

"FINANCIAL EXPRESS"February 15 2014

"Labels and no details in Policies" by S L Rao

At last both Rahul Gandhi and Narendra Modi have given, the first in a first ever full television interview, and the second in an election speech in Delhi, some of their ideas on economic and social policies. RG says India can become a superpower by empowering youth, bringing them into political governance, involving and liberating women, increasing employment, expanding the manufacturing sector so that it rivals China, ensuring democratic decentralization, moving away from dynastic successions, and introducing the systems and processes to achieve all this.

NaMo in an election speech in Delhi stated his important objectives. He has in his earlier speeches, given development the highest priority, and his actions in Gujarat show that he is more interested in urban development than rural, and manufacturing than agriculture. Indeed his focus on rural populations is mainly to make their migration to urban areas more comfortable and rewarding, not improving the state of agriculture (poor productivity, government interference in marketing, price policies that distort the product mix from what the market wants, better farming methods, drive to expand infrastructure of canals, water storage, cold stores, warehouses, reduce the role of the middleman, etc). He will doubtless continue the earlier NDA government policies of privatization and disinvestment of public enterprises, removing administered prices for petroleum products, focus on infrastructure (roads and power), and limited social programmes especially education (sarva shiksha abhiyan), and a massive programme for skills development.

The UPA in its ten years of office has had major economic and social achievements. Growth on average has been at record levels. The poor have benefited from many social programmes as indicated by the improvements in India's human development indicators. UPA 1 had five years of macroeconomic balance and growth and withstood the global financial crisis in its last year. Growth enabled higher tax revenues net of states' shares (as percentage to GDP in 2007-08-8.18, 2010-11-7.70 and 2012-13-7.59). Buoyant tax revenues allowed social expenditures to rise sharply (major subsidies-food, fertilizers and oil products-in 2007-08 at Rs crores 67498,

135508 in 2010-11 and 216297 in 2012-13. as percentage of GDP these were 1.35, 2.21 and 1.87). This was not the only non-asset producing expenditure. Farmer debt write-offs by UPA 1 was around Rs 80000 crores. UPA has additionally spent massively on the rural employment guarantee, rural health mission, the new food security bill which will now be implemented faster, and the NDA's continuing ones like sarva shikha abhiyan. As a consequence, fiscal deficits (Centre plus states) to GDP rose from 4.09 in 07-08. to 7.88 in 10-11, and 8.09 in 12-13. Average inflation measured in the wholesale index was in the same years, 4.8 %, 8.6% and 9.0%. Food prices within that have risen much faster (double digits for almost three years). Savings have declined, and domestic and foreign investment has been weak. Erratic FII caused volatility in the stock markets and the Rupee's foreign exchange value. For a government led by the "reformer" of the 1990's, UPA neglected macroeconomic stability for a poorly defined "inclusive growth" with massive expenditures on social schemes. They were also poorly implemented. Almost half the expenditures were wasted or stolen.

High inflation has corroded buying power of the urban poor and middle classes and is now hurting the rural poor. They benefited for some time by the employment guarantee scheme while rising support prices for grains, sugar, cotton, made surplus producers better off. But industry suffered poor growth because of rising wage costs, high interest rates, the falling

Rupee leading to higher import costs. The non-transparent ways of leasing of natural resources and infrastructure as well as social expenditures vastly increased corruption. Even innovative means to bring private investments into infrastructure, have led to over Rs 50000 crores of stranded investments in power, coal mines, roads, metros, etc, caused by r, delays in government clearances for land acquisition, environment and forests. Coal and gas not delivered to expectation have been disastrous for the economy.

Whoever comes to power must quickly introduce significant measures to curb black money, bring overseas illegal holdings back, bring in systems and processes to reduce corruption and investigate and punish the corrupt.

The UPA did not recognize and deal with these issues. Mr Modi and the BJP have not so far displayed their framework of systems and policies to tackle them. They must show the determination to rationalize subsidies and social

expenditures. They have said nothing about the vital need for drastic administrative reforms, improve individual accountability and severely punish the guilty.

Mr Modi must improve Aadhar delivery and quickly introduce millions of micro bank branches so that benefits can be transferred without officials procuring and delivering them. Mr Modi needs to ensure accountability of all concerned government departments for time bound clearances. Private investment in agricultural infrastructure has to be stimulated since government is unable to do it. Agricultural marketing and price policies for agricultural products must change. He must accelerate clearances for genetic modification. Farm labour shortages in many states are attributed to the MNREGA. Some linkage between farm labour and MNREGA is required.

Modi and the BJP is not different from the congress ints leaders holding black money creation and holdings overseas. Will they close the routes for investments from Mauritius free of capital gains tax, participatory notes, etc, that enable politicians and others to launder illegal earnings? Improved implementation, better systems, and individual accountability, with severe penalties for malfeasance, could reduce it.

BJP and Mr Modi must not allow the Luddites in the RSS to use the “swadeshi” slogan to discourage FDI. FDI and foreign trade (imports as well as exports) must be encouraged.

In public finance, a NDA government must revamp direct and indirect taxation, and speedily introduce the GST, as well as the Direct Tax Code. Administrative methods for tighter monitoring and evaluation are a dire need.

Mr Modi has talked about improving the urban experience for rural folk, implying an acceptance of a shift of people from agriculture to other occupations, mostly in urban India. He has talked of investing in urban infrastructure of roads, public transport, housing, health and education for both old and new migrant populations in cities and towns. We must aim at universal education, more schools, Colleges and technical institutions, better teachers and other facilities; encourage private schools, colleges and universities; give education and subsistence allowances for all poor students

(eliminating the intermediaries who now cheat them; no restrictions by community, caste or gender, must be permitted. Mr Modi flaunts the Gujarat model of institutions and budgets for many things. These must be vastly expanded nationally. So also must investments in public health (sanitation, safe drinking water).

India is much more complex than Gujarat. Mr Modi has yet to show that he understands and can deal with this complexity. Neither he nor his party has yet announced a framework of policies and programmes that are credible. Like Rahul Gandhi they have also listed some things while ignoring many. Neither has said how they will implement them.

(1177)