

ACROSS THE AISLE

P CHIDAMBARAM

Why 13 economists will be unhappy

FIVE YEARS ago, when Dr Arvind Subramanian, then Chief Economic Adviser, presented his first Economic Survey (2014-15), he said, "India has reached a sweet spot — rare in the history of nations — in which it could finally be launched on a double-digit medium-term growth strategy." He did not stay the full term of Modi 1.0 government to acknowledge that the government had failed to deliver on that promise. It was left to his successor Dr Krishnamurthy Subramanian to admit that Modi 1.0 government delivered an average GDP growth of only 7.5 per cent over the five-year period.

A growth rate of 7.5 per cent is satisfactory but nowhere near the target of double digit growth. Besides, the trajectory of the growth rate over the last five years was 7.4, 8.0, **8.2**, 7.2 and 6.8 per cent. Dr Subramanian must have been pleased with the rise from 7.4 to 8.2 per cent in the first three years but, I suspect, must have been devastated when demonetisation hit the country in November 2016. Since then, the trajectory has been a decline from 8.2 to 7.2 to 6.8 per cent.

Modi 2.0 government has taken office when the decline has become steeper. The quarterly components of the growth rate of 2018-19 were 8.0, 7.0, 6.6 and 5.8 per cent. It is in this dire situation that the new CEA had set the goal of the Modi 2.0 government as:

"India aims to grow into a USD 5 tril-

lion economy by 2024-25, which will make India the third largest economy in the world. Given 4 per cent inflation as the Monetary Policy Framework specified by the Government for the Reserve Bank of India, this requires real annual growth rate in GDP of 8 per cent."

That is a fair target. The question before us is, how far did the maiden Budget of Ms Nirmala Sitharaman advance the goal set by the Economic Survey?

Each one of us can list a number of boxes and ask ourselves, based on the Budget statements, how many boxes has the Finance Minister (FM) ticked.

In October 2018, 13 economists of international repute, all Indians or of Indian origin, wrote 14 papers, that were published in 2019, under the title '*What the Economy Needs Now*'. Dr Abhijit Banerjee and Dr Raghuram Rajan sifted through the set of ideas and wrote an afterword listing 'Eight top challenges India faces'. Each one of them concerns the economy, directly or indirectly. For my list of boxes, I have borrowed five ideas from the book.

Here are the boxes and why I have ticked or crossed them:

✱ Containing Fiscal Deficit: The Modi government has a poor record in containing the fiscal deficit. In the first five years, it was able to reduce the fiscal deficit from 4.5 to 3.4 per cent. Actually, the fiscal deficit was stuck between 3.4 and 3.5 per cent for four years and

Budget 2019-20 promises to bring it down to 3.3 per cent. The number for 2018-19 is suspect because of huge revenue losses and off-Budget borrowings in that year. So, the estimate of fiscal deficit for 2019-20 is also suspect.

✱ Stressed Sectors (Agriculture, Power, Banking): The Budget speech contains no measure to relieve the stress in the agriculture sector. On power, it simply reiterates the current scheme, UDAY, aimed at financial and operational turnaround of distribution companies. It adds 'retirement of old and inefficient plants' and 'addressing low utilisation of gas plant capacity due to paucity of natural gas'. On banking, it promises to provide Rs 70,000 crore for recapitalisation of public sector banks (that is totally insufficient) and 'one-time six months' partial credit guarantee' to banks to purchase pooled assets of financially sound NBFCs (that completely misses the point about insufficient liquidity).

✱ Better Business Environment: There were several ideas on the table to make the business environment 'better'. What good will it do if business did the same things in the same manner and only 'doing' that business became easier? Special Industrial Zones, not necessarily targeted at exports; changing labour laws, not just codifying them; allowing start-ups to start and run businesses for three years without the need to secure permissions or licences, etc, were ideas that

could have been accepted.

✱ Less Burdensome Regulation: The best solution was massive decentralisation. To begin, school education must be transferred to the states — as it was in the original Constitution — to be followed by transferring more subjects from the Concurrent List to the State List. On the contrary, the FM has assumed a greater role for the Central government in school and college education! The RBI, SEBI, Competition Commission of India, CBDT, CBIC, etc, have turned into controllers

✓ More Cash Transfers: On this, the government has moved forward to encourage digital payments and to disincentivise large cash withdrawals. It is natural that more subsidies and cash benefits will be transferred through the Direct Benefit Transfer route. Though this 'reform' is seven years old, I shall tick this box.

The economy needed radical reforms of the kind undertaken in 1991-96. The government had the mandate to carry out such reforms. Inexplicably, the government has chosen to do incremental reforms. The 13 economists — all Indians or of Indian origin — will be disappointed. So will be many who were rooting for radical reforms.

