The burden of subsidies

The trend rate of expenditure on subsidies in April-Nov 2018 indicates a higher spend than indicated in the revised estimates for 2018-19

RAISINA HILL

A K BHATTACHARYA

The government's response to those who may be questioning some of the revised estimates for 2018-19 in the interim Budget presented last Friday is that the finance ministry has access to information and data that gives it the confidence to put out those numbers. That should be a reassuring message. After all, these revised estimates are crucial to the government meeting its revised fiscal deficit target of 3.4 per cent of gross domestic product (GDP) for 2018-19.

A reality check on these numbers, nevertheless, should be useful. Let us look at the expenditure on major subsidies. The revised estimates for food subsidy during 2018-19 are ₹1.71 trillion, compared to the Budget estimates of ₹1.69 trillion. Before the interim Budget's presentation, monthly data for food subsidy was available till November 2018. That figure put the food subsidy bill already incurred between April and November at ₹1.42 trillion or a monthly run rate of about ₹17,800 crore. If one assumes the same run rate to continue in the remaining four months of the current financial year, the total food subsidy bill should increase to ₹2.14 trillion. This will then end up being at least ₹42,000 crore more than the revised estimates put out in the interim Budget.

Fertiliser subsidies have two major components. Under urea subsidy, the interim Budget showed that the revised estimates for 2018-19 have been reined in at ₹44,985 crore, a little less than the Budget estimates of ₹44,989 crore. The monthly data on urea subsidy spent during April-November 2018 puts it at ₹33,294 crore, or a monthly run rate of ₹4,162 crore. If the same run rate continues in the remaining four months of the current year, the total urea subsidy bill will go up to ₹49,941 crore, about ₹4,956 crore higher than the revised estimates figure given in the interim Budget.

Similarly, the subsidy bill for nutrient-based fertilisers, as shown in the revised estimates for 2018-19, is ₹25,090 crore, exactly the same figure that was given in the Budget estimates a year ago. But the expenditure already incurred under this head in the April-November 2018 period is ₹20,152 crore, or a monthly run rate of ₹2,519 crore. And if the expenditure continues to take place at the same rate in the remaining four months of the year, the total annual bill for nutrient-based fertilisers subsidies would go up to ₹30,228 crore, which will be ₹5,138 crore higher than the revised estimates put out in the interim Budget.

That leaves the petroleum subsidy bill, which the revised estimates in the interim Budget had put at ₹24,833 crore, which was actually lower than the Budget estimates of ₹24,933 crore for the same year. Crude oil prices had gone up steeply during the year and the subsidy bills for cooking gas and kerosene should have gone up. Indeed, the subsidy bill on petroleum incurred in the first eight months of the year was estimated at ₹23,142 crore, indicating a monthly run rate of ₹2,893 crore. If this run rate continues for the remaining four months, the total annual subsidy bill on petroleum would go up to ₹34,713 crore, which would be ₹9,880 crore more than the revised estimates put out by the interim Budget.

The total expenditure incurred on these major subsidies during 2018-19, as per the revised estimates, is ₹2.66 trillion, which is marginally higher than the Budget estimates of ₹2.64 trillion. But if you extrapolate the data from expenditure already incurred on these subsidies in the April-November 2018 period to the full year, the slippage could be as high as ₹0.62 trillion and the total major subsidies bill could go up to ₹3.28 trillion, compared to ₹2.64 trillion given in the revised estimates.

Remember that the monthly figures on the subsidies expenditure already incurred are compiled and released by the Controller General of Accounts (CGA) every month. Of course, the CGA's numbers are unaudited and provisional. Also, the trend rates logic may not apply in each and every case. The Budget makers have more access to information and data, which may have given them the confidence to put out the revised numbers. It is also possible that its impact on the overall fiscal deficit figure could be neutralised by underspending, compared to the revised estimates, under some other heads. Or has a part of this expenditure been deferred to the next year? But a deviation from the trend rate by as much as ₹0.62 trillion on major subsidies alone could have serious implications for the quality of the government's overall fiscal consolidation programme.

RBI may change stance; rate cut unlikely

If data supports, we could see a rate cut next financial year but that may not signal the beginning of a new cycle

BANKER'S TRUST

TAMAL BANDYOPADHYAY

Today, if we take a poll of Indian industrialists on their expectations from the Reserve Bank of India's (RBI's) last bi-monthly policy for the 2019 fiscal year, 10 out of 10 will pitch for a rate cut. They are also rooting for a cut in the banks' cash reserve ratio (CRR) — or the portion of deposits kept with the RBI — to release money into the system.

Indisposed finance minister Arun Jaitley too has asked for a rate cut, albeit indirectly — saying, India cannot have a real rate of interest that's higher than anywhere else in the world.

The chorus for the cut has grown ever since the retail inflation data for December 2018 was released. Retail inflation in December dropped to its 18-month low of 2.19 per cent, lower than what most analysts had expected, driven by continued deflation in food prices (-2.5 per cent). Since July 2018, retail inflation has been on a slide.

