

● NDA II PERFORMANCE

THE ECONOMY WOULD HAVE GROWN AT AN EVEN FASTER RATE DUE TO LOWER OIL PRICES AND LOWER INTEREST RATES HAD MEASURES SUCH AS DEMONETISATION NOT BEEN IMPLEMENTED

Four years of Modinomics Good in parts?

THE COMPLETION OF four years of tenure by the NDA II government has been subject to scrutiny. Unfortunately, the opinions are divided based on political persuasions. The expectations from the government were high as it came with the promise of corruption free, decisive, and reform oriented planks. To be sure, there were serious legacy issues from the past which needed to be attended to that, *inter alia*, included the twin balance sheet problem and a poor investment climate. However, with absolute majority in the Lok Sabha by the BJP itself, there were great hopes of reviving reforms. In fact, the prime minister's promises of good days (*achhe din*), and the doubling of farmers' income, and statements like "minimum government, maximum governance" added to the build-up of expectations.

Undoubtedly, in terms of growth and inflation indicators, the performance of the economy has been much better than the previous five years under the UPA rule. The average annual growth rate of GDP during the four years of NDA was 7.3% as against 5.3% under the UPA II. Similarly, the average inflation rate during the NDA regime was 4.3% as against 9.3% under the UPA II. But, the question is to what extent should the government be credited for these favourable outcomes? It must be noted that while the UPA government had to contend with higher prices of oil, with it touching \$147/barrel in July 2008, the NDA government's taking over the country's reins coincided with a sharp decline in the price of oil to \$32/barrel in the summer of 2014. This provided a bonanza to the government in terms of lower fiscal and current account deficits, as well as a lower inflation rate.

In fact, the counter-factual analysis shows that the economy would have grown at an even faster rate due to a favourable international environment, with lower oil prices and easier financial conditions, had measures, such as the devaluation, not been taken by the government, and had the GST been imposed

in a less disruptive manner with fewer rates, lesser compliance requirements and a better prepared technology platform. Now, everyone acknowledges that demonetisation was disruptive, but ardent defenders highlight the benefits of demonetisation, such as better digitisation of the economy, detection of black wealth, identification of shell companies and an increase in the number of taxpayers. Unfortunately, these do not add up. The transactions have gone back to predominantly cash payments, the increase in the number of income taxpayers has not led to improved tax collections, and the identification of shell companies has not led to any improvement in tax collections or incentives for better corporate governance. The recent election in Karnataka provides ample testimony to the fact that incentives for the generation of black money have not abated. One report states that as many as 24% of the newly elected MLAs have serious criminal cases against them and 40% of these belong to the BJP, 30% to Congress and another 30% to JDS.

Interestingly, GDP growth declined sharply in the third and last quarter of 2016-17 to 6.1% and 5.6%, before recovering, as the disruptive effect of demonetisation waned in the subsequent three quarters. The last quarter of 2017-18 has seen GDP growth of 7.7%. While this is partly on account of the base effect, it is also true that the economy is on recovery mode after the disruptions. In other words, there has been a significant cost of demonetisation and the gains, if any, are not seen yet. The growth rate could have been much higher than 6.5% estimated for 2017-18, and it could have matched, if not bettered, the 7.1% in the previous year.

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The two important reform measures for which the government must be credited for are the passing of the (i) Insolvency and Bankruptcy Code (IBC), and the creation of the Company Law Tribunal to deal with the twin balance sheet problem and (ii) passing of the 122nd Constitutional Amendment to facilitate the levy of the GST. On the first, the resolution of the Bhushan Steel case provides some hope. This is only the first of 52 cases in the two lists sent by RBI to the bankers for resolution under the IBC. There is a long way to go in resolving the issue of bad loans. In fact, bad loans now constitute ₹9.8 trillion crore and 88% of this is with public sector banks. RBI seeks to find a solution by subjecting the banks to prompt corrective action when their capital adequacy ratio falls below 10.25% or when their net bad loans exceed 6%, and this further cripples the banks with large NPAs. Not surprisingly, the fourth quarter has seen a sharp jump in NPAs by ₹1.3 billion. The entire resolution process needs to be sped up to revive the investment cycle. As far as the GST is concerned, despite the hype created in unveiling it, its levy did create considerable disruption due to its complicated structure and compliance requirements. This, however, is a work in progress and hopefully, will settle down in the medium term.

Much of the action of the government has been in expanding various schemes involving subsidies and transfers, and most of them are poorly designed. Even those with some reform

content turn out to be simple bail outs and the reform part simply gets ignored while implementing them. Take for example, the UDAY scheme. The power discoms' loans have been taken over by the states but the AT&C losses have increased in many states after UDAY! Similarly, in the scheme on "smart cities", no one has defined what they are or estimated the expenditure required to create them, and how much the contribution of the Centre, states and local governments should be. A measure of spending on the schemes is not the measure of performance. The specific purpose transfers for various schemes are meant to ensure a minimum standard of services which implies that each of these

schemes must be defined in terms of the minimum service levels they are required to ensure and should be funded adequately to meet the targets. Unfortunately, what we have seen is more of the same as in the past.

There are many areas which call for immediate attention by the government. The government came with the vision of containing subsidies and

transfers but has only increased them. Air India privatisation is stuck. The 'Maharaja' is a family embarrassment, not a family silver, and should be dispensed with no conditions attached to save further loss of taxpayers' money. The reforms of the regulatory system in education and healthcare have simply not taken off. Labour laws continue to be talked about without any action. The farm distress is being addressed in terms of loan waivers and fixing prices rather than making and promoting investments in connectivity, storage, marketing, and processing infrastructure. More importantly, the trade policy in the country is taking us back to the import substituting era. Policy making seems to be a hostage to short-term palliatives rather than long-term strategic thinking.

Social welfare schemes must be defined in terms of the minimum service levels they are required to ensure, and not on the money spent

