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Will India Script an Uninterrupted Growth Story?

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THE HINDU CENTRE
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P. Chidambaram, Member of Parliament in the Rajya Sabha, was born on September 16, 1945, in Tamil Nadu's Sivaganga District. A lawyer by profession, Chidambaram had his school education at Madras Christian College Higher Secondary School, followed by Bachelor's degrees in Statistics at Loyola College, Chennai, and the Laws at the Madras Law College, and a Master's in Business Administration from Harvard Business School in the class of 1968.

A distinguished Parliamentarian, Chidambaram is a seven-time member of the Lok Sabha and is currently a member of the Rajya Sabha. Chidambaram's rich and long experience in India's politics has seen him at the helm of Ministries that have a direct bearing on the country's economics and politics, and places him in an ideal position to deliver the first Annual Lecture organised by The Hindu Centre for Politics and Public Policy.

He was a Minister of Finance thrice, Minister for Home Affairs, Minister of State with Independent Charge for Commerce twice, Minister of State for Internal Security, and Minister of State for Personnel, Public Grievances and Pensions.

Chidambaram's political responsibilities preceded his Ministerial positions. In 1972, he was a member of the All India Congress Committee, and a year later, he was elevated as the President of the Youth Congress, Tamil Nadu, a position he held until 1976. From 1976 to 1977 he was the Congress party's general secretary for Tamil Nadu.

Chidambaram was elected to the Lok Sabha for the first time in 1984, and was subsequently elected six times, making him an MP who has been a member in seven Lok Sabhas. He has been a member of several Parliamentary committees, and is currently the Chairman of the Parliamentary Standing Committee on Home Affairs.

An articulate speaker and a widely-read writer, Chidambaram has authored three books in English and several articles in the media providing popularly accessible analysis and commentaries on economic policies and current affairs.

Chidambaram is a Trustee in the Rajiv Gandhi Foundation, Delhi, the Ilakkiya Chintanai, (Literary Association), Chennai, and the Ezhuttu Trust, Chennai. An avid reader, Chidambaram evinces great interest in modern literature in general and Tamil literature in particular.

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It is over a month after the presentation of the Budget for 2017-18. It is two days after the results of the elections in five States were declared. Today, therefore, seems to be an appropriate day to review the state of the economy and the intersection of the course of politics with the course of the economy.

What was the state of the economy in May 2014? The year 2013-14 had ended on a reasonably satisfactory note, an election had been held, a new government had been elected, and it had assumed office amidst great expectations. The reverberating tune was '*achhe din aanewale hain*'. The singular feature of that election was that, after 30 years, a single party had been voted to power with an absolute majority in the Lok Sabha.

The interim budget tabled by the outgoing government had estimated the fiscal deficit at the end of 2013-14 at 4.6 per cent and the current account deficit at USD 45 billion. (The actuals were better.) It had forecast that the growth rate of 2013-14 would be higher than the growth rate of the previous year, and that all indicators pointed to a recovery of the economy.

Affirmed by the economic survey

The Economic Survey, presented by the new government in July 2014, had this to say on the economic stabilisation:

> "...the developments on the macro stabilisation front, particularly the dramatic improvement in the external economic situation with the current account deficit (CAD) declining to manageable levels after two years of worryingly high levels, was the redeeming feature of 2013-14. The fiscal deficit of the Centre as a proportion of GDP also declined for the second year in a row as per the announced medium term policy stance......Moderation in inflation would help ease the monetary policy stance and revive the confidence of investors, and with the global economy expected to recover moderately, particularly on account of performance in some advanced economies, the economy can look forward to better growth prospects in 2014-15 and beyond."

When the Finance Minister presented the regular budget in July 2014, unsurprisingly, he maintained the numbers of the interim budget. That could have been because it was his first budget or because it was not a budget for the full year or because he believed that there was nothing wrong with the numbers and the assumptions of steady recovery and growth. If the last-mentioned reason was, in fact, the reason, one cannot find fault with the Finance Minister!