The RBI is committed to achieve a medium-term target of 4 per cent retail inflation on a durable basis within a band of plus or minus 2 per cent, while supporting growth. In its December monetary policy review, the Monetary Policy Committee (MPC), Indian central bank's rate-setting body, projected 2.7-3.2 per cent inflation in the second half of 2019 and 3.8-4.2 per cent in the first half of 2020 (with upside risks). The projection was revised downward after RBI's earlier estimate undershot the actual data.

Even the December inflation projections for the second half of the current fiscal year as well as the first half of the next year could be high. This and a sharp drop in the index of industrial production (IIP) in November are behind the rising demand for a rate cut. The so-called base effect alone cannot explain 0.5 per cent IIP growth in November as the decline is broad-based. An area of particular concern is the contraction in manufacturing production. Does this signal a slow-down ahead?

Indeed, headline retail inflation is hovering below expectation but the so-called core inflation or non-food, non-oil, manufacturing inflation in December remained unchanged at 5.7 per cent. In fact, core inflation, excluding transport and communication, actually rose to 6 per cent in December from 5.6 per cent in November, driven by higher inflation in health, education, household and personal goods. Had there been no dramatic fall in crude prices, which had led to a drop in the retail prices of petrol and diesel, the inflation figure would have been different.

It is difficult to get a hang of things when global crude prices are so volatile. From $86 a gallon in October it dropped to $49 in December to climb back to $62 in January, the level it is trading now. In tandem, the movement of the 10-year treasury bill yield yo-yoed from 8.24 per cent to 7.21 per cent and closed

The interim Budget's push for consumption and growth stimulus may give a fillip to the equities but the bond story may be over

at 7.61 per cent on Friday. And the Indian currency, which dropped to 74.48 a dollar in October, strengthened to 69.18 in the first week of January. Last week, it closed at 71.3.

The RBI has been buying bonds to infuse liquidity in the system. So far, it has bought ₹2.36 trillion worth bonds. The pressure on liquidity has eased and this may continue to mid-March when Indian corporations pay advance tax on their estimated profits for the quarter.

The biggest joker in the pack is the state of the fiscal situation. The budgeted fiscal deficit target of 3.3 per cent of gross domestic product (GDP) won't be met; it will be marginally higher at 3.4 per cent and, more importantly, next year too it is estimated to be 3.4 per cent. The government's market borrowing has been raised this year and also for fiscal year 2020 even as the tax revenue projections are rather optimistic.

Clearly, it is turning out to be a structural issue. The interim Budget is expansionary, populist and inflationary on the margin. Its push for consumption and growth stimulus may give a fillip to the equities but the bond story may be over. Last Friday, the 10-year bond yield rose 11 basis points from the day's low after the Budget presentation. One basis point is a hundredth of a percentage point.

Irrespective of which political party comes to power after the May elections, it will be difficult to claw back most of the welfare schemes which will inflate the government spend and fiscal responsibility will be the casualty.

Against this backdrop and around 5.8 per cent six-month average core inflation, a rate cut is unlikely but I will not rule out a change in the stance of the monetary policy — from "calibrated tightening" to neutral. If economic activities remain muted, the pressure on core inflation will ease and the next rate cut could be as early as in April, just ahead of the general elections.

After the last meeting of the MPC in December (which left the policy rate unchanged at 6.5 per cent), former RBI governor Urjit Patel had said "if the upside risks to inflation do not materialise, there is a possibility of space opening up for appropriate RBI action". The decision on a no-change policy rate was unanimous, while one of the six members of the MPC, Ravindra Dholakia, voted in favour of changing the stance to neutral.

Some analysts say the February policy could turn out to be the governor's policy. How? Here's what they say: Among six MPC members, Michael Patra and Viral Acharya will surely vote against a rate cut but Pami Dua may join Ravindra Dholakia for a cut. A lot will depend on Chetan Ghate and Shaktikanta Das; if there is a tie, Das will have the casting vote.

If indeed the tie happens because Das is against a rate cut (and Ghate in favour it), his casting vote will only reaffirm that. This will also be case, if he favours a rate cut (and Ghate opposes it). So, either way, it will be the governor's policy.

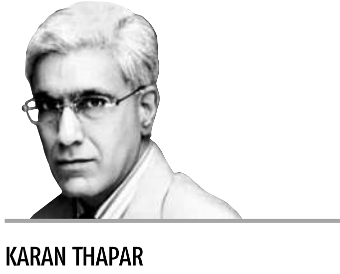
But my take is the MPC meet will be devoid of any such drama. If at all there is a tie, it could be on the stance of the policy and not the action. The interim Budget has sealed the outcome of the MPC meeting — no rate cut and a likely change in policy stance. If data supports, the earliest we could see a rate cut is in April but even if that happens, it will not signal the beginning of a new cycle.

