

FINANCIAL EXOPRESS

APRIL 29 2014

“P.M.’s poor economic legacy-UPA’s policies belie Manmohan Singh’s credentials that he earned in India’s landmark 1991 economic transition”
by S L Rao

In his second term the Prime Minister has been subjected in India to much abuse. Poor economic management, scam-ridden Ministers and officials, verbose Ministers not subjected to discipline, very limited and poor communication through media and public speeches, continuing with incompetent Ministers, the list is endless. We have always suspected that the fault lay with the party-government relation that was introduced when Sonia Gandhi stepped down in his favour in 2004. This is now confirmed by Sanjaya Baru's book "The Accidental Prime Minister". It goes some way to confirming a famous comment about Dr Manmohan Singh that he is a ‘better politician than he is an economist’.

The Prime Minister's reputation rests on his years as Narasimha Rao's finance Minister, when India turned over a new leaf from licensing to relative freedom for enterprises, a high to a low tax regime, computerization of tax collections, freer imports, and relative welcome to foreign investment. The economy took off and growth tripled in some years from the “Hindu” rate of growth. India became a hot spot for foreign investors. Many Indians, who had gone overseas for better employment, began coming back.

But after winning the 2009 elections, the Prime Minister’s actions suggested that he had a bottomless purse in government. It was almost as if he had forgotten the aphorism attributed to him by Sanjaya Baru in his book, that “money does not grow on trees”. An economist who in his first few months as Finance Minister, even slept in his office as he watched over the economy, determined to keep the fiscal and current account deficits down, in 2007-08 spent over Rs 72000 crores in writing off farmer loans. Baru credits him with the idea and its justification. This money could have been mostly spent on building agricultural assets-roads, storage, cold stores, canals, rain water harvesting, etc. It would have helped generations of farmers. It could have reduced farmer distress in many future years. Other very generously funded

schemes like NREGA and others, added to government's deficits without adding to assets. Rising crude oil prices, a declining foreign exchange value of the Rupee, declining foreign investment, falling exports have added to the burden. Exports were affected especially after the banning of iron ore exports by the Supreme Court as response to many illegalities. All this raised deficits to record levels. Inflation crossed double digits and remained there for over two years. Savings and investment declined, further adversely affecting growth. Employment was not growing. The problem was more for urban than rural folk. They began to vote against the Congress.

Few could recognize in Manmohan Singh as Prime Minister, the same person who brought macroeconomic balance from 1991 to 1996. It was easy to blame the Congress Chief and Chairperson of the National Advisory Council, for this lavish level of financial give aways, instead of investing in building assets for the economy.

The fact of the subservience of the Prime Minister to the Congress President was well recognized. Baru's book confirms this. She chose the Ministers and their portfolios and decided on who would hold senior positions in the Prime Minister's office. She is even said to have had access to files meant for the Prime Minister and given directions on how to deal with the issues. Short of the title, she was the de facto Prime Minister, and Dr Singh for all practical purposes was there to do her bidding.

What is the economic legacy of this government to the next one. It is even more troubling than the legacy that the Narasimha Rao government inherited in 1991. Social welfare schemes have been started and cannot now be withdrawn without unrest. The Centre has no control over power and water tariffs that result in high deficits in states. Vast expenditures are required on defence. Nationalized banks have been driven to the wall because of high debts allowed by Dr Singh's governments for infrastructure projects, financed by the banks. Many projects have not resulted in assets mainly because of delays in many government approvals. Theft of national resources by Ministers, politicians, bureaucrats and businessmen is rampant. The same is the case with social welfare schemes.

A new government will have to speedily cut the deficit and spend on infrastructure. It must give approvals where projects are held up because of

their absence. Ministers and officials must be punished for delays in approvals. Laws must be changed so that the corrupt are caught, tried and punished, speedily and severely. Foreign investment must come into infrastructure so that the burden is not just on the nationalized banks. Contracts for national resources like oil and gas, coal, telecom spectrum, etc, must be auctioned transparently and agreements on pricing reached honestly. The burden on the economy of the state owned enterprises must be eased through privatization. This will add to non-tax revenues, help reduce the deficit, and improve the economy because of better efficiency under private ownership and control. Statutory regulatory bodies must be staffed with independent, competent people, not just retired bureaucrats. State governments that allow electricity boards to run deficits must be penalized by withholding central government funds and not allowing nationalized banks to fund the boards whose balance sheets are unviable. Public private contracts must not seek levelled tariffs (for projects in power, roads, metros), for more than twelve years against the present 25 to 30. All concerned Ministries must commit to fixed dates for approvals and if they delay must pay adequate compensation to the developer.

These are only some urgent actions for a new government. It must infuse confidence in the public that action is being taken. This will raise expectations. Rising expectations will themselves reward us with an improving economy. (963)