariffs, and keep technology and capital within the borders of



GETTY IMAGES/STOCKPHOTO

America protected.

From an Indian perspective, Mr. Trump has upended American strategy in two fundamental aspects. His approach to international ties gives precedence for commerce over the strategic, and workers over corporations. Professional strategists conventionally understood the U.S.'s international ties from the perspective of its multinational corporations. These corporations wanted cheap manufacturing in China and Southeast Asia and U.S. policy enabled that pursuit. Corporations wanted cheap labour from India by outsourcing work and importing workers into the U.S. But Mr. Trump does not want American work coming to India, or Indian workers going to America; Mr. Modi wants both. Mr. Trump's disinterest in strategic matters and obsession with selling meet Mr. Modi's desire for arms acquisition, however. Given a choice, Mr. Trump would be willing to sell arms to India without regard for issues such as regional stability that preoccupy professionals in the State Department.

India's trade surplus is tiny relative to the size of the American economy and its trade volumes. Presidents before Mr. Trump al-

ways privileged the strategic components of America's global ties over trade and commercial issues. India benefitted from that approach. When commerce becomes the only lens that the U.S. sees the world through, India and China look similar – trying to extract benefits from it. Mr. Trump thinks – he has said it several times – that India and China took his predecessors for a ride. Mr. Modi thinks his predecessors were weak leaders who were taken advantage of by the world, and he also wants to show how strong he is.

When Mr. Trump sees India and China as two similar countries that are taking advantage of America with protectionism, weak intellectual property protection, and higher emissions under the climate treaty, the strategic reason for India-U.S. alignment, which is the menacing rise of China, gets weakened. In fact, the Wuhan summit, that marked a new thaw between India and China, had as its backdrop Mr. Trump's tirade against both countries on these issues.

### The terror fight

One war that Mr. Trump wants to end (in Afghanistan) and another war that he appears to be itching to begin (with Iran) have major implications for India and its ties with the U.S. India wants America's continued engagement in Afghanistan and peace with Iran. Just as the U.S. was campaigning hard to have Masood Azhar designated as a global terrorist, it was also seeking Pakistan's help to persuade the Taliban for a deal in Af-

ghanistan. The point being that India-U.S. cooperation on terrorism has several components to be factored in and the Indian euphoria surrounding Mr. Trump's relentless bluster against Pakistan needs to be tempered with some realism.

The Hindutva nationalists in India have a deep suspicion of China and its intention and they consider the U.S. as an ally and a partner, but the tactical nature of that approach is not hidden or unstated. The cultural suspicion of the U.S. itself is an additional factor.

A speech by Rashtriya Swyamsevak Sangh chief Mohan Bhagwat to a gathering of the organisation on June 16 in Nagpur is instructive: "We are progressing and we will continue to progress. When India advances, when our Hindu society advances... the implication of that is that the selfishness that dominates the world is bound to come to an end... Countries that dominate the world using their money power and military power with the facade of grandiloquence. Therefore, there are many out there who do not want India's progress. I don't take names, but you understand. Many countries in the world are forced to support us because we have now become stronger. That is for advancing their interests. If we let them take advantage of our internal differences, our new beginning after 70 years will be eclipsed before it fully blossoms and bears fruit."

Mr. Pompeo and Mr. Jaishankar have the task of navigating a bumpy ride.

varghese.g@thehindu.co.in

## 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.

### Religious freedom

Articles 25 to 28 of the Constitution grant the freedom of religion but one wonders whether they are restricted to the text alone (Page 1, "BJP slams U.S. for 'bias' against the PM", June 23). With instances of communal violence and mob-lynching on the rise, we have to ask ourselves whether we have this freedom. The current government seems to slam critics instead of looking into the wrong that is being done.

There have been constant statements about the need to make India a "Hindu Rashtra". Instead of slamming the criticism, the government should take corrective measures. It must remember the Prime Minister's words, "If there is no criticism, democracy will be at a loss. One should

not be saddened by criticism."

ISHAN FOZDAR,  
Bengaluru

■ Top leaders of the ruling party condemn acts of violence and hatred against the minorities in a ritualistic manner more out of compulsion than conviction. The failure to prevent hate crimes, protection to the perpetrators of these crimes and weak law enforcement are facts that cannot be refuted. Crimes against the minorities cannot be delinked from the emergence of the ruling party as the country's principal political force.

G. DAVID MILTON,  
Maruthanadu, Tamil Nadu

■ The present government is known not to accept its failures and the truth with grace. The same government

asserted that demonetisation was a success though the central bank said that most of the banned denomination notes were returned. There is also data on low GDP growth and a high unemployment rate which are contrary to the government's claim that the country is on the path to development. When the government cannot accept authentic data, no one expects it to agree with the U.S.'s assessment of India's "religious freedom".

KSHIRASAGARA BALAJI RAO,  
Hyderabad

### History and progress

The absence of Jawaharlal Nehru's name in the President's address to both Houses of Parliament must lead to contemplation. Nehru, the first Prime Minister of free India, keeps being ignored under the

current political dispensation not because the Congress is not in power but because our history's palimpsest is sought to be overwritten by the politics of the day. But this cannot negate the reality that the Nehruvian era was ahead of its times and which is what enabled us to sustain both democracy and economic progress at fair levels. The first of the famed IITs was established ahead of our first general election of independent India – a foresight to ensure that the right to education goes hand-in-hand with the right to vote and technological and research institutes go to form the bulwark of our macro-economics. There is a lesson for any progressive nation; history is not for selective reading, and it matters less as to where we started but more how we intend hence onwards to

progress quickly and inclusively.

R. NARAYANAN,  
Navi Mumbai

### Afghan jolt

In Saturday's nail-biting encounter between India and Afghanistan, it was Mohammed Shami who ensured our victory. Afghanistan put up a brave fight till the last over. The collapse of India's middle order is cause for concern ('Sport' page, "Shami's hat-trick seals it for India in a sensational finish", June 23).

SRAVANA RAMACHANDRAN,  
Chennai

■ On a slow track at the Hampshire Bowl, Southampton, it turned out to be a game of fine margins. While the earlier victories against bigger teams were relatively easy, the Men in Blue were thoroughly tested

before the business end of the tournament. Sometimes tough wins inject more confidence than the easy ones, and the win against Afghanistan was one such. Full marks to Afghanistan for playing tough cricket against a top team.

R. SIVAKUMAR,  
Chennai

■ India won only because of some brilliant pace bowling from an ever consistent Bumrah and Shami. The shock that Afghanistan was close to giving us should make the Indian team managers ponder over the brittle middle order batting An over-reliance on the openers and Kohli does not augur well for India's smooth progress.

DEVADAS V.,  
Kannur, Kerala

MORE LETTERS ONLINE:  
www.hindu.com/opinion/letters/