The columnist, a consulting editor with Business Standard, is an author and senior adviser to Jana Small Finance Bank Ltd. Twitter: @TamalBandyo

AS I SEE IT

An 'unconventional' interim Budget

Was Friday's Budget an act of constitutional impropriety, as the government's opponents have proclaimed, or was it justified, as its ministers insist?



KARAN THAPAR

With a speech that stretched over a hundred minutes the interim Finance Minister has announced major, new and sweeping policies that will have a significant impact on our people and economy. He called it an interim Budget but it definitely wasn't. It was a full-fledged Budget. Not only does it bear no comparison to the interim Budgets delivered by Jaswant Singh in 2004, Pranab Mukherjee in 2009 and P. Chidambaram in 2014 but few full-fledged Budgets have been as ambitious as this one.

So was this an act of constitutional impropriety, as the government's opponents have loudly proclaimed, or was it justified and legitimate, as its ministers insist?

Yashwant Sinha, a distinguished former Bharatiya Janata Party finance minister, has said that to use an interim Budget to announce major new policies involving sizeable expenditure and significant tax changes would be "unconstitutional". His arguement is simple. Convention is as much a part of our Constitution as its written articles and today it's a well-established convention that interim Budgets are just votes on account to ensure that the business of government continues.

You could, if you want, add a moral argument to the constitutional one. No doubt the Modi government is a full-fledged one with a majority in the lower house and a mandate till the May 26 but on April 1, when the new financial year starts, it will only have 46 days left. Is it fitting for it to present a full-fledged Budget valid for 365 days which covers 319 under its successor? Having done so, it's tied the next government's hands in two important senses: given their populist appeal, it would be difficult not to continue with these policies and, additionally, it might have to find the resources to fund them.

The government's grounds for presenting a full Budget three months before the elections seems equally persuasive. To begin with, in India conventions don't have the same force as they do in Britain. You could also argue that a convention exists only as long as it's observed. When it's not, it ceases to be.

More importantly, nothing in the Constitution actually disallows a government with just three months left from presenting a full-fledged Budget. Indeed, as Yashwant Sinha has admitted, "the constitution does not have a proviso that specifically deals with the presentation of the Budget". So if it's not specifically disallowed you could argue it's permitted.

Finally, there's Arun Jaitley's view which is based on the needs and exigencies of the economic situation. "The larger interests of the economy always dictate what should be in the interim Budget", he has said. At the present, he adds, there are challenges which "cannot afford to wait (and) there's a necessity to address some of them".

This is not such a singular standpoint. In 2014, when P. Chidambaram made a series of changes in excise duty and service tax, he justified his actions with the following logic: "the current economic situation demands some interventions that cannot wait for the regular Budget". Of course, Piyush Goyal went a lot further than P. Chidambaram. But you could say that's a matter of detail. The justification is the same.

Piyush Goyal's interim Budget also defies convention in one other sense and how it's hereafter treated by Parliament might be another. The farmers' income support scheme has been announced with retrospective effect. That's not just unusual it's never been done in an interim Budget. But then there's always a first time.

The manner in which Parliament handles the Goyal Budget could constitute another breach. N K Singh, a former Finance Secretary, has pointed out that so far changes to the Income Tax Act have always been referred to the Parliamentary Standing Committee on Finance. Will that happen this time? It will be novel if it doesn't. But doesn't Parliament have a right to decide whether or not it should?

Now, when the Prime Minister describes the Budget as "a trailer" is he only alluding to the possibility his government has more surprise announcements up its sleeve or is he hinting there are other conventions that could be disregarded as the government burnishes its electoral appeal? I hope not but, after Friday's Budget, you can't be sure.

CHINESE WHISPERS

On a wing and a prayer

Chairman of trouble-hit Zee group Subhash Chandra last week urged investors to defeat the "negative forces" by buying shares of Zee and Dish TV following a sharp slide in their value. The plea raised many eyebrows as promoters do not often ask people to buy shares in their companies. "Instead of asking people to buy its shares, the Zee group chief should have asked them to subscribe to their channels amid the uncertainty created by Trai's new policy," said an analyst. Aimed at transparency, the new broadcasting guidelines give users more leeway to choose channels they prefer.

Naidu takes the lead

It seems Telugu Desam Party President N Chandrababu Naidu has taken it upon himself to iron out the remaining differences between the Aam Aadmi Party (AAP) and the Congress for the sake of the *mahagathbandhan*. He was in Delhi last Friday and met both Congress President Rahul Gandhi and AAP Convener and Delhi Chief Minister Arvind Kejriwal. He said there is a "democratic compulsion" for all the Opposition parties to come together; however, "the political compulsion of each party at the state-level must be taken into account" while forming a united force before the Lok Sabha polls. His statement assumes significance because an alliance between the AAP and the Congress is yet to materialise as both sides continue to attack one another and assert they would be going solo for the upcoming polls.