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INSIDE TRACK

COOMI KAPOOR

DIFFERENT TIMES

Prime Minister Narendra Modi, who rebuked MLA Akash Vijayvargiya's actions, should next caution all BJP politicians who assume they have the licence to throw their weight around. Last week, on Delhi's Humayun Road, a speeding SUV with an MP sticker displayed on the windshield and a VIP numberplate banged into a stationary car at the red light. Both cars were damaged and the passenger in the front car was badly shaken. But the driver of the SUV, the husband of a former MP from central Uttar Pradesh, who was also sitting in the car, did not stop to enquire about the welfare of the passenger or the extent of damage. The driver, a government official, simply sped away after first giving a mouthful to the chauffeur of the car in front, as if it was the stationary vehicle's fault. A resident of the locality recalled an incident some four decades earlier in the same vicinity which illustrated the difference in behaviour of politicians in the old days. Swaran Singh was Defence Minister and he banged his car into a man driving a scooter. Singh rushed the driver and his wife, who were not badly injured, to a dispensary for first aid. The next day Singh sent a member of his staff to their house and asked if they would like to register a police complaint against him since he was driving the car.

OWAISI SMILING

TWELVE of the Congress's 19 Telangana MLAs have crossed over to Chief Minister K Chandrashekar Rao's TRS, while one has moved to Parliament, leaving the party with six MLAs. Asaduddin Owaisi's AIMIM, with seven, has asked for its representative to be named Leader of the Opposition. Owaisi has reason to smile. The AIMIM has long been dismissed as a city-based party with strength confined to the Muslim-dominated areas of Hyderabad. In 2014, for the first time, the AIMIM was recognised as a state party. In 2018, it won a mere 2.7% of votes to 28.4% for the Congress, but has now emerged as the No. 2 party in the Assembly. The BJP has but one seat.

BREACH OF PREACH

With Maharashtra elections around the corner, the BJP does not seem concerned

OUT OF MY MIND

MEGHNAD DESAI

I AM STILL getting emails from Jet Airways about the rewards awaiting me for my loyalty. The firm has gone bust but the emails go on. This is like the Congress party. Rahul Gandhi has resigned as president and said he will not change his mind. But his party has taken its time to recognise this. The Congress goes on living in a limbo, between death and life.

Look across to the UK where a party older than even the Congress has just con-

HISTORY HEADLINE

SHAJI VIKRAMAN

VAASTU VETTING

2, Krishna Menon Marg, which former Finance Minister Arun Jaitley vacated recently, is one of the larger government bungalows, but Central ministers are reluctant to move in as they consider its *vaastu* negative. They point out that Jaitley's numerous health problems surfaced only after he moved to the bungalow and left his private residence in South Delhi, which he occupied even when he was leader of the opposition or a minister in the Atal Bihari Vajpayee government. An earlier tenant of the bungalow, Sukh Ram, got embroiled in the telecom scam and currency notes were found in the bathroom. Mulayam Singh Yadav was also plagued with serious health issues after he moved to the address. A senior MP recalls that former Congress politician from Andhra Pradesh Kishore Chandra Deo, who had a long and distinguished political career, was a great believer in examining carefully every government house he occupied from a *vaastu* angle before he moved in. As a young man, Deo was badly shaken by his father dying overnight of a tetanus wound received from a garage door, on the very day he received the news that he was to be made a minister in the Madras Presidency. Deo was convinced that it was the *vaastu* of the garage which led to his father's untimely death.

SWEET OFFERINGS

Trinamool Congress MP Kalyan Banerjee presented new Lok Sabha Speaker Om Birla with a congratulatory letter and a box of *sandesh* sweets on behalf of his party leader Mamata Banerjee. Clearly, Banerjee has not ended the practice of gifting Bengali sweets to prominent BJP persons in Delhi, even after her spat with Prime Minister Narendra Modi, who disclosed publicly that the Bengal CM sent him *rasgullas*. In an informal interview with actor Akshay Kumar telecast during the elections, Modi had mentioned that despite Banerjee's tough talk against him, she unfailingly presented him two *kurtas* and Bengali sweets every year. A furious Banerjee had countered that the next time the PM came to West Bengal, she would gift him *rasgullas* made out of soil and pebbles.

Let Modi help Oppn oppose

ducted elections to choose the next leader, having asked the incumbent to resign. There is a process for the MPs to vote to narrow the list of candidates down to two and then the two face the decision of party members in a secret ballot. Democracy is not rocket science.

But the Congress hates democracy, at least within its ranks. There has not been a seriously contested election in the Congress since 1950, when Purushottam Das Tandon became president. Jawaharlal Nehru quickly corrected such show of members' power and had Tandon removed. This repeated the way Mahatma Gandhi had treated Subhas Chandra Bose's audacity of being elected against his wish. Tandon's election was an aberration. Since then the Prime Minister or the

leader of the Congress parliamentary party has been the de facto chief.

