Fixing tax buoyancy

Poor responsiveness of tax collection to economic growth poses new challenges for norms on sharing taxes with the states

RAISINA HILL

AK BHATTACHARYA

The highest tax buoyancy rate for the Union government during the last 28 years after economic reforms was achieved in 2002-03. Tax buoyancy that year had risen to 2, which meant that the Centre's gross tax revenues had grown at double the rate at which the Indian economy had grown in nominal terms. The finance minister under whose watch such a high level of tax buoyancy was recorded was Yashwant Sinha.

Tax buoyancy is one of the key indicators to assess the efficiency of a government's tax system. It measures the responsiveness of tax mobilisation to economic growth. Tax buoyancy depends largely on the size of the tax base, the friendliness of the tax administration and the reasonableness as well as simplicity of the tax rates.

Yet, it is not fair to look at just one year's tax buoyancy to arrive at any conclusion on the tax system's efficiency or the responsiveness of tax mobilisation to economic growth. There are many factors at play in either boosting or pulling down tax buoyancy and there is also a lag effect of taxation policies that can be captured only by examining the trend over a longer period of time.

For instance, just a year before tax buoyancy hit the record high of 2, gross tax collections in 2001-02 actually declined even as the economy had clocked a nominal growth rate of just over eight per cent. Thus, tax buoyancy was in negative territory, the only time it has been so low in the post-reforms era. Quite interestingly, therefore, Sinha holds the record for both the highest and the lowest tax buoyancy rates in post-reforms India. In his five years as finance minister, he was troubled by poor tax buoyancy in two years, but was rewarded with commendable tax buoyancy rates in the other three.

By that yardstick, Sinha's performance is probably just a shade below that of P Chidambaram when he was the finance minister in the Manmohan Singh government from 2004-05 to 2008-09. During the first four years of his tenure as finance minister in this period, Chidambaram managed to keep tax buoyancy between 1.3 and 1.7, a creditable performance. In the fifth year, that is, 2008-09 (Chidambaram, however, left the ministry in December 2008 after the Mumbai terror attack) there was a sharp fall in tax buoyancy to about 0.2. This was due to the impact of the global financial meltdown and the tax measures taken to alleviate its impact on the economy.

While tax buoyancy in a year may reflect the impact of an adverse set of developments during that year, but usually the longer-term trend of tax buoyancy during a period of about five years results from policy changes made a few years earlier. The lag effect of policy changes on tax buoyancy can hardly be ignored. Thus, tax buoyancy between 1991-92 and 1997-98 was fairly moderate between 1 and 1.3 in four of these seven years and was poor in the remaining three years. But the tax reforms undertaken during this period did help boost the tax buoyancy rate in the following decade, even though there were occasional years when buoyancy would suffer due to some economic developments.

Similarly, it can be argued that Sinha's tax reforms, particularly in the indirect taxes regime, helped tax buoyancy in the Chidambaram years that followed immediately after Sinha's tenure. The period of four years between 2009-10 and 2011-12, when Pranab Mukherjee returned to the finance ministry, saw tax buoyancy quite patchy and was below 1 in as many as two years and above 1 in the remaining two years.

Arun Jaitley's five years as finance minister also saw steady performance in tax buoyancy. In Jaitley's first year in the finance ministry, tax buoyancy was below 1, but in the three subsequent years, tax buoyancy showed steady signs of improvement ranging between 1 and 1.6. However, in the last year that is, 2018-19, tax buoyancy declined to 0.7. And in the first half of 2019-20, when the Centre's gross tax revenue grew by just 1.5 per cent over the same period of 2018-19, tax buoyancy fell further to about 0.15. This is on the assumption that the nominal economic growth in the first half is 10 per cent.

Such deterioration in tax buoyancy is a cause of concern for the central exchequer. It can upset the government's plans for fiscal consolidation and can provide a misleading basis for the 15th Finance Commission's calculations on sharing the Centre's tax revenues with the states. If the current low tax buoyancy is used to project the revenue growth for the next five years, revenue challenges for both the Centre and the states will only become more complicated.

The big question for the 15th Finance Commission is how it can arrive at a more reliable base for calculating tax buoyancy in the coming years. If it makes the wrong assessment now, the tax collection assumptions can become flawed adversely affecting the new tax devolution formula. Getting a sense of the long-term and sustainable trend of tax buoyancy will be crucial for the recommendations the 15th Finance Commission makes for tax sharing between the Centre and the states.

Who's afraid of bank trade unions?

An industry wage pact is a bizarre performance appraisal as the benchmark for such a pact is the paying capacity of the weakest of banks

BANKER'S TRUST

TAMAL BANDYOPADHYAY

If you think the once-powerful bank trade unions have become toothless tigers, you're mistaken. They can't bite the way they could do till a decade ago through frequent strikes but they have not lost their fangs as yet. This is why the Indian Banks' Association (IBA), the premier industry lobby, has not been able to close the industry wage page — the 11th bipartite settlement — even after two years. The previous agreement expired on October 31, 2017.