Adopt a cow

Madhya Pradesh Chief Minister Kamal Nath was reportedly aghast that there were not many government-run cow shelters in a state that was ruled by the BJP for 15 years. He told a gathering, "*Nare to khoob lagate hain — pandra saal aise hi nikal diye.*" (They spout many slogans, but did little over the last 15 years.) To make good, Nath has proposed a scheme under which ordinary people of the state can adopt a cow. The idea is to open at least 1,000 cow shelters in the state by May this year. The proposed adoption will ensure economic viability of these shelters. According to an estimate, the government will spend ₹450 crore to build these shelters.

LETTERS

Revamp fiscal plan

This refers to the article "Time to improve the fiscal architecture" (February 1). The three suggestions by A Prasanna relating to the creation of a Fiscal Council, the adoption of a 'deficit neutral' rule by the government and advance annual ceiling for market borrowing make sense in the context of the government's search for external remedies for internal debilities.

The government's efforts to camouflage fiscal deficit using surreptitious methods like deferring payments due and pressurising government-owned bodies to divert funds or pay extra or advance dividends have invited adverse observations by analysts. There is one school of thought that considers explaining a higher deficit with more prudent and transparent accounting system a better and desirable alternative than the present tightrope walking that brings embarrassment to several organisations.

The long-term solution lies in mapping the nation's unaccounted for wealth and considering a realistic taxation policy that covers high income groups and agricultural income.

M G Warrier Mumbai

Time for scrutiny

President Ram Nath Kovind, while highlighting the various achievements of the National Democratic Alliance government when he was addressing a joint sitting of both the Houses of Parliament, hailed the efforts to build a new India and touched upon issues like surgical strikes, the Rafale deal, Swachh Bharat, the Triple Talaq Bill, Citizenship Amendment Bill. These might be great achievements for the government but I want to ask what it has achieved with regard to core issues such as unemployment, poverty, rape, mob violence and a rapidly declining economy. These are the issues crying for attention.

Mohd Faheem Mumbai

Partial analysis

This refers to "What not to do in a corporate crisis" (February 1) by Aakar Patel. Mr Patel is grossly unfair to Dewan Housing Finance Corporation (DHFL) and overly favourable to the Zee Group — the two companies he has chosen to compare from the point of view of their response to the recent crisis situations.

In his eloquent write up, he tries to run down one highly respected (before the crisis) company and, at the same time, is strangely charitable to the other! He is purportedly commenting on the "corporate communication skills" of large Indian companies in general - "still executed by multi-billion dollar businesses in a crisis as if they were mom and pop shops" — but uses his immense capabilities and flowery word play to just run down one and find good in the other. My respect for him - as an exceptionally good independent columnist — has gone down several

notches after reading this article, which smacks of outright partiality.

Without going into the faults of the two companies involved — as I do not have any knowledge about their working —I think DHFL's response is very specific, businesslike and to the point. Its only mistake perhaps was that it was not signed by their top man and, in contrast, Subhash Chandra *(pictured)*, chairman of Zee, seems to have written one, full of irrelevant family history and internal feuds. In another report, he had even alluded to "negative forces sabotaging his outfit" — hardly suitable when defending your company in the face of alleged loan repayment defaults.

Krishan Kalra Gurugram

Letters can be mailed, faxed or e-mailed to:
The Editor, Business Standard
Nehru House, 4 Bahadur Shah Zafar Marg
New Delhi 110 002
Fax: (011) 23720201 · E-mail: letters@bsmail.in
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HAMBONE

Business Standard
Volume XXIII Number 123
MUMBAI | MONDAY, 4 FEBRUARY 2019

Unsustainable welfarism

India needs a strong bond market to check electoral populism

Addressing a political rally in Durgapur, West Bengal, on Saturday, Prime Minister Narendra Modi hailed the interim Budget for 2019-20 as a "historic" step towards empowering peasants, workmen and the middle class, and promised more benefits for all sections in the full Budget if his party returned to power after the Lok Sabha polls. The interim Budget had several steps towards creating a welfare state, including an income support scheme for farmers owning up to 2 hectares — about 120 million households — who would receive income support worth ₹6,000 a year. It introduced a pension scheme for unorganised sector workers — with the government making a matching contribution — to provide a pension of ₹3,000 a month after 60 years of age. Then there was an income tax rebate for those with a taxable income of up to ₹5 lakh.

What is creditable is that the government has managed to do all this with a limited impact on the fiscal deficit. The broader point, however, is whether a country with relatively meagre financial resources can afford such open-ended welfare programmes. It would be unfair to blame this government alone; in fact, Mr Modi deserves compliments for coming out strongly against more damaging measures such as farm loan waiver because they destroy credit discipline while doing precious little to improve the condition of farmers. It's a different matter that the Bharatiya Janata Party did nothing to stop the Uttar Pradesh and Maharashtra governments from announcing the same in the run-up to the state elections. Competitive populism is something the opposition parties have also adopted with enthusiasm — Congress President Rahul Gandhi, for example, has said he would not allow Mr Modi to sleep till a pan-Indian farm loan waiver was announced and has promised a minimum income guarantee for all if re-elected in the Lok Sabha elections in May.