So a search is on for a face to replace Rahul. The CWC will no doubt find a person older than Rahul and more hopeless at winning elections. Otherwise Rahul will be shown up. Who needs Modi? The Congress will deliver *Congress Mukht Bharat* itself.

Other opposition parties are copying the Congress. Mamata Banerjee has her nephew as successor. So has Mayawati selected a nephew. So we can abandon any hope of revival in the Trinamool Congress and BSP. The two Yadav parties, the SP and RJD, are stuck because the son has done worse than the father and the grandsons are not old enough. Chandrababu Naidu was the son-in-law of NTR. He has failed

HISTORY HEADLINE

The Union Budget, 1948 and now

SHAJI VIKRAMAN

ON JULY 5, Finance Minister Nirmala Sitharaman in her first Budget levied extra tax on the super-rich — raising the surcharge for those with taxable income between Rs 2 crore and Rs 5 crore from the existing 15 per cent to 25 per cent, and from 15 per cent to 37 per cent for those with income higher than Rs 5 crore. That may be good political messaging at a time of widening income inequality.

But when independent India's first Finance Minister R K Shanmukham Chetty presented his first full Budget on February 28, 1948 (his first Budget was an interim Budget, which was unveiled after August 1947 and was in effect until March 1948), his second taxation proposal was to lower the rate of what was then called super tax. He was worried that the tax rate would hamper the growth of savings and retard industrial growth in a country which was yet to recover from Partition.

Chetty, who studied economics in the Madras Christian College and was a lawyer by training, raised the limit at which the super tax kicked in to Rs 3.5 lakh then and reworked the slabs too. He also reduced the tax on undistributed profits of companies by one anna taking into account the fact that in the 1946-47 Budget, the government had a complicated system of levying a super tax to deter the distribution of large dividends by firms and push them to plough the money back into business. The rationale was to woo industrialists to invest.

However, none of this meant that the first full Budget of Chetty, who came from a family with business interests in Tamil Nadu, was full of giveaways. Rather, the Finance Minister in Part B of the Budget which contains taxation proposals — a practice which has been followed since — said that despite criticism including from the Reserve Bank of India in its annual report regarding what was then known as excess profits tax, he had decided, after a great deal of thought, not to jettison it.

The Nehru-led Congress government's taxation philosophy as articulated by the Finance Minister in his Budget speech that year was that it had to balance the need to stimulate production and to remove the fetters on industry while keeping tax rates reasonably high so that the wealthy were

Then Finance Minister R K Shanmukham Chetty presented India's first full Budget on February 28, 1948. Wikimedia Commons

placed under an "equitable equilibrium for the common needs" of the State.

In 1948-49, and in the previous year too, the new Finance Minister and the government had to face up to an adverse balance or a deficit in the country's balance of payments (BoP) owing to large imports of foodgrains. That was a reversal compared to the years before Independence when India had a favourable BoP. What this meant was major restrictions on imports except of foodgrains, raw materials and some essential consumer goods. The other big challenge was inflation. But in that Budget, Chetty also talked about what is now common currency — a counter-cyclical policy which aims at building a surplus during periods of growth, public spending during a downturn and running a deficit if needed to ensure growth is back on track.

What the first Finance Minister said in the interim Budget of 1947-48 on market borrowings echoes even now. The government's borrowing programme would be such as to enable it to obtain funds as cheaply as possible without in any way impacting the flow of investment into industry. The government then had to appeal to people to subscribe to its borrowings — a target of Rs 150 crore in 1947-48 through loans as the securities market was hit because of communal disturbances. Chetty held out a promise that the government was responsible for the repayment of these loans as a measure of comfort.

Nirmala Sitharaman in her first Budget announced the government's plan to borrow abroad — marking a first to help ease pressure on interest rates here and allow more private firms to borrow in India. India's relatively low external debt was cited as one of the reasons for opting to borrow overseas with comparisons on cost of borrowing bound to arise. In

November 1947, Chetty had said that India's debt position was intrinsically sound and that its external debt for a country of its size was negligible considering the sterling balances — which were treated as foreign exchange reserves. Indeed, the Finance Minister made it clear that these reserves should not be frittered away in importing non-essential luxury goods or to finance deficits in the balance of payments.

On July 4 this year, the Economic Survey made a case for doing away with incentives after 10 years for small firms or dwarfs with less than 100 employees. That view may have run counter to that of the first Finance Minister. Chetty had flagged the dangers of concentration of too many businesses in the hands of large companies. The country, he felt, should encourage the growth of small companies to broad base the economy.