Turbulent years and after

The country had witnessed three turbulent years beginning 2009-10. The year 2012-13 had ended on an unsatisfactory note (growth at 4.7 per cent, since revised for the second time under the new methodology to 5.48 per cent). By the middle of 2013, however, the economy was on the mend. The fiscal year 2013-14 had closed with a fiscal deficit of 4.4 per cent and a current account deficit of 1.7 per cent. The rate of inflation had begun to decline in November 2013, and by June 2014, WPI was just below 6 per cent and CPI was just below 7 per cent. Non-food credit was growing at 12.96 per cent. At the end of March 2014, food grain production was 264 million tonnes, installed capacity of power was 243,028 mw and tele-density was 75 per 100 persons.

All the conditions were there for the new government to accelerate growth. Within a few weeks, it also got a bonanza—falling oil prices. In May 2014, Brent crude oil was selling at USD 109.5 per barrel. It fell every month through 2014 to USD 46.9 in January 2015.

The government also had two new administrative tools that had been tried and tested—Aadhaar and Direct Benefit Transfer.

Yet, under the new government, India did not begin an uninterrupted growth story. In a sense, it was *déjà vu*. Why, is the theme of this lecture.

Flashback to the United Progressive Alliance (UPA) years

In 2004, we thought we had begun a decade of uninterrupted growth, but it was not to be. There were interruptions. The first, and most damaging, was an external event over which India had no control at all—the collapse of Lehman Brothers and the consequent international financial crisis. The second interruption was another event over which too India had no control—the thoughtless remark made in May 2013 by Mr. Ben Bernanke (Chairman of the U.S. Fed) that triggered a massive outflow of foreign currency and caused the rupee to depreciate by about 16 per cent. The third interruption was home made. There were allegations of corruption in the allotment of spectrum and the allocation of coal mines. The allegations could have been avoided if the internal view in the government to auction spectrum (to discover the price) and to auction the coal mines (to discover the allottees) had been accepted. Once the allegations were out in the open, the fallout of the allegations could have been contained if the allocations of spectrum and coal mines had been cancelled by the government itself instead of battling the issues in court. Taken together, the three interruptions set back the India growth story.

By the end of March 2014, however, there were clear signs of a recovery and the growth rate of the Indian economy had climbed back to 6.54 per cent (as per second revision) under the new methodology.

Failed to seize the opportunity

With crude prices falling further and commodity prices also declining, and a new government in place, the stage was set for a major push towards growth. The government had declared its commitment to adhere to the path of fiscal consolidation, and that was reassuring to investors. The regular budget was expected to announce bold structural reforms and give a big push to infrastructure and manufacturing. Sadly, the budget was a disappointment. It was obvious that no one in the government, or among the government's advisers, had crafted a coherent plan. Instead of reforms, the government seemed enamoured by 'events'. Swachh Bharat, International Yoga Day, Make in India, Stand Up India and similar programmes were presented as reforms: there was a lot of activity but none of them contributed to boosting economic growth. They actually distracted the government from its main task of designing and implementing a reform programme. The events—and the time and energy invested in managing those events—were actually interruptions that stood in the way of sound economic management.

There were other distractions as well. If you will recall, soon after the BJP/NDA [Bharatiya Janata Party/National Democratic Alliance] government assumed office, a high decibel campaign was started on religious conversion, ghar wapsi, ban on cow slaughter, ban on sale and consumption of beef, love jihad, moral policing and other economically irrelevant issues.

The obvious measures of reform were not taken up. The recommendations of the Financial Sector Legislative Reforms Commission were neglected. The Direct Taxes Code was put on the back burner. Having opposed the Goods and Services Tax (GST) when the BJP was in the Opposition, the government seemed reluctant to push the idea. Disinvestment was on a crawl.

Taking eyes off the ball

When a government takes its eyes off the ball, there will be a price. The country paid a heavy price: the export sector was neglected, there was acute distress in the farm sector, revenue collections fell short of budget estimates, stalled projects remained stalled, and investors were put off by the government's unwillingness to engage them. While inflation was down, interest rates were high, and that brought its own challenges.

The casualties were jobs and rapid development. The revival of growth in 2013-14 acted as a tail wind. A fresh burst of wind came in 2014-15 because of the collapse of oil prices. Nevertheless, the year ended with a growth rate that was only a modest crawl from 6.54 per cent to 7.18 per cent (under the new methodology) and dampened the spirits.