What these promises underline is a steady move towards welfarism that can't be reversed, binding the Indian state into fiscal commitments that would be increasingly difficult to sustain. Indeed, the evidence of the developed world over-committing and then slipping, as a result, is there for all to see. It would appear that the Indian political system is also making the same mistake. The truth is India's decision-makers do not have any effective guardrails to hold them back from promising something that could be exorbitantly costly. In a big way, the question is about the financial cost of such schemes. For example, in the absence of a well-developed bond market, there is no fully effective way for the markets to raise the red flag by means of higher yields and interest rates. India's half-hearted efforts to wean its lenders to the bond market have met with limited success. A strong bond market is a necessary institutional mechanism to check unrestrained fiscal populism. Its success would hinge on liquidity for lower-rated paper, investor appetite for the entire debt spectrum, adequate hedging mechanism, and an increasing supply of bankable papers. Given that the inexorable appeal of populism is unlikely to disappear soon, India must prioritise the development of a bond market.

Back to Feb 28

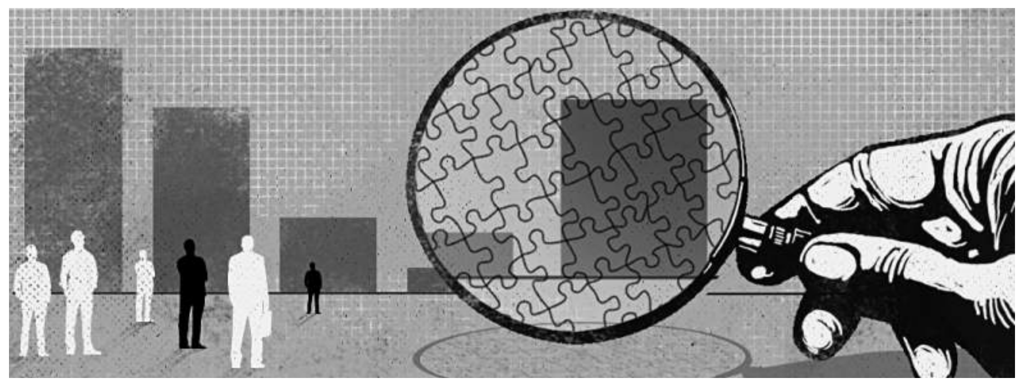
Advancing the Budget by a month not working out

The interim Budget — which was more like a full Budget than previous votes-on-account — was presented on the first day of February, as has been the case for the two preceding Union Budgets. This follows a decision taken during the 2016-17 financial year to advance the Budget presentation date by a month, ending the long tradition of presenting it on the last day of February. The first indication of this change came on October 26, 2016, when Prime Minister Narendra Modi — while chairing one of his meetings on timely implementation of schemes with states — urged bureaucrats to align their planning to this new schedule so as to benefit as much as possible from it. The hope was that an earlier Budget date would be able to provide greater certainty earlier in the year, and front-load expenditure somewhat. There had been complaints from various centres of expenditure in the Union and state governments that they tended to be somewhat short of disbursements in the first quarter of any financial year, as the government machinery responded too slowly to the Budget decisions announced in end-February. Legislative approvals for all spending should ideally have been undertaken during the month of March, so as to be ready for the new financial year in April — and sometimes there were delays.

But in the two financial years that this practice has been in place, the decision's drawbacks have become clear. Most importantly, there simply isn't enough data in place for a proper and effective budgeting process. Consider, for example, the headline numbers of any Budget — the fiscal deficit for the ongoing year, and the fiscal deficit target for the next financial year. While the latter is always an unknown value, the current year's fiscal deficit depends on the data available of spending and revenue over the months so far and expectations for the remaining months. When presented on February 1, not only is less known about expenditure — this is a surmountable problem, given expenditure choices are the government's — there is crucially too little known about revenue. This has led to revenue projections in the Revised Estimates being often the same as the Budget Estimates. If we don't have real revised numbers, it becomes harder to budget accurately for the new year. This takes away from the credibility of the fiscal deficit number. Even more worrying is the denominator of how the fiscal deficit is generally presented — as a fraction of gross domestic product (GDP). Unfortunately, the first Revised Estimates for GDP are only known by the end of January. The Advance Estimates of GDP, which are used instead, have been subject to major revisions recently. Some government officials highlighted, after the interim Budget, the difference that using the Revised Estimates would make to the Budget's predictions regarding the fiscal glide path.

There are several other ways in which the paucity of data makes a Budget-preparation exercise that targets February 1 far less useful than one targeting February 28 or 29. The only way to correct this is to return to the original date on which Budgets were presented — while improving the speed of disbursements of funds. There is no substitute for a sensible and clear Budgeting process.

ILLUSTRATION BY AJAY MOHANTY



Hiding the real numbers

Contrary to expectations, Narendra Modi's government may have been more fiscally profligate than UPA-II

POLICY RULES
MIHIR S SHARMA

Unfortunately, it is now widely accepted that we can no longer trust the Indian government's numbers. And here I am not talking about the widely discussed "new series" calculations of gross domestic product; I am not talking about the discredited "back series" of that same GDP; and I am not even talking about the claims made about job growth using EPFO statistics, which measure formalisation of the economy. I am talking about the most fundamental macro-economic indicators: Those presented in the Budget.