Of course, such long discussions have been the tradition and there is no hurry since irrespective of the date of signing the new pact, it will be effective from November 2017. But one wonders whether a wage pact that covers the entire industry is relevant at all. Till recently, 11 public sector banks (PSBs) were restrained from giving fresh loans; three PSBs have already got merged into one and another 10 will make four large banks. There is nothing uniform about the industry but the wage pact continues. Is such a pact in vogue in any other industry of such scale in India?

Most banks are not in the best of health; a few of them have been making losses for years. There is no surprise that the IBA had started the negotiations offering a 2 per cent pay hike. It has been raised it to 6 per cent, less than one-fourth of what the unions have been demanding. Now, the IBA has upped it to 12 per cent with a provision for adding a maximum of 4 per cent performance-linked incentives (PLIs) to it.

Since it's an incentive, it will not form part of the basic salary. So, there will not be any additional cost for the banks in terms of higher provident fund (PF) and pension on account of PLI. The 12 per cent pay hike will translate into about 13.25 per cent load on the wage bill because of the rise in basic pay and contribution to PF and pension. Overall, around ₹11,500 crore will be added to the wage bill for the industry in the first year.

The last settlement that ended in October 2017 offered employees a 15 per cent hike. Before that, the employees had got a 17.5 per cent hike and a 13.3 per cent hike in the eighth settlement, effective between 2002 and 2007.

Around three dozen banks of different hues have asked the IBA to negotiate the latest package with the unions. The mandate from the private and foreign banks is mostly for their employees belonging to the clerical cadre. Why don't banks do such negotiations on their own? Probably the bank managements are not comfortable in dealing with unions.

The introduction of PLI is something new which the IBA has been pushing for. This will be based on two parameters — operating profits and return on assets (RoA). Net profits and the level of non-performing assets (NPAs), etc will not be taken into consideration as there could be many reasons, including external interference, for the creation of bad assets. But the unions are not willing to accept RoA as a parameter as the NPAs and provisions made to take care of them impact this.

Barring State Bank of India (SBI) and Bank of Baroda (BoB), all other banks are willing to offer the new wage pact to employees up to scale VII or the level of general managers. These two banks want to restrict the coverage of the new wage pact till scale III, covering the junior and the middle management, but I understand that if the unions accept the PLI, both SBI and BoB might agree to raise the coverage to the general manager level.

Incidentally, PSB employees up to scale III or managers are better looked after than their counterparts in private banks. The trade unions' demand for five-day week has not been accepted (now, the bank employees get the second and fourth Saturday off every month). Also, the demand for the so-called updation of pension has been rejected. In its absence, the pension of a retired employee does not rise with a new wage pact.

The first such settlement was signed in October 1966. Apart from the IBA, the Bombay Exchange Banks' Association, representing foreign banks in India, was involved in the first pact, with a three-year tenure. The Bombay Association does not exist anymore and foreign banks operating in India have joined the IBA.

The continuation of the industry-wide wage pact for over six decades tells the story of the trade unions' sway over the industry even though the IBA always tries to find ways to get more from the unions while negotiating the wage settlement. For example, in 2002, while signing off on a 13.3 per cent wage hike, the IBA, on behalf of bank managements, extracted a blanket go-ahead from the unions for computerisation— anathema for unions till then. The unions also accepted transfer of employees, which had been quite tough for the bank management, even though theoretically all bank employees can be transferred within a zone where the same language is spoken.

An industry-wide wage pact is the most bizarre performance appraisal process simply for the fact that the benchmark for such a pact is the paying capacity of the weakest of the banks. Isn't this unfair to the employees of strong and profitable banks? Brotherhood is not exactly a great idea in a market economy.

Individual banks should break away from the industry pact and have their own settlements. And, of course, the employees of healthy banks should get stop options to have their skin in the game. Finally if the banks want to reach the unbanked and offer services to the people in the so-called bottom of the pyramid, they should have a differentiated wage structure. Why should a PSB branch manager in, say, Gadchiroli in southeastern corner of Maharashtra, have the same salary as the branch manager in Malabar Hill in south Mumbai where the cost of living is far higher?

Banks are making efforts and learning the tricks of risk management, recovery and technology but when it comes to handling trade unions — which is far less complex — their inhibition remains a mystery.

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CHINESE WHISPERS

Tracking MPs

Much to the consternation of Lok Sabha members, Speaker Om Birla *(pictured)* has asked the secretariat of the House to track the participation of each member in the business of the lower chamber of Parliament. The records will now be put up on the Lok Sabha website and regularly updated. Not just Birla, the Rajya Sabha secretariat, on instruction from Chairman M Venkaiah Naidu, is mulling over a similar exercise. According to sources, Naidu wants to ensure not only better attendance of MPs in the House as well as in meetings of parliamentary committees, but also dignified conduct and order during discussions and debates, and give more opportunities to members who speak constructively. Recently, Naidu handpicked some better-performing MPs of various parties to include them in the Rajya Sabha's panel of vice-chairpersons. They fill in when the chairman and deputy chairman are not present.

