

Expect no radical change

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Summary

The NDA will be no different from the UPA in its economic policies. It might be a little more efficient in implementation because of the Prime Minister



The UPA

compromised with state ownership of coal, knowing its inefficiency, by allowing some private exploitation of ‘captive’ mines. The NDA government proposes to follow the same policy.

Ideas that become policies have a way of becoming part of the national psyche. Two such ideas that have influenced all of us and government policies of all parties (the NDA is like the UPA) for almost 70 years are the primacy given to the public sector and removal of inequalities between people. If this almost genetic legacy is not removed, we will never reach the levels of development that we otherwise would have.

India was without much infrastructure or basic industries. They required huge investment. Industrialists and politicians asked for government investments in them. The government could more easily raise the required funds domestically and overseas. Thus were built the ‘temples of

modern India'. These enterprises were run by the 'steel frame' of a bureaucracy developed by the British. It was the only group trained to administer large populations, resources and structures. This was the genesis of the culture of public ownership, control and management of national resources and all enterprises. They were state-owned and, therefore, considered to be in the larger interest of the people. They were run by the civil servants and, hence, by people of integrity. This was the direction taken by the Soviet Union admired by Jawaharlal Nehru. The desire to eliminate inequalities in a highly unequal India came from the same source. This translated into penal taxation. When penal taxes faded, the Congress introduced social welfare schemes that were in the nature of charity to the marginalised sections.

In neither case were the practicalities of implementation considered. Some major issues were: vast resources at the discretionary disposal of individuals; the absence of individual accountability; inadequate attention to efficiency and effectiveness versus the 'rights' of labour; inattention to the needs of the vast numbers of self-employed and those employed in cottage and small-scale industries; neglect of consequences from limiting production capacities and technologies; absence of powerful performance incentives; the discretion to bureaucrats for identifying beneficiaries; and the disincentive from penal rates of taxation.

Implementation requires careful management. Management has not been a skill that Indian governments have learnt. They have been good in managing crises—floods, tsunami, earthquake—or managing time-bound and large events like the Kumbh Mela. They have been inefficient and relatively ineffective in managing enterprises and social welfare schemes. The first signs of this genetic legacy in the NDA government are emerging.

State control and regulation of resources led to a complex system of licences and permissions. This was gamed by ingenious people who made windfall profits. Another development was nationalisation of 'sick' or 'strategically vital' enterprises like textile mills, airlines, petroleum refineries and their retail outlets, among others.

To improve government control, all sources of domestic finance was nationalised and run by bureaucrats, while foreign finance was strictly regulated, as was foreign direct investment. Below the government control radar were the money lenders, chit funds and scamsters who raised huge amounts from the small savings of the poor, charged exorbitant rates of interest on loans to them, and in many cases stole the original deposits. All of us, political parties, academics, journalists, judiciary and general public have been influenced by this ideology of government ownership and control as being clean, and charity to the poor being the major social obligation of government. The NDA government in its handling of Coal India, 'disinvestment' versus privatisation, and to nationalised banks, has shown that it has the same genetic legacy as the UPA.

While licensing was largely abolished in 1991, government retained its attitude of charity in schemes for social welfare. It retained its ownership and control of natural resources, and of the many state-owned enterprises and financial institutions. Thus government retained discretionary decision-making over vast enterprises and moneys.

Oil and gas exploration was allocated by the government. However, the government gave priority to state-owned enterprises and those close to the state. This resulted in very few of the renowned exploration and production companies coming to India and its offshore for exploration. Gas pipelines were similarly monopolised by a state entity and to preferred private enterprises. Non-availability of expected gas supplies led to large stranded power generation capacities, power shortages and burden on banks. There is no sign that the NDA government appreciates the problem.

Coal was nationalised in 1972. By the 1990s coal demand, especially for power and also for steel and cement, had exploded. Coal India failed to meet supply commitments and India began to import coal, which, by 2012-13, was 146 million tonnes, worth around R45,000 crore. Coal India has little current technology and mostly opencast mines. The UPA was committed to state ownership and would not even mention denationalising coal. Sadly, the NDA appears to take the same stance. Instead, the UPA proposes auctioning coal mines to private parties specifically for each sector, users for power generation, steel and cement production. Despite higher costs due to the auction price and a penalty on past production imposed by the court, coal prices are to be capped. Power is a regulated service and, hence, the generator will lose on the investment in mines. No commercial sale is yet permitted and there is no mention of using the Energy Exchange for sales and price determination. Operators must bid for coal mines in order to produce power, steel or cement. In the case of power, they cannot pass on the higher costs of their coal to their users. Cement and steel are in competitive markets and will find an equilibrium price. There is no indication of even a small step towards ultimate denationalisation. There is no proposal to create a tough regulator of coal mining, preferably along with power. The mindset appears to be one of populism (keeping tariffs capped at lower levels) and continuing state ownership.

The UPA compromised with state ownership of coal, knowing its inefficiency, by allowing some private exploitation of 'captive' mines. The NDA government proposes to follow the same policy. The legacy mindset has not changed!

The UPA relaxed debt-equity norms for infrastructure up to 80:20. The debt was from nationalised banks which are now groaning with over R5 lakh crore of non-performing infrastructure loans. In addition is the burden on banks because of tariffs of distribution enterprises, 90% of them owned by state governments, being mostly below costs. They depend on banks for financing (guaranteed by owner state governments). The power sector alone could destabilise India's nationalised banks.

Social welfare schemes have led to a piling up of the government's deficit. They are mostly in charity schemes like the rural employment guarantee scheme. They are not able to select the deserving beneficiaries. Funds are diverted for other purposes or stolen. Health and education which are able to build people's ability to earn get much lower increases in budgets. There is talk of direct fund transfers but no sign of how bogus and wrong recipients will be kept out and only the targeted beneficiaries be identified.

The overloaded lawyer finance minister is talking of more disinvestment. This means the government will get some money for its shares. However, the public sector companies will

continue to be 'managed' as they were by the UPA under bureaucratic and political direction, and not as business enterprises. The NDA has not changed the legacy mindset of retaining state ownership and to improve efficiencies.

Our analysis suggests that the NDA will be no different from the UPA in its economic policies. It might be a little more efficient in implementation because of the Prime Minister, but it will be no different. Those who expect that India will accelerate its growth in a few years to 10% are living in a dream world. The current Prime Minister might be a better orator and have superior rhetoric to his predecessor but, in essence, he and his Cabinet have similar ideologies to the earlier government. We can expect no radical change from this government.

By S L Rao

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