A Plan for Corporate India

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With the charade of consulting the states at a National Development Council meeting played out, India has a Twelfth Five Year Plan, even if a tad late. The plan period officially began a good nine months back. Not that this makes much difference. With the government committed to bolstering private capital and feeding stock market speculation, talk of planning is a travesty. The Planning Commission has relevance (though not legitimacy) not because of any faith in its vision or expertise, but because it oversees the partisan transfer and use of a chunk of resources from the Centre to the States, because it is part of the economic decision-making bureaucracy that still has the right to meddle with and vet a host of decisions, and because it stitches together (however poorly) the ideology that justifies the current government's economic agenda. That agenda may or may not change after the next election. If it does, the plan document would go perhaps where it should. If it does not, it would be the document to defend all things wrong.

Despite this irrelevance, the current plan document is still a shocker, because of its unashamed advocacy of measures that favour private capital. The case for such measures, which is asserted and not argued, is built on three future "scenarios" conjured up by the Commission, which it clumsily titles: 'Strong Inclusive Growth', 'Insufficient Action' and 'Policy Logjam'. What distinguishes these three are a set of growth rates (8.2 per cent, 6-6.5 per cent and 5-5.5 per cent respectively) and presumed variations in the degree to which policies amounting to "a well-designed strategy" are implemented, to intervene "at the key leverage points in the system." This, it turns out, is long on jargon but short on sense. To cut the story short, in the Commission's view, if the correct policies are implemented the economy would cruise along at an average 8.2 per cent; if the policies are endorsed but not adequately implemented we would have to settle for 6-6.5 per cent; and, if because of policy inaction little gets done, growth would fall to 5-5.5 per cent.

This "analysis" is obviously seen as the crux of the Plan. When he addressed the National Development Council meeting, Planning Commission Deputy Chairman Montek Singh Ahluwalia said: "Growth outcomes will depend upon the extent to which we are able to take the difficult decisions needed to intervene at key leverage points to generate inclusive growth."

This assessment, which gives a central role to government and state policy is indeed astonishing coming from a government that has been proclaiming that markets and private animal spirits (and not an interventionist state) are what is needed to ensure growth. How has the Commission arrived at these growth rates? How does it link the realisation of those rates to policy? And, what are these policies that the Commission is placing its bets on?

It is clear that the current Commission does not believe in the use of models to assess growth drivers and ensure inter-sectoral balance as the early planners did. Matters are simple now. Once an 'appropriate' ratio specifying the increment of output that would on average be generated by a unit increase in investment (the 'incremental output capital ratio' in the economist's jargon) is 'identified', growth depends on the

investment rate or the ratio of investment to aggregate income. Using that principle, the Commission finds that achieving the country's growth potential requires a rise in the investment rate to 35 per cent by the end of the Plan.

The government, burdened with excess expenditure and an excess deficit cannot be expected to contribute much to that increase in investment, requiring the private sector to make a larger contribution. The role of government and policy then is to induce the private sector to deliver this targeted investment profile, and do nothing to adversely affect private investor sentiment. Satisfy the whims of private capital and success is guaranteed seems to be the argument.

The problem is that in recent times the private sector has not been delivering on this front. India is in the midst of a growth downturn associated with a fall in investment rates as measured by the CSO, which undermines what the government sees as its most important achievement. Quarterly GDP growth rates estimated at 5.5 and 5.3 per cent during the first two quarters of the current financial year are proving to be an embarrassment. The economy is clearly in "drift" mode, to use the Commission's language. It matters too that this occurs at a time when evidence and public perception point to a collapse of governance on multiple fronts.

Clearly therefore the immediate priority is to "revive" animal spirits through appropriate intervention. There is no confusion on the nature of the measures needed for this. Consider the recommended short-term response, for example. The Plan states: "An immediate policy objective in the very first year of the Plan must be to revive animal spirits, which have suffered for a variety of reasons. Some of the reasons for a downturn in investor sentiment can be easily corrected. For example, the perception among investors, that some of the tax changes introduced in the Budget are anti-investor need to be allayed as quickly as possible. The Finance Ministry has appointed two expert committees to look into these issues and it is hoped that the recommendations of these committees will provide a reasonable basis for reviving investor confidence on these issues. A firm decision on the recommendations of the Committee should be announced as early as possible."