Sharing is caring?

The Madhya Pradesh government, run by the Congress, thinks the Central government is unfairly taking all the credit for a project. That's why the state government has decided to lay tiles in the houses built under the Pradhan Mantri Awas Yojana (PMAY). The logic is clear: As the state government puts it, it is spending 40 per cent of the money under this scheme. It is not just the houses under construction but also the ones to be built will be beautified with tiles laid by the state government.

Chief vs deputy chief

The relationship is lukewarm between Uttar Pradesh Chief Minister Yogi Adityanth and his deputy Keshav Prasad Maurya, who was seen as a favourite for the top post after the Bharatiya Janata Party's (BJP's) stupendous win in the 2017 Assembly polls. The rather cold vibes shared by the two became apparent recently when Maurya wrote to Adityanath, alleging corruption in the Lucknow Development Authority (LDA). Since Adityanath holds charge of the UP housing and urban planning ministry too, he heads the state development authorities. Squaring it up, the chief minister has now upped the ante on the miserable condition of roads in the state. Maurya heads the state public works department, which is tasked with the upkeep of roads in UP.

INSIGHT

Changing food habits & yo-yo dieting

Even if our weight yo-yos, our overall health will keep getting better

AMBI PARAMESWARAN

First a disclosure and an admission. I am no diet expert. But I am fascinated by the growth of the 'diet industry' in India. Two decades ago when someone said "I am on a diet", that was it. You assumed that they would be eating less of everything, especially sugar and fats. But today those few words lead to a whole discourse: "I am trying the keto diet this year. I had tried the vegan diet earlier. And last year it was the Atkins". If by chance there is someone else in the room who is on a different diet, you are in for some fun kibitzing.

How many diets are there? Here is a shortlist of diets that you can find on Google: ketogenic diet, paleo diet, whole30 diet, vegan diet, MIND, low foomap diet, weightwatchers diet, Atkins diet, gluten-free diet, felxitarian diet (the last one is where the person switches from vegetarian to vegan to non-vegetarian diets; hence 'flexi').

The term "yo-yo dieting" was coined by Prof Kelly Brownell of Yale University. As the name suggests he studied the phenomenon of people going on diets, losing significant weight, then going off diet, only to put the lost weight back on. As a result their weight "yo-yos" and hence the term "yo-yo dieting" also known as "weight cycling". WebMD lists this as "losing and putting back weight", from 50 pounds (severe weight cycling) to 10 pounds (moderate weight cycling). For those of you getting worried, WebMD does not say that this can cause serious harm to your vital organs. But who knows?

With a growing number of affluent urban Indians going on diets, there is a whole new world opening up for savvy marketers. As a leading VC, V S Sitaram (quoted in *The Mint*, September 12), says there are a number of start-ups that are tapping into the diet game. According to him, there are broadly three types of modern packaged food brands: The "Better4You" brands, contain less of salt, sugar, fats, calories. Then there are the "Clean4You" brands that are sourced from organic farms; the range covers all that you consume including rice, wheat, sugar etc. The final type is the "Good4You" brands. These could in fact be a combination of the first two, but they contain foods that are good for you such as nuts, seeds, proteins; they also go low on *maida*, processed sugar etc.

Anthropologists do tell us that food habits are the most difficult to change. Despite all the efforts by Kellogg, we Indians still prefer a hot spicy breakfast. Hence, the relative success of masala oats.

National food and health studies tell us that our food habits are indeed slowly and steadily changing. There is this myth that Indians are largely vegetarian. Yes, an Indian non-vegetarian home does not consume meat or eggs every day, but we are very much a non-vegetarian country. Less than a quarter of our country is vegetarian. In states such as Tamil Nadu, Kerala, Andhra Pradesh, Telangana, Odisha, West Bengal and northeast non-vegetarians are more than 90 per cent. The other important phenomenon is the growing appetite for non-vegetarian foods from the middle and lower classes. Consumption of eggs is on the way up. So is the consumption of chicken and fish. Meat eating has been on the rise even in the less non-vegetarian northern states. Only Rajasthan is holding on to its vegetarianism. The growth of non-vegetarianism could be linked to growing affluence and the fact that *tandoori* chicken' has great aspiration appeal, far outgunning *dal-chawal*.

Tapping the dieting consumer and the consumer who is moving towards non-vegetarian foods offer two very different opportunities.

Packaged food brands have been trying to offer a variety of products to the diet conscious. Granola bars are replacing samosas. Protein bars are finding ready acceptance among the yoga consumer. Unheard of products like kale and celery juices, quinoa/chia/flax seeds, goji berries, and other superfoods are on offer at your neighbourhood dry fruits store. Butter and coconut oil are back as the good guys; refined vegetable oils are still in the doghouse though. *Desi* millets are on the rise and you can even get premium branded low glycemic index brown rice.