The interim Budget had targeted revenues of Rs 171.15 crore and revenue expenditure of Rs 197.39 crore with a net deficit of Rs 26.24 crore, which the government later managed to reduce to Rs 6.52 crore. Interestingly, prior to the first full Budget in 1948-49, Part A was the Railway Budget incorporating the speech of the railway and transport minister, and Part B was the Finance Minister's speech which was presented in the Constituent Assembly. Part B, which contained revenue proposals and was considered to be sensitive information, was released only after 6 pm on February 28, 1948.

In the conclusion, Chetty had said, "In spite of all the trials to which our infant state has been subjected, we have the solid foundations on which we can confidently build the superstructure of our economic and social edifice. The pattern of that structure is entirely in our hand to draw."

The first is to amend the Representation of the People Act. It is obsolete and anti-Parliament. It requires every candidate in the election to swear faith in socialism, which violates the fundamental right of Freedom of Expression. It gags backbench MPs, forbidding them from expressing independent opinion. They are puppets of the Whip. They are only good for rushing to the well, discrediting Parliament.

In the House of Commons every week, there is a one-hour slot for Prime Minister's Questions. It allows opposition members to show their ability at asking searching questions to the Prime Minister. The Lok Sabha could adopt that practice. Let Modi improve Parliament by helping the Opposition oppose.

FIFTH COLUMN

TAVLEEN SINGH

A reality check for Rahul

RAHUL GANDHI'S resignation letter horrified me. Not because I do not think he did the honourable thing by accepting responsibility for the drubbing the Congress party got in the recent general election. But, because of what he said about India and her democratic institutions. If he wrote the letter himself, then he would do well not to return from his summer holiday. What is the point of returning to a political career in a country whose institutions he has such contempt for? If someone else wrote the letter, then that person should emigrate forthwith.

The two paragraphs I found most offensive in the letter are these. "A free and fair election requires the neutrality of a country's institutions; an election cannot be fair without arbiters — a free press, an independent judiciary, and a transparent election commission that is objective and neutral. Nor can an election be free if one party has a complete monopoly on financial resources.

"We didn't fight a political party in the 2019 election. Rather, we fought the entire machinery of the Indian state, every institution of which was marshalled against the opposition. It is now crystal clear that our once cherished institutional neutrality no longer exists in India."

As a member of the media, let me begin by admitting that most of us got the election wrong because we hoped Modi would lose. Those of my comrades who bothered to travel into the wilds of rural India came back absolutely certain that Modi would lose at least 50 seats in the northern states. I believed the same until the results came. Only then did it occur to me that I interviewed around 150 people in different states and less than 20 said they would not be voting for Modi. It was the impression created by the media that fooled Rahul Gandhi and his campaign managers. When they began projecting him as prime minister, voters on the fence saw that the choice was between him and Modi and fell off the fence onto Modi's side of it.

Now let us talk about the judiciary. Never before have Supreme Court judges shown such open defiance of a Prime Minister as they did last year when they called a press conference to imply that the Chief Justice was a BJP partisan. Why? They objected to his choice of judges on certain benches while admitting at the same time that deciding the roster was his prerogative. If only Supreme Court judges had shown defiance when Rahul's grandmother ordered them to suspend every one of our fundamental rights including the right to life. One judge objected and his career was ruined.

Accepting that this happened because democracy was suspended on account of the Emergency. But, believe me when I say that long after it ended, I saw election commissioners riding in the official car of a Congress prime minister during a Kashmir election. The Election Commission is no longer as pliable. The same people who charge it with partiality in conducting the general election said not one word when the Congress party won in Rajasthan, Madhya Pradesh and Chhattisgarh.

What worries me most about Rahul Gandhi's farewell letter is that I detect the start of a new narrative. If in Modi's first term the narrative was that Modi was working only for 'a handful of his rich friends', the narrative now is that the RSS has 'captured' our institutions completely. In the words of the Congress president, "Our democracy has been fundamentally weakened. There is a real danger that from now on, elections will go from being a determinant of India's future to a mere ritual." This is rubbish and shows real contempt for Indian democracy, but a gaggle of aged officials, who benefited hugely from Congress rule, has written a letter to the Election Commission backing Rahul Gandhi.

The truth of the 2019 election campaign is that the Congress president ran a lousy campaign. He behaved like an entitled prince trying to oust a usurper. His tone was belligerent, distasteful and rude. He forgot that his opponent was also the Prime Minister of India. Voters did not and were appalled. The other mistake he made was to attack Modi not where he was weakest — the economy — but where he was strongest, which was his image of being utterly uninterested in being in public life to make money. Those endless shrieks of 'Chowkidar Chor Hai' never gained resonance.

The truth is that Modi (not the BJP) won this election because he was seen as a real leader. The truth is that millions of rural Indians benefited from government welfare schemes for the first time. The truth is that the Congress party did not offer Indian voters anything other than an entitled prince and princess who hoped to win only by exalting the 'charisma' of a Dynasty that has ruled too long.

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