In the interim Budget presented last week the numbers cannot be said to fairly reflect reality. Consider the claim that India continues to be on a "fiscal glide path" to a deficit of 3 per cent of GDP. This is increasingly hard to believe. The years after the near-crisis of 2013, including the last year of the United Progressive Alliance, featured apparently genuine attempts to cut the deficit. But those attempts appear to have been given up on.

This year, although there is no major macro-economic crisis, the fiscal deficit target has again been missed — and we are supposed to believe that, once again, we will go to the 3 per cent target not this year, not next year, but the year after next. This is like when senior UPA officials constantly claimed that 8 per cent growth was two to three quarters away. Government officials can truthfully point out that the slippage was only from 3.3 per cent of GDP to 3.36 per cent of GDP. However, the "glide path" can no longer be taken seriously, and deserves the same scepticism that the UPA's insistence received.

Other projections in the Budget are similarly untrustworthy. No real answers have been given as to why the receipts from the goods and services tax are ₹1 trillion less than the Budget estimates. If GST revenue increase by about 6 per cent this year, why does the Budget claim that it will go up by about 20 per cent next year? If it does not, what happens to the Budget's projections?

Prime Minister Narendra Modi has been given considerable credit for being a fiscal hawk. The evidence suggests, however, that while he wants credit for being a fiscal hawk, he is unwilling to actually rein in spending or increase revenue. It seems that it was in fact the UPA that worked harder on fiscal compression. If you don't believe that, why not listen to Economic Affairs Secretary Subhash C Garg? He pointed out this week to the *Financial Express* that "the real expenditure growth during the entire five-year tenure of the previous government was only about two per cent".

As a consequence of the Modi government's unwillingness to control spending, the Budget deficit figure is not just unbelievable, thanks to the unrealistic projections, but also downright deceptive. Government expenditure is being hidden by financing spending through other pools of cash that are under government control. A comparison with the first UPA's off-Budget liabilities, such as "oil bonds", is revealing. That process was more transparent. The then finance minister, who justly built up a reputation for depending on off-Budget items and spending rollovers, did at least himself acknowledge the problem in his speech: "As a first step, I have shown these liabilities clearly... I intend to request the 13th Finance Commission to revisit the roadmap for fiscal adjustment [to take these off-Budget liabilities into account]". No such transparency is on display at the moment.

The mechanisms being used are unprecedented and problematic in a manner quite different from the oil bonds. The small savings fund, for example, is being used to prop up Air India — something that was in the past done out of Budget allocations. This is not the government's tax revenue to use. It is our savings — our public provident fund money, for example. It is being used for political ends, such as protecting Air India, even though that failing airline is a uniquely awful destination for anyone's savings. This money should have come out of taxes. Why are we blaming bankers for throwing good money after bad to Kingfisher when the government, as the protector of our savings, is doing exactly the same with Air India?

Then there is the misuse of disinvestment — which no longer implies the reduction of government control and thus increasing the productivity of capital tied up in the public sector. Instead disinvestment has become an exercise in shifting capital from the public sector to the government, which then uses it to fund expenditure. This is a scandalous misuse of public resources and constantly increases inefficiency and capital misallocation in the economy. Public sector enterprises should use their reserves to invest.

Other public agencies are being forced to borrow in order to meet government policy priorities, since direct funding has been slashed. The Budget squeezed the highways ministry, for example, raising next year's outlay by only 6 per cent. The consequence is that agencies like the National Highways Authority of India, although they have no real balance sheet strength, are upping borrowing considerably, at government orders — without this being reflected in the Budget numbers. The NHAI owes ₹1.5 trillion, and has negligible earnings or cash flow. It finances its past debt by taking on new debt, all with a sovereign guarantee. The roads it borrows against are not its to give away — they are the property of the government. Most expect that the NHAI will be borrowing ₹60,000 crore from the market and the Food Corporation of India will be borrowing ₹1 trillion. All of this borrowing — directed and guaranteed by the government — is invisible in the Budget.

Analysts have begun to point to these negative debt dynamics. Pranjul Bhandari of HSBC has pointed out in these columns that the net supply of government paper has gone up from 6.6 per cent of GDP to 8.2 per cent of GDP in just two years. Sajjid Chinoy of JPMorgan argues that the public sector borrowing requirement has remained "close to" 8.2 per cent of GDP for five years, and so household financial savings "have fallen in recent years from 22 per cent of GDP to 16 per cent". Most directly focusing on the Centre, Prithviraj Srinivas of Axis Bank points out that the "government directed borrowing has net increased" under Mr Modi: Public sector enterprises now borrow 1.6 per cent of GDP more, while the government has reduced its stated fiscal deficit by only 1.1 per cent of GDP.

