# BUSINESS STANDARD

May 16 2017

# *3 years of Modi govt: Just the beginning*

## *Modi govt needs to achieve economic diversification and growth*

## *By S L Rao*

The Narendra Modi government is different from all its predecessors, including Atal Bihar Vajpayee’s. Its pro-Hindu predilections are unmistakeable: For example, public worship at Hindu temples and festivals by the Prime Minister and others; “protect the cow” mania;  subsidy for pilgrimages for the Haj now balanced by subsidy for Mansarovar; prosecution with a light touch of Hindus accused of terrorism; attempts to change education curricula, textbooks, faculty appointments, etc to bring a Hindu slant.   The differences from earlier governments are marked in in the Modi government’s foreign policies, less so but clear in evolving economic policies and in its absence of articulation of ideology; rhetorical but not action in administrative reform; markedly better in the decline in government corruption; closer ties especially defence with the United States and its intimates(like Israel); more confident in dealing with China; more devolution of funds to state governments for running central schemes; more consistent control over deficits. Policies are as uncertain as by previous governments on Kashmir, internal insurgencies (like the Maoist), in dealing with Pakistan.

It has not hesitated to do 360 degree turnarounds and back UPA government schemes that it had opposed strongly when in Opposition: for example, land legislation, Mahatma Gandhi Rural Employment Guarantee Scheme, Aadhar, direct benefits transfers.

During its 3-year rule, the Modi regime has seen significant rise in foreign investment including FDI, significant improvement in wholesale and consumer inflation, decline in interest rates and steady GDP growth (except for recent two quarters). However there has been very little growth in manufacturing or private investment in it. Agriculture has experienced little coordinated policy changes and farmers continue to be at the mercy of the monsoon, declining ground water levels, inadequate storage facilities, and other continuing weaknesses.

Modi government has done more in dealing with unaccounted money: changing agreements with Mauritius and others so that investments originating there would be subject to Indian taxes, and closing the *havala* route that enabled anonymous foreign investment through participatory notes; limited success in black money declarations; negotiating with other governments so that Indians holding accounts abroad were disclosed; pushing for disclosure of Indians with bank accounts in tax havens; and removing Rupees 1000 and 500 notes from circulation.

This last appears to have been a relatively sudden and unplanned move, and without long and close coordination by the Reserve Bank, The almost 70 modifications issued by RBI over six weeks from the announcement are witness to this. The purpose of ‘demonetization’ was initially explained as being the halt of black and fake money as well as terrorist funding from Pakistan which was said to be in those currency notes. At the same time, for no explicable reason, Rs 2000 notes were introduced, making future accumulation of black money easier. The withdrawal of the two high value currency notes accounted for 86% of all currency in circulation. But there was no significant addition to other currency notes, leading to a shortage of paper currency. With over 90% of all transactions being in cash, there were adverse consequences for informal employment, retail trade of all products; and of course for transactions that had high elements of unaccounted cash like real estate, high value consumer goods, etc. But the circulation of fake currency notes in these two values, and of money in these notes coming to fund terrorists, also fell sharply. Prices also fell for real estate and high value goods, though transaction also reduced. The beneficiaries were many bank account holders with small or not balances, who lent their accounts to legalize the withdrawn currency notes before the set due date.

Another unmentioned benefit must have been that political parties readying for the Uttar Pradesh elections found themselves bereft of the money they had accumulated in black. That the BJP won the elections might indicate popularity or hoarding ‘safe’ cash because of prior warning of ‘demonetization’ of Rs 500 and 1000 currency notes.

The Prime minister soon announced a larger overarching objective of withdrawing these notes. That was the reduction of the role of cash in the economy and to make it more digitalized. The fact was that he had well in advance introduced the Jan Dhan Scheme to open new bank accounts. The scheme had succeeded in opening over 11.5 crore new bank accounts in over 99% of all households.

Did ‘demonetization’ stop creation of black money and destroy what was a there? It would be foolish to say so. Withdrawing currency notes is a very temporary measure. All studies show that black money is little held in cash. It is in the production process; it is in other assets especially real estate; it is sent abroad where it is held in tax havens as cash but more in investments in manufacturing and real estate overseas.

There are still big tasks before this government to stop or even reduce black money. The rules and regulations that allow government servants including Ministers to give various permissions, to instruct government owned banks to sanction loans, to sell or lease government owned natural resources like land, coal and many minerals, telecom spectrum, etc, must become fully transparent. Banks must not be under the ultimate control of politicians and bureaucrats. Such officials found to use their power to benefit themselves or others at the expense of the country should be severely punished. Government permissions must be few and given quickly and transparently. Mr Modi has for years talked of making it easy to do business in India. He has yet to start delivering on this promise.

It is clear that this government has moved on some key tasks. It has yet to start doing so on many others. Only if it does can we expect economic diversification, employment and economic growth.

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