The growth in non-vegetarianism should open up new opportunities for supermarkets in the bigger cities. But some of them are devoutly vegetarian. I suspect there will be a change in this scenario in the next 10 years. Food marketing in India has just begun since most of what we consume as foods is still unbranded. So there is great opportunity for a multitude of players, from supermarket's own brands to curated brands from start-ups aimed at the affluent dieters.

Yo-yo diets will probably continue but in their wake they will also give a leg up to some exciting new products and services. Hopefully even if our weight yo-yos our overall health will keep getting better.

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LETTERS

Easier said than done

Your editorial "The big push, finally" (November 22) makes for an encouraging reading and if indeed all these strategic sale and transfer of control in various PSUs is concluded by March 31, 2020, the government would not be too far from the disinvestment target of ₹1.05 trillion for the current fiscal. It sounds good but perhaps not as easy to achieve. Let's look at the ground reality.

First, the transfer of stake in the Numaligarh refinery will take a month or two. In all likelihood, due diligence of BPCL by a potential strategic buyer will start only after that. Also, the valuation is likely to be lower than the ₹59,000 crore by about 8 per cent — perhaps ₹54,000 crore will come into the government kitty if these valuations are accepted by the buyer. No doubt the negotiators will seek a premium but, some inevitable cobwebs in the company may pull down the price.

Second, whatever is being "sold" to NTPC can hardly be called "disinvestment" and, valuations of those companies are not yet known. Allow me to mention that the estimate of ₹12,900 crore from Concor and SCI is on the higher side. This too will be a long-drawn affair.

Finally, your advice to not rush through the process to meet the deadline will mean further delay. So, overall, end September 2020 is a more likely date for meeting the target. Having said that, the strategic sale decision is indeed welcome because not many companies would want to buy into a PSU without the government letting go of control.

Krishan Kalra Gurugram

First things first

This refers to "The big push, finally" (November 22). Indeed, this strategic move will fetch a few positive results. It will help bridge the fiscal deficit as well as spur revenue when GST collections are not even touching the much-needed ₹1 trillion benchmark. Privatisation is at the centre of any move to liberalise the economy, more so, if we want to become a developed country one day. Without an iota of doubt, privatisation will also improve the efficiency of these organisations. The fear of job losses during any such move is real but must be dealt with with utmost sensitivity like in the case of the BSNL-MTNL merger where the option of VRS was offered to employees. Coming to revenue expected from this stake-sale: Though it might take longer than expected, it should be utilised as judiciously as possible. Time has come to take strong action on land and labour reforms as well because without that economic revival might not happen.

Bal Govind Noida

Long-term approach

This refers to your article "OECD sees global growth of 2.9% in 2019 and 2020" (November 22). The alphabets "ECD" themselves explain the purpose of its existence, namely, "economic cooperation and development". There is a need to draft policy guidelines at the international level to prevent damage to the environment. Further, political irritants in international trade — for example, the friction between the US and Iran and between the US and China — apart from poor digitisation of trade matters in all concerned economies are upsetting the organised flow of imports and exports. It is political cohesion rather than political friction among nations that will enable orderly trade and commerce. In the absence of political stability and amicable diplomatic relations, trade becomes disorderly. International exports and imports must have an organised flow, or else, it will impact investment. Shifts in policy concerning currency and trade are at best short-term solutions to long-term problems.

C Gopinath Nair Kochi

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HAMBONE

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A sensible call

Tariff increase by telcos was long overdue

Telecom companies, both incumbents as well as the disruptor, have shown maturity by announcing hikes in mobile phone tariffs in the first week of December. Though the amount is not known as yet, the first mobile phone tariff hike in close to a decade could be a turning point for the sector, saddled with record losses and debt, largely due to rock-bottom prices, triggered by unhealthy competition. The move can be the first step in getting the telecom sector back on track, though a lot will depend on how it plays out in terms of subscriber movement affected by the tariff change.

For the time being, the telcos' decision to raise tariffs is expected to improve sector pricing by 15-30 per cent even though there will be some customer churn based on tariff revisions. While telcos said in the past that revenue or ARPU (average revenue per user) was more important than volume, they found it hard to resist the temptation to increase their subscriber count at any cost in a competitive market, which was turned upside down by a cash-rich entrant. With portability to another operator an easy option now as the subscriber gets to retain his or her phone number, telcos would be careful to change tariffs in a responsible way.

Also, while higher tariffs should bring a semblance of order in the industry, which has been in a race to decrease prices without looking at its financials, it will need relief from the government to mend things immediately. The government has announced a two-year moratorium for the telecom companies in making their spectrum payments for the past auctions. This is estimated to bring a relief of around ₹42,000 crore to the three private players — Bharti Airtel, Vodafone Idea, and Reliance Jio — during FY21 and FY22. However, in the subsequent years, interest will accrue on the amount, increasing the overall spectrum payout for the companies. But the immediate relief in cash flow that the moratorium will offer cannot be ignored, especially as Bharti Airtel and Vodafone Idea, with a total net loss of ₹74,000 crore in the second quarter, raised the risk of not being able to continue as going concerns in the absence of a potential remedy from the government.