To recall, the Parthasarathi Shome Committee was ostensibly set up for two reasons. One was to frame guidelines for the implementation of General Anti Avoidance Rules (GAAR), that are expected to become standard in all countries grappling with the increased tax avoidance that liberalization and globalization have led to. The other was to frame rules with regard to taxation of capital gains from the international transfer of shares in a foreign company with underlying assets in India. The latter, it emerged was the real reason, because pro-business economic decision makers were upset that the previous Finance Minister had in the last Budget retrospectively amended the relevant tax laws to clarify the intent of the law relating to taxation of capital gains. This was necessary to address the issues raised by a Supreme Court ruling in favour of Vodafone, in the case relating to its acquisition of the Hutchison stake in Vodafone Essar. Till then, in the government's view, Vodafone was liable to pay taxes to the tune of Rs. 11,200 crore. However, having elevated the then Finance Minister to President, the UPA decided to retract and appointed a committee that would facilitate that. The Shome committee, as expected, in record time recommended the reversal of the decision implicit in the last budget and withdraw the demand on Vodafone. Clearly restoring the implicit capital gains tax exemption is

seen as crucial to reviving animal spirits, even if that involves a huge loss for the exchequer and lower spending by the government.

But this give away and other similar tax concessions are only the more "immediate" ways in which private capital is to be favoured. Through a host of other measures that have been advocated by the Congress Party's economic advisers—such as Public-Private Partnerships (with viability gap funding at huge cost to the state), cheap sale of resources varying from intangible spectrum to tangible coal, fast track systems to grant environmental clearances and acquire land at cheap cost for private investors and developers, and credit for large private projects from public sector banks which is suitably "restructured" periodically to reduce the payment "burden"—large transfers are to made to private capital to shore up profits and incentivise investment.

The fact is that while such measures worked for some time, they are proving less effective now. There are also limits on the extent to which the state can serve as an instrument for such primitive accumulation of capital. On the other hand, measures such as permitting FDI in multi-brand retail and liberalising banking policy aimed at creating new space for foreign investors in areas outside stock market speculation are also proving ineffective. So what we have is a government constantly conjuring up new ways to reward private capital in order to kindle animal spirits. The problem is that all this has not helped stall and reverse the decline in GDP. So sticking with the position that growth is a direct and immediate outcome of 'reform' is to find reason to recommend policies that would result in what may turn out to be a transfer of surplus from the state to the private sector unprecedented in post-Independence history. But that would not deliver economic success in any form. Perhaps that is not even the intent.

The Commission seems to find justification for its arguments devoid of economic logic in the empirical evidence of high growth till recently. It is worth noting that, accelerating GDP growth, which after the stagnation of the 1960s rose to 3.4 per cent, 5.2 per cent, 6.1 per cent and 7.8 per cent in the subsequent four decades, was not restricted to periods when neoliberal reform was being pursued in unthinking manner. Yet, under UPA II, the official argument has been that, rid of the Left as coalition supporter, Manmohan Singh and his team have been able to carry forward the neoliberal reform that began in the 1990s with remarkable growth outcomes.

Important among the factors that explain this growth is the profit inflation that the state has engineered. But sustaining continuous profit inflation is difficult. And the marginal return, in terms of growth, associated with a given transfer is diminishing. But neoliberal reform and growth remain the twin obsessions of the government. The Plan document partly attributes the slowdown to the crisis in Europe. But in the main it finds opportunity in adversity by attributing the slowdown to the "policy logjam". This provides the basis for advocating additional measures favouring private capital while paying lip service to that nebulous objective of "inclusiveness".

In the event, the document is replete with contradictions. While chanting the inclusiveness mantra, the