The management of the economy in 2015-16 was not any better. The budget presented in February 2015 claimed that the growth rate will rise to 8-8.5 per cent. Soon it was scaled down to 7.8 per cent and further scaled down to 7.5 per cent. In August 2015, Moody's lowered the growth forecast to 7 per cent. (For those who wish to believe the multiple revisions done by the Central Statistics Office (CSO), it has now reported that the growth rate was 7.93 per cent!)

In retrospect, it will be seen that course of the economy in 2015-16 was hampered by elections to key legislatures. In February 2015, an election was held in the Union Territory of Delhi and in October-November 2015 an election was held in Bihar. Normally, State/Union Territory elections should not interrupt the economic narrative but, in these two cases, the confidence of the government was rudely shaken by the results of the elections. The first clouds appeared on the horizon immediately after the Delhi election: the government put on hold its decisions to decontrol urea prices, reduce the number of subsidised LPG cylinders and implement the General Anti Avoidance Rules. The result of the Bihar election disheartened the government more. At the time of the Bihar election, I had predicted that a win or a loss could propel the BJP in either direction—continue with the formula of polarising the people or pause, take stock and steer the party on the path of good governance. As it turned out, the government did not pause or change course.

Running on two wheels

The economic situation at the end of 2015 was admirably summed up in the mid-year Economic Analysis released in December 2015. It said,

> "The striking finding about this year is that compared to the past, the Indian economy is now powered by private consumption and government investment. This is in sharp contrast to the boom years, when the economy was powered by all four components of demand."

The admission was that private investment and exports were languishing. The economy was like a car running on two wheels!

Because the government did not change course, the year 2016 turned out to be the most 'interrupted' year. On January 17, 2016, Rohith Vemula, a young PhD scholar in Life Sciences at the University of Hyderabad hanged himself. His life was a miracle of our times. Brought up as a Dalit, he was the son of a security guard and a self-employed seamstress. As he climbed the ladder of education, he did not drop out. He was not pulled out of school by his parents to find work that will bring a few rupees to support the family. He was not failed in school or college. He was not rusticated for some vague misdemeanour. He was not accused of a crime and thrown into prison. But he failed at the last hurdle.

The many interruptions

The Rohith Vemula case illustrated the interruptions that were taking place across the country. Dominant social groups had joined hands with dominant political organisations to capture power. The disentitled—Dalits, religious minorities, Scheduled Tribes, women and young girls—were gripped by fear and felt helpless and neglected. Dadri in Uttar Pradesh and Una in Gujarat illustrated the general atmosphere of intolerance and fear.

Through the year 2016, the social fault lines multiplied and conflicts became the order of the day. Every issue was reduced to a binary: are you with me or are you against me? Those who raised the slogan *'Bharat Mata ki jai'* were patriots, those who did not were anti-nationals. Those who supported the so-called 'surgical strike' on terrorist camps on the Pakistan side of the Line of Control (LoC) were nationalists, those who pointed out that such cross-LoC actions had been undertaken many times in the past were traitors. The young men who took to street protests in Kashmir were terrorists, those who pleaded that the government should engage them in talks were supporters of terrorism. Asking questions was not 'good culture' according to the junior minister of Home Affairs and was 'cheap politics' according to the senior minister of Urban Development! The government seemed determined to ride on a wave of Hindu hyper-nationalism, not realising that the idea of a 'Hindu' nation was at odds with the idea of a constitutional democratic republic. Through 2016, the conflict played out with increasing violence before our eyes.

Let me give you a recent example of a fault line caused by cynical political calculations that will have a major disrupting effect on the economy. In the election to the Uttar Pradesh legislative assembly, the BJP has emerged as the clear winner. The victory was achieved without the BJP fielding a single candidate from among Muslims in any of the 403 seats in a State where the Muslims constitute 19.3 per cent of the population! The *'sab'* in *'sabka saath, sabka vikas'* has acquired a new and sinister meaning. Imagine a situation where no woman is fielded as a candidate by one of the national parties or a situation where a national party declines to field candidates in seats reserved for the scheduled castes or scheduled tribes. I ask you, is it possible to ensure long term economic growth by excluding from the political process the largest minority community or women or the Scheduled Castes or the Scheduled Tribes?