That said, the two-year moratorium may not be a long-term solution to address the leverage concerns of the telcos. At this point, there's a lack of clarity on whether the government, based on recommendations of an expert panel, will roll out further steps to give relief to the stressed telecom industry, facing a demand of an estimated ₹1.4 trillion as a result of a recent Supreme Court order upholding the government definition of adjusted gross revenue (AGR). In line with the industry expectation, the government should look at rationalising fee for the companies, a step that will possibly go a long way in boosting the financial health of the stressed sector.

The wish list of telcos, which failed to make provisioning in their books for the long-pending AGR dues, plunging the industry to record lows, is long. Several operators, including Bharti Airtel and Vodafone Idea, have filed a review petition against the apex court's AGR order, seeking waiver of penalties and interest. Irrespective of the outcome, both the government and operators will need to look for ways to make the sector financially sustainable as developments in the sector will have far-reaching consequences for the economy at large.

Justice Bobde's agenda

Judicial reforms should happen, finally

The Supreme Court was back in focus on Sunday as it moved swiftly to address the dispute among political parties on government formation in Maharashtra. Although the matter could not be decided on Sunday, it was reassuring to see how the apex court acted. This efficiency should now trickle down to the rest of the Indian judicial system. India needs judicial reform to address cases in a reasonable time frame. The issue will certainly be on the mind of Justice Sharad Arvind Bobde, the new chief justice of India.

Many of the problems arise from the neglect of the judiciary by the government. It is provided a paltry amount like 0.2 per cent of the Union Budget. The state Budgets follow the same pattern, year after year. Even the court fees and other revenue collected by the judiciary are taken away by the executive. Registrars of high courts have to panhandle government officials to run the system. As a result, the infrastructure of courts is in an appalling condition. The chief justices who visited subordinate courts have noted that they lack basic necessities such as fans and toilets, let alone a decent library. The consequence is that jails are overcrowded and a third of the prisoners are awaiting trial. The 35.3 million pending cases (1,000 of them 50 years old) hide the violation of human rights.

The problem is further compounded by the reluctance to fill judicial vacancies. There is hardly any court or tribunal in the country which has the sanctioned strength. For the high courts, it is 40 per cent. In the higher judiciary, in addition to the fund crunch, there is the perennial strife between the executive and judiciary played out behind an opaque collegium system of selecting judges. Justice Bobde will have to set the relation with the executive on an even keel on this front. He must also assuage the apprehensions of the public about transfers and appointments of judges by letting in more light into the complex process. It has become vital to retain public faith in the judiciary.

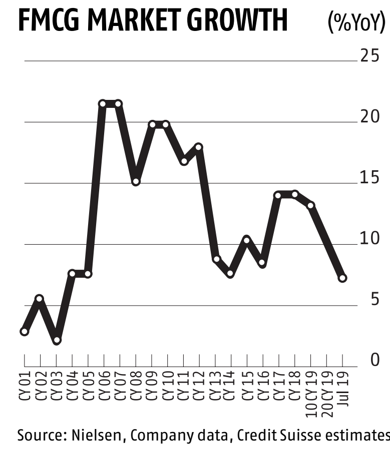
However, the judiciary must also look inwards and do whatever it can without external help. It must set up a permanent constitution Bench to dispose of hundreds of old cases. Law Commission reports have several more suggestions to improve the working of the court. It must regulate adjournments and set a time limit for arguments. The apex court showed it could set a deadline in the Ayodhya case. So it must be made a practice in less politically charged cases as well. Allotting cases to Benches in an irregular manner, exercising the discretionary powers of the chief justice, has caused suspicion in the mind of the public and even led to an impeachment move last year. The much-publicised digitisation has not even touched the paper mountain blocking the overcrowded corridors of the Supreme Court building. The court has a nominal research wing, but it has not conducted an authoritative study on why it has 60,000 pending cases and how to reduce them. These are problems that Justice Bobde knows very well because he practised in the Supreme Court before his elevation to the high court as judge. Perhaps he will agree with former chief justice Ranjan Gogoi, who once remarked that the judiciary needed not just reforms, but a revolution.