There is only one possible conclusion: Mr Modi deserves no credit for fiscal prudence. He has in fact been more profligate than wise. If private investment has not revived, it is because the government is crowding out private borrowing — flooding the market with its own paper, instead of paying for its spending out of taxes like it should. You can rightly laugh at GDP numbers that claim we grew faster in the demonetisation year than in any other in our history. But if you do believe the GDP numbers, then you should note that there has been a sharp slowdown last year — at the same time that borrowing hit high gear. The Centre for Monitoring Indian Economy said last month that new project starts are at a 14-year low. This is stagnation, not growth. Mr Modi's big bet — that government spending could kick-start investment when combined with big talk and a little painless reform — has failed. He took over a recovering economy with a tight deficit reduction programme and ran it into the ground.

m.s.sharma@gmail.com
Twitter: @mihirssharma

Why is bad behaviour in FIs widespread?

IRRATIONAL CHOICE
DEBASHIS BASU

A spate of corporate scandals and cases of poor governance have been hitting the headlines regularly for the past few months: The tottering behemoth Infrastructure Leasing & Financial Services, the sinking Dewan Housing Finance Ltd, alleged improprieties by the former managing director of ICICI Bank, the shock and horror show unleashed by the Zee promoters, unknown issues in YES Bank and Axis Bank, whose chiefs have been shown the door, and, of course, the continuing self-serving behaviour of some promoters like that of Sterlite/Vedanta, and so on.

Each of these events has led to a sudden and massive erosion in shareholder value. DHFL is the most egregious of all, whose stock has fallen from just under ₹700 to about ₹110 now, a crash of 85 per cent since early September 2018. The shares of YES Bank have more than halved. IL&FS is an unlisted company but its impact has reverberated across the financial sector with liquidity drying up and risk aversion rising.

Coming in quick succession, these events have once again showed how little shareholders can possibly know about what is going on inside a publicly listed company. This applies as much to institutional shareholders as to retail shareholders. Can something be done to avoid situations like these? At one extreme, each time an "accident" happens, some will call for stricter regulation. At another extreme, some tend to shrug and say, "You can't regulate bad behaviour," meaning accidents will always happen and regulation cannot stop them. Is it possible to have a more meaningful perspective other than these two extremes, and, if so, a more effective solution to the problem of bad corporate behaviour?

We can reduce accidents only if we look deeper and isolate what is by far the biggest component of the issue of bad corporate behaviour. Notice one thing common among the names IL&FS, DHFL, ICICI Bank, YES Bank, Axis Bank...? They are all financial firms. Also remember, India's economic growth has been severely held back by the massive loot of the largest segment of the organised financial sector — public sector banks (PSBs) — by netas, babus, bankers and businessmen. Between them, PSBs and rogue financial firms have inflicted the maximum damage to savers at the micro level and to the economy at the macro level.

If there is a systemic crisis, if there are fears of a contagion, if the money of retail savers is at risk, you can bet that one or more financial firms would have caused it. The financial crisis that started in the US and spread like wildfire from Iceland to India was entirely caused by lenders with the help of stockbrokers and institutional investors — the key players in the financial sector.

It isn't that non-financial firms cannot be blamed for large-scale wealth destruction through financial frauds. But such instances are rare. And over the years, regulation and disclosure in securities markets have ensured that sensible investors can avoid accidents by staying away from promoters with a poor record of governance. Supervising financial firms, however, is another matter. Financial firms need stricter rules of operations. If they are publicly listed, they have to be supervised by two regulators at least — the securities market regulator, the Securities and Exchange Board of India, and the financial markets regulator like the Reserve Bank of India. Housing finance firms are additionally supervised by the National Housing Bank. If financial firms are the cause of repeated crises, could it be that the regulators are not doing their job properly? Try to answer these questions:

- PSBs have needed repeated bailouts over the last 20 years with public money. How many people have been held accountable for it?
- That a lender must have enforceable collaterals throughout the term of a loan is something even a school student would understand. Who has been held responsible and punished for the ₹10 trillion which went bad at PSBs and may not be recovered because they don't have any enforceable collateral?
- Why has the ministry of finance been funnelling public money into PSBs for three decades without doing something fundamental — bringing in a system of positive and negative incentives?
- If Dewan Housing Finance collapses, would the National Housing Bank be questioned?
- How could IL&FS, supervised by the RBI, be allowed to run by a small cabal of professionals like their private fief for almost three decades? Or allowed to create a web of almost 350 companies that borrowed more than ₹1 trillion?
- Didn't the RBI brass fail to act on multiple letters from an IL&FS whistleblower and its own inspection report? If so, shouldn't someone be punished?

This is just a small sample of lawlessness that is rampant in the financial sector, which needs stricter, not more relaxed, regulation, one that must be followed in practice and not remain on paper. What we have, instead, is regulatory capture by crooked players due a combination of corruption and incompetence among regulators. Hence, the way to avoid systemic risks is to make regulators, especially those directly in charge of financial firms, accountable for every major slip. The question is: Who can supervise the regulators? It is the ministry of finance and the prime minister's office since they function like a strong command and control centre. But over five years of maximum governance, neither of these offices has made financial regulators accountable.