If the social fault lines multiply and deepen, the government cannot not keep its eyes on the economy, and that is what happened in 2016. Besides, the economy took a big hit because of poor diagnosis and wrong prescriptions. Major disruptions derailed economic growth. Let me list some of them.

Then came the disruptions

Firstly, the NPA scare. Non-performing assets in the Indian banking industry are not a new phenomenon. In recent times, the problem of NPAs was acute in 2002 and 2007. Bankers had lent the money, so bankers were told to recover the money, and they did. This time too, the bankers should have been allowed to do their job. Instead, they were chastised by all and sundry and the government created the scare of prosecution in every case of NPA. Dr. Raghuram Rajan, then Governor of the Reserve Bank of India (RBI), realised the consequences of whipping up mass frenzy over NPAs and he cautioned that a heavy-handed approach "will kill both entrepreneurship and lending". His warning on handling the NPA issue fell on deaf years and the result is that we have a banking industry that is totally paralysed. For nearly 24 months, bank credit growth has been at its lowest level in decades and continues to plunge. In January 2017, bank credit growth to all firms was a negative (-) 5.06 per cent, to micro and small industries a negative (-) 7.41 per cent and to medium industries a negative (-) 10.23 per cent. No banker is willing to entertain a big-ticket loan proposal (even if the bank has received one) and is content to hand out home loans and vehicle loans and pass time until retirement.

The second disruption was the standoff between the government and the RBI during the last year of the term of Dr. Rajan. It has since been revealed—in bits and pieces—that Dr. Rajan was opposed to demonetisation. His non-continuance was always the more likely outcome. His exit, and the manner in which it was executed, underscored the discomfort of the government in working with truly outstanding intellectuals. If Dr. Rajan's case was an example, the ouster of Dr. Amartya Sen from Nalanda University was another example.

The third—and most calamitous—disruption was demonetisation. On November 8, 2016, 86 per cent of the currency in circulation was declared illegal. It was done without forethought or preparation. It threw the entire economy out of gear. The most affected were the daily wage earners, the daily income earners and micro, small and medium businesses. None of the stated objectives of demonetisation was achieved or is likely to be achieved. The negative impact of demonetisation was evident: an already slowing economic growth rate slipped further in Q3 of 2016-17 (September-December). Gross Value Added (GVA) is the metric favoured by the CSO. The growth rates of GVA during the last four quarters were 7.83, 6.89, 6.69 and 6.61 per cent. The growth rates, excluding government, agriculture and utilities, were 8.76, 7.35, 6.47 and 5.73 per cent. Both graphs establish a declining rate of growth. The figures for Q4 (January-March 2017) will seal the argument.

Growth is not a given

Uninterrupted economic growth is not a given, one must work hard to earn it. Economic growth is assured by a mix of big measures and small steps. Transiting from a government-controlled, government-driven closed economy to an open, competitive and globally-integrated economy was never going to be an easy task. It will require bold, structural reforms. It will not be accomplished by a few legislative or administrative changes. It will always be work in progress as the economy faces new internal and external challenges. I had once counted the number of true economic reforms that we had undertaken since 1991. My count stopped at eleven! After 2014, I can count only GST as a true reform. When the GST laws are finally passed and GST is finally implemented, that will qualify as a true reform.

The Indian economy must transit from consumption-driven to investment-driven and from services-led to manufacturing-led. We must manage the migration from rural areas to the towns and cities. We must re-imagine and re-invent the administrative machinery and acquire the skill sets to manage rapid urbanisation and to govern large urban bodies. In dealing with these multiple transitions, we must define the role of the government and the roles of the private citizen and the private sector.

Besides, in a democratic republic, governance is a complex task. It involves consultation, negotiation, tolerating dissent, accommodating conflicting interests, building consensus, making legislation, designing plans and programmes, and implementing them through an administrative machinery that has the capacity to deliver outcomes. If we fail at any one of the above steps, the outcome will be a failure.