ILLUSTRATION: AJAY MOHANTY

COMPARISION OF GVA GROWTH RATES

Year	CSO	KLEMS
2005-06	8.3	9.0
2006-07	8.1	9.1
2007-08	7.4	8.7
2008-09	4.3	6.1
2009-10	6.9	7.8
2010-11	8.0	7.9
2011-12	5.2	5.4
2012-13	5.4	5.3
2013-14	6.1	5.9
2014-15	7.2	6.8
2015-16	8.0	7.6
2016-17	7.9	

FMCG MARKET GROWTH (%YoY)



Source: Nielsen, Company data, Credit Suisse estimates

Boost labour income to revive growth

The principal demand impetus for growth comes from the bottom half of income distribution

NITIN DESAI

Prime Minister Narendra Modi in July this year dismissed as professional pessimists those who questioned the $5-trillion economic goal. The Budget also gave little thought to the growth slowdown. But when that became obvious, the policymakers started panicking and came up with proposals like the corporate tax cut without thinking through whether that would deliver quick results. The government's policies for growth revival seem to be based on hunches rather than analysis. There is also the attempt to suppress uncomfortable data like the fall in household consumption and the refusal to accept the accuracy of the employment report.

In this environment, relying on doctored official data to present an alternative revival option is difficult. Hence this column relies largely on reliable non-government data, the most important source being the KLEMS (Kapital, Labour, Energy, Materials, and Services) database, a truly rich and reliable resource.

The KLEMS database is sponsored by the Reserve Bank of India and prepared by a team of researchers at Delhi School of Economics. Given the professional freedom they have, this data can be treated as reliable. This database, prepared for total factor productivity calculations, includes gross output; gross value added (GVA); intermediate inputs of energy, materials, and services; employment; labour quality index; labour income; and capital income. It has been built up from the data for 27 sectors and the economy totals are entirely consistent with the sectoral numbers. I would consider this a more reliable source for growth calculations.

Let me illustrate this with a comparison of GVA growth rates estimated by the back casting exercise undertaken by the Central Statistics Office, or CSO, (now National Statistical Office) and the KLEMS database, which is coherent and more reliable.

As this comparison shows, the CSO numbers tend to underestimate the growth rates during the UPA regime and overstate the growth rates in the NDA years.

The government's belief that pumping money into corporate coffers will boost investment and growth is mistaken. Companies invest when they see the prospect of demand growth. That there is a slowdown in demand growth is now obvious. As Rathin Roy has argued convincingly, some of it is structural because the elongated S-shape curve for some products, particularly vehicles and durables, is going past the high-growth trajectory into saturation mode because the number of consumers entering this middle-income category is not growing fast enough.

But the argument in this column is connected but different. I believe the principal demand impetus for growth comes from the bottom half of income distribution. Look at the chart for FMCG growth — high FMCG growth in the boom years 2004 to 2010, the sharp drop in 2012, the slight recovery in 2017, and the steady decline since then.

FMCG demand comes mainly from rural consumers and urban wage- and salary-earners. The slowdown must be because their incomes have not grown at the required rate. First, take the rural consumers. The average rate of growth of agricultural wages for males was 16 per cent between 2007-08 and 2014-15. In 2015-16 and 2017-18, it dropped to 5 per cent. The terms of trade for farmers improved from around 85 to more than 100 between 2004 and 2010. Since then they have fallen. The more extreme rural distress we have seen last year is probably weather-related and could reverse this year. But the deeper problem of marketing reform, including in minimum support price and public procurement, will take much longer.

In urban areas, what matters is growth in jobs and wages. Using the KLEMS database between 2004 and 2010, the growth rate of employment in manufacturing was 2.46 per cent and in services was 2.8 per cent. Between 2011 and 2017, this dropped to 1.40 per cent in manufacturing and 2 per cent in services. As for labour earnings, the pattern is similar, with higher growth in the earlier period and lower in the second period. Growth in manufacturing employment earnings dropped from 8.13 per cent to 5.38 per cent. Growth in services employment earnings dropped from 7.18 per cent to 6.09 per cent.

The slowing of employment growth is well understood, despite the attempts to question PLFS (Periodic Labour Force Survey) 2017-18. Growth in the index of industrial production slowed after 2010-11. In the case of labour-intensive industries, it fell sharply from 5.7 per cent in the six-year prior to 2010-11 to 0.1 per cent in the six years after 2010-11. There was also a decline in the capital-intensive sectors from 10.6 per cent to 4.60 per cent.

The purpose of subjecting the readers to all this data is to suggest that the key problem of the Indian economy is the inadequacy of labour incomes. The share of labour income in manufacturing value-added has been going down steadily from the mid-sixties and more sharply after 1990-91. It is now 30 per cent. In the services sector, this share is 52 per cent.

The only focus of labour policy seems to be to reduce the degree of protection offered and bring in something which should help owners of capital by easing hiring and firing. There is little evidence that companies have been constrained in reducing the size of the workforce by the paper provisions limiting this right. We forget that 71 per cent of regular wage- and salary-earners do not have a written contract, and that casual and contract labour is replacing regular employment.

The reality is that instead of running a welfare state for people we have been running a welfare state for owners of capital, rescuing them from wrong decisions. For instance, the most recent example of this is the corporate tax reduction, which involved a sacrifice of more than ₹1 trillion of tax revenue in the mistaken hope that this would stimulate investment and growth. And now to make up for the revenue loss, the government is planning to sell some of its most profitable public-sector enterprises. If the large amounts gifted to the corporate sector and stock market speculators had been used for the enforcement of minimum wage legislation and providing more employment under the Mahatma Gandhi National Rural Employment Guarantee Programme, we may well have seen results now.

Investment is stimulated primarily by expectations of demand growth. In the current context, the most reliable way of doing this is to boost labour income.

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Dr Singh's off-tune song

IRRATIONAL CHOICE

DEBASHIS BASU

Before the 2014 general elections, Narendra Modi called then prime minister 'Maun'mohan Singh. Manmohan Singh was the butt of ridicule for his silence on everything that was happening in the country — from corruption scandals (Commonwealth Games, Air India, allocation of telecom spectrum, coal and iron, etc.) to policy paralysis and land grabs, to the mishandling of egregious cases like Nirbhaya. Mr Modi captured that prevalent mood effectively.

Well, it is now Mr Modi's turn to be quiet. And Dr Singh has spoken, rather written, a piece in *The Hindu*, hitting hard at Mr Modi's economic performance — nominal GDP growth at a 15-year low, household consumption at a four-decade low, unemployment at a 45-year high, bad loans of banks at an all-time high, growth in electricity generation at a 15-year low, and so on. While I have been a critic of the Modi government's various schemes and policies, Dr Singh's reasons for India's economic condition and his policy prescriptions sound hypocritical.

Dr Singh says mutual trust and self-confidence are the bedrock of social transactions, which, in turn, foster economic growth. Right now our social fabric of trust and confidence is torn. "Industrialists… live in fear of harassment by government authorities. Bankers are reluctant to make new loans, for fear of retribution. Entrepreneurs are hesitant to put up fresh projects … Technology start-ups … seem to live under a shadow of constant surveillance and deep suspicion", while "policymakers are scared to speak the truth or engage in intellectually honest policy discussions". Fear and distrust reduce economic transactions, which lead to an economic slowdown.

Selection bias

This is a highly exaggerated picture, given what India went through under previous regimes, most notably under the Congress in 1991-96, when Dr Singh was finance minister, and again in 2004-14, when he was prime minister. Dr Singh's arguments have two problems — he picks facts selectively (selection bias) and highlights recent events (recency bias). First, Indian citizens and businessmen have always been at the mercy of the state, which harasses us through its hundreds of different arms. The Modi government is not doing something different. At Moneylife we coined the term *taxtortion* in 2010. The draconian Companies Act was drawn up in 2013, under Dr Singh. Remember the retrospective amendments and general anti-avoidance rules of the Congress regime? Not a great example of trust and confidence.

Secondly, correlation is not causation. People won't know, but surely Dr Singh does, that economic consequences come with a lag; so today's conditions relate to actions taken years ago. We are paying the price today, not only of the Modi's regime follies but the misgovernance of the previous regime. The single biggest reason for the current economic sluggishness is the failure to stop corrupt lending by public sector banks (PSBs) on a mind-numbing scale, as reflected in over ₹10 trillion of bad loans.

I cannot imagine any bigger reason than this horrific loot that has sapped liquidity from the system, misallocated resources on a gigantic scale, and forced the government to raise more and more resources from the most productive section of the population — private businesses and households. And those responsible for this plunder by crony capitalists and bankers are successive finance ministers, the prime minister of the previous regime, and successive governors of the Reserve Bank of India (RBI). Not Mr Modi. In fact, by all accounts, Mr Modi is not letting defaulters off the hook. Under the Congress, they would have got more money from banks and kept control over their businesses through ubiquitous power brokers. Not under Mr Modi.

Policy prescription

Dr Singh thinks India can revive "private investment by inspiring trust and confidence in the economic participants in our society". This is fallacious. Trust and confidence by themselves do not lead to economic growth; competition, transparency, and fair and simple rules of entry and exit do. I cannot think of one step Dr Singh's government had taken to further this kind of regime. It is easy to forget that in the 1990s, when he was finance minister, India went through a securities scam, and households were looted by flimsy public issues (in an era of deregulated free pricing without adequate safeguards), and multiple other financial scams from plantation companies to leasing companies. The state was looted through corrupt lending by PSBs. Then there were colossal failures of governance in telecom licensing, Enron, and other private power projects. The consequence of such rampant financial buccaneering: Inflation hit double digits under an economist.

Because of such gross mismanagement, not "liberalisation", for which Dr Singh gets credit, the economy went into a deep slump, from which it took six years to recover. A new law for bad loans had to be enacted, which also proved ineffective. In the 2004-14 period, mismanagement was played out on a larger scale, but got papered over because we benefited from an unprecedented global resource and liquidity boom caused by China. Instead of competition, we had more crony capitalism; instead of transparency, we had opaque processes; instead of fair and simple rules; we got more and more complicated ones. In fact, large-scale corruption and an air of despondency are the reason people voted out the Congress regime from power, as we squandered away a boom that comes once in a lifetime. Dr Singh's criticism hides more the Congress's failures than they expose the flaws of the current regime.