The writer is the editor of www.moneylife.in
Twitter: @Moneylifers

Chris Christie's testament

BOOK REVIEW
DWIGHT GARNER

When Chris Christie first met Donald Trump, over dinner at the Manhattan restaurant Jean-Georges in 2002, the developer ordered for both of them. This power move has received insufficient study.

Trump had waiters bring Christie the seared scallops and the roasted lamb loin. "I'm allergic to scallops," Christie recalls in his new memoir. He adds, "I've always hated lamb."

The future governor of New Jersey was gleaning lessons in domination. He was an apt pupil. *Let Me Finish* is a superficial and ungainly book that tries to cover so many justifications, it's a master class in sucking up and kicking down, it's a potted memoir, it's a stab at political rehabilitation — that reading it is like watching an octopus try to play the bagpipes.

At heart it's a reminder that, before Bridgegate, before the 2016 presidential election and before the infamous photographs of him sunbathing on a closed beach during a 2017 state government shutdown, Christie was the favourite political intimidator of many Americans. An alternative title for this unintentionally poignant book might have been, "You Used to Really Like Me, Remember?"

Because Christie was positioned to be the brashest candidate in 2016, he had the most to lose from a Trump insurgency. He saw the threat instantly. After the first Republican debate, he said to his wife, "We've got a problem."

"From a stylistic perspective," Christie writes, "he was everything I was — but on jet fuel."

After he dropped out of the 2016 race, Christie became the first governor to endorse Trump. Christie drew on his long friendship with Trump and became a close adviser. Often enough, in his own estimation, he was the only adult in the room. He nearly became Trump's running mate.

He was repeatedly stymied by Jared Kushner, Trump's son-in-law. Like a fawn, Kushner is seen in this book grazing on what Christie calls "his typical salad."

Bambi was bent on payback. Christie had helped send Kushner's father, the prominent New Jersey real estate developer Charles Kushner, to prison in a lurid case that involved tax evasion and witness tampering. According to Steve Bannon, Christie writes, Jared Kushner was "obsessed with destroying me." Every chair Christie sat in had a trap door underneath.

Christie saves his real fire in this book — which was written by a ghostwriter named Ellis Henican — for Bannon, the one-time chief executive of Trump's campaign. He calls Bannon "self-impressed," a "snake" and "the only person I have ever met who can look pretentious and like an unmade bed at the very same time."

Christie accuses Bannon of peddling lies about him to Bob Woodward, among other journalists. More crucially, he remains apoplectic over Bannon's decision, alongside other advisers, to toss out Christie's monumental 30-volume plan for Trump's transition.

Trump didn't want to talk about the transition. Bad karma, he thought. Expecting Trump's other senior advisers to read 30 volumes, especially from Christie, was like waiting for monkeys to begin typing Shakespeare. In Christie's view, trashing the transition plan was the original sin of the Trump administration.

The president didn't get the right people. Instead he got "the revolving door of deeply flawed individuals — amateurs, grifters, weaklings, convicted and unconvicted felons — who were hustled into jobs they were never suited for, sometimes seemingly without so much as a background check via Google or Wikipedia."

If Trump had only listened to him, Christie writes, he would have fired James B Comey, then director of the FBI, at the start of his administration. His later firing would become, according to Bannon, the worst mistake in modern political history.

If you skim through *Let Me Finish*, nearly all you will see is Christie saying, in so many words, I told you so.

He told Trump that retired Lt Gen Michael T Flynn was trouble. He told Trump to stop picking on Khizr Khan, the Gold Star father. He was the only one who could tell Trump when he'd done poorly in a debate. Christie's sense of being right at every moment is wearying. Like a fan that blows for too long, his grille fills with dust.

As a literary performance, this book is nylon, not wool or silk. If you want to read an excellent book about Christie and about New Jersey politics, find a copy of Matt Katz's 2016 biography, *American Governor: Chris Christie's Bridge to Redemption*. It's cleareyed but sympathetic. Christie is vastly more likable in it than he is here.

Trump himself comes off rather well in this book. Christie remains a believer. He praises Trump as a father. He writes: "He knows who he is and what he believes in. He has a keen understanding of what regular people are feeling. He commands extraordinary loyalty from his supporters and has unique communication skills." He thinks it's not too late for Trump to turn things around.

Is *Let Me Finish* a plea to be let back in, at a high level, to Trump's administration? Is it a platform from which to run for president in 2020 if Trump drops out? Do voters want him back? This self-serving book doesn't make the most appealing case. Is anyone longing for another in-your-face president? And does he have too much baggage? It may be true that, as Karl Ove Knausgaard put it in one of his "My Struggle" novels, "What's done is dung and cannot be undung."

LET ME FINISH:
Trump, the Kushners, Bannon, New Jersey, and the Power of In-Your-Face Politics
Chris Christie with Ellis Henican
Hachette Books
420 pages; $28