Needed an overarching philosophy: four postulates

Some time ago, I had reflected on the need for an overarching economic and social philosophy to carry out reforms and trigger sustained economic growth. I put down four postulates:

- Getting government out of gratuitous interventions in the markets.
- Getting government into addressing notable market failures through regulation.
- Building capacity in government to do the things it must do.
- Expanding freedoms (economic, social, religious etc) for the people.

My assessment of what has been achieved since 1991 is that while we have done reasonably well on the first two postulates (with some glaring failures), we have failed miserably on the third and we are struggling to find our way on the fourth. Sometimes, I despair that we may have given up the fight on the third postulate. I also think that we may have, in recent years, lost our way on the fourth postulate.

We need a re-affirmation of these postulates. Such re-affirmation is a political question. It is at that point politics intersects with the economy. As I speak to you, I am concerned that the postulates are being more honoured in the breach than in the observance. Far from less government interventions in the market, there is more intervention. Examples abound in the power, telecommunication and pharmaceutical sectors. Regulators have been allowed to become controllers. More rules are being written that interfere with free markets and more interventions are being made that discourage entrepreneurship. The current central government has less faith in markets than any government since 1991.

On the other hand, there is growing evidence that governments are withdrawing from their responsibility to intervene in cases of market failure. There are notable market failures in providing quality school education and affordable healthcare. The consequence of this abdication of responsibility will be that we do not take advantage of the demographic dividend that will be available to us for no more than 15 to 20 years. We do not seem to have realised that our human capital—and its quality among different economic classes—is too weak to sustain long term economic growth.

The capacity of the administration to deliver outcomes has diminished in many areas. Obvious examples are schemes to provide toilets, the Clean Ganga project and the non-use of the Nirbhaya fund that was set up to implement schemes to enhance the safety of women.

Freedoms are being restricted, sometimes by governments but more often by self-appointed commissars. Unconstitutional restrictions on the freedom of speech are being justified in the name of nationalism.

I would like to believe that these are aberrations and not debilitating interruptions that will derail the growth story. I would like to believe that we will re-assert the economic and political principles, and the four postulates, that are so necessary and fundamental for uninterrupted economic growth.

The more challenging years

I am an optimist. Just as we found the men and women to start new journeys in 1947 and in 1991, I am confident that we will find the men and women and the wherewithal to start another journey that will take the country on the road of a long period of uninterrupted economic growth. To the young men and women of India I will say, "Do not regret that you were too young to have participated in the reforms process of the last 25 years; the next 25 years will be more challenging and eventful."

Thank you.

About The Hindu Centre for Politics and Public Policy

The Hindu Centre for Politics and Public Policy is a division of Kasturi & Sons Ltd., publishers of *The Hindu* and group newspapers. It was inaugurated by the President of India, Pranab Mukherjee on January 31, 2013. The aim of The Hindu Centre is to promote research, dialogue and discussion to enable the creation of informed public opinion on key issues facing India in order to safeguard, strengthen and nourish parliamentary democracy and pluralism, and to contribute to the nation's economic, social and political betterment.

The Hindu Centre has so far supported 24 short term public policy scholars, who have submitted Policy Reports on areas such as parliamentary democracy, freedom of expression, content of school textbooks, financial inclusion and rural broadband connectivity, which are published online. The Centre has also organised consultations and public discussions on key issues of national importance, including the creation of the Telangana State, violence against women, pre-election opinion polls, gender-based violence, Right to Education Act, the Sri Lankan Tamils refugees in India, sedition and free speech in India, the politics of welfare in Tamil Nadu, and most recently, a discussion on the Union Budget. It has also organised a series of three lectures on Climate Change delivered by Jairam Ramesh, former Union Minister and Senior Visiting Fellow of The Hindu Centre, and Alan Rusbridger, former Editor-in-Chief, The Guardian, UK. The Hindu Centre also publishes frequent commentaries and analytical articles on current affairs. Its publications and resources can be accessed at www.thehinducentre.com.

The Hindu Centre's first Annual Lecture, *Will India Script an Uninterrupted Growth Story?* was delivered by P. Chidambaram, former Union Minister, a distinguished Parliamentarian who has been elected to the Lok Sabha for seven terms since 1984, and now a member of the Rajya Sabha.

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