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Margaret Thatcher: The whole picture

BOOK REVIEW

BENJAMIN SCHWARZ

Her party still genuflects to her, and a core within it — ageing members of the Conservative associations in the shires and no-longer-young fogies in Westminster — reflexively venerates her. In the bleak cities and the former pit villages of the north, the veterans of bitter labour struggles to save now-vanished industries habitually curse her, perhaps along with the party named for them that forsook them long ago. In the London of Cool Britannia's tastemakers, loathing for her remains hot. She has always aroused a quasi-aesthetic repulsion within the metropolitan class; and, indeed, it is that continued detestation of what Jonathan Miller in the 1980s sneeringly called "her odious suburban gentility" that most potently keeps her memory alive.

But Margaret Thatcher is far too consequential to be retired as a plaster saint or to stand in for the creative destruction of global capitalism or to serve as the touchstone by which the *bien-pensants* establish their bona fides. It's time that history claimed her. With *Margaret Thatcher: The Authorized Biography — Herself Alone,* the third and concluding volume of Charles Moore's 2,700-page work, the Iron Lady can begin to be assessed as a fully rounded personality and a historical fact.

With ethical and scholarly discipline, Moore, a political columnist of a decidedly right-wing cast for *The Daily Telegraph* and *The Spectator* (and formerly the editor of both conservative publications, as well as *The Sunday Telegraph*), has produced a scrupulously evenhanded work. His use of evidence, absorbed from vast archival sources and hundreds of interviews, is punctilious, his judgments measured, his wit dry and sympathetic, his prose classically balanced. This sonorous, authoritative biography makes no empty claim to definitiveness. But it is a work for the ages: It will be the font from which every serious appraisal of Thatcher and Thatcher's Britain draws.

Covering the period from Thatcher's third general election victory in 1987 to her death in 2013, this book considers in detail scores of topics and events. Some are still very much with us, like Thatcher's growing anxiety over the impact that movement toward European integration would have on Britain's sovereignty, an issue that split her party and cabinet and occasioned her downfall. (Moore easily demonstrates that Thatcher's Euroskepticism, which intensified when she was out of office with the ratification of the Maastricht Treaty of 1992, was instrumental in galvanizing the political forces that pushed for Brexit.)

Clearly, the specific ends Thatcher sought — which included nothing less than the final destruction of what was known as "the postwar settlement" that had defined Britain's politics and economy for 35 years — could not be realized without contention. More fundamentally, Thatcher thought that any goal worth pursuing and any policy worth enacting demanded contention. Every session of Commons, every summit, every press interview — and, crucially for her political fortunes, every meeting with what were supposed to be her colleagues in the cabinet — was combat. Thatcher didn't seek consensus. She sought to win. Her guilelessly antagonistic style ran the somewhat narrow spectrum from what Moore nicely characterizes as "bossy headmistress" to the icily forensic.

But to caricature Thatcher as either a hectoring virago or as a latter-day Boudicca is not just to indulge in lazy sexism; it contorts her psychology, her history and her approach to politics. A philistine who used ideas solely to pursue her practical and above all moral purposes, Thatcher was the antithesis of an intellectual: "I am not by nature either introspective or retrospective," she declared. But she lived to argue. Indeed, to her politics was argument.

Thatcher was proud to be the only trained scientist ever to be prime minister, and she believed in the value of evidence. (Of the Strategic Defense Initiative, she explained to Ronald Reagan: "I'm a chemist. I know it won't work.") Because she surely worked harder and slept fewer hours than any prime minister in British history, she regularly knew more about her ministers' departmental briefs and policies — and the positions of her fellow heads of government — than they did. Convinced by her severely upright Methodist father that "integrity mattered above all else, and it was important to hold opinions because they were right" (as the historian David Cannadine puts it), Thatcher was, as Moore discerningly notes, an "eager seeker after truth."

Because she didn't seek compromise, her mind could be changed. Although Thatcher had subjected Mikhail Gorbachev to prolonged cross-examination upon first meeting him in 1984, and although his response led to heated and prolonged debate between them, that encounter concluded with her famously declaring that "we can do business together." Thatcher's recognition of a sea change in Soviet policy and her advocacy of Gorbachev — in the teeth of initially strenuous American objections — are in retrospect the decisive steps in ending the Cold War.

The demonisation of Thatcher — a process she made all too easy — was both a symptom and a cause of the infantilisation of the left, as it blamed deindustrialisation on the malign "Maggie" rather than on profound changes in the world economy. This rendered the left unable to grasp the import of that transformation, and incapable of and uninterested in helping the working class to create an effective political program to cope with it.

Moore probably sees Thatcher's relationship with the left differently. As a polemicist, he will, appropriately, deploy the Thatcher he has illuminated for his own purposes. Others will draw very different conclusions from the same evidence. Surely that is no matter to him. With this masterpiece, Moore has given us Margaret Thatcher. She now belongs to history.

MARGARET THATCHER
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Charles Moore
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