COMMENT

N R BHANUMURTHY

Professor, National Institute of Public Finance and Policy

Building trust

At the outset, we must complement the Economic Survey for bringing out a very well-researched report, not only on the current state of the Indian economy but also by trying to focus on the long-term aspect of how to create wealth.

The Survey adopts an analytical framework that integrates Invisible Hand with the Hand of Trust, although not really new, has contextual value. But the best part of the Survey is the way it has built the narrative around the theme by bringing in issues that define the markets versus governments debate. It has brought in the role of public/private banks, issue of gross domestic product (GDP) estimations, ease of doing business, etc, to make a point that wealth creation is an utmost important issue for equity.

The sentence, which is repeated in many places, that "trust as a public good that gets enhanced with greater use" is quite apt, especially when the economy is undergoing a difficult phase. These are for the long-term structural reforms that one should look forward how the government is going to create that trust! But, in short, all of us were looking at what could be the GDP forecast for FY21 that forms part of the Budget.

The Survey puts the growth number at 6 to 6.5 per cent, against the Advance Estimate of 5 per cent for FY20. We just see that the National Statistical Office has revised downwards the FY19 number, from 6.8 to 6.1 per cent and not sure what the final number for FY20 could be! The Survey forecast appears to be on a higher side, which could be aspirational and depends on the Budget proposals.

Most interesting chapter in volume-II is the external sector. Here it argues for promoting exports through liberalising imports. In other words, the Survey very rightly argues that India's exports, especially manufacturing, is increasingly import-led. Hence, what is needed is reduction in import tariffs, especially on intermediate inputs and raw materials.

This view could be in contrast with the current government's thinking of going for import protection policies. We hope the finance minister could head to the Survey findings and cut the duties while there are pressures to hike. The Survey dedicates one chapter to bank nationalisation and brings out the benefits and costs of public sector banks vis-à-vis private ones. It goes to an extent of putting the cost of public sector banks — a loss of 23 paise out of every one rupee of the tax payers invested! I guess this could have been avoided.

As public sector banks have huge social obligations, one should estimate social costs and benefits. It is unfair to compare public and private sector banks with same parameters of efficiency. If the public policy is to enhance financial access and financial inclusion, one major way is by expanding public sector banks.

The Survey argues that the decline in the GDP growth in the recent period is largely due to financial fragility. While it does not dwell much on how to improve the financial sector, the empirics show the causality is both ways. Overall, if we have to improve growth prospects, it is the fiscal policy that needs to be proactive to help restore stability. One would have expected the Survey to recommend bank recapitalisation. If not, revival in investments could take longer and costlier than expected. On the technicalities, it is just surprising that Survey makes big conclusions based on five data points when it says credit expansion between 2008 and 2012 led to negative investments between 2013 and 2017. Here the Survey ignores its own statement that "Correlation is the basis of superstition and causation the foundation of science".

But the big question that remains is how long it will take to create trust that the Survey argues for.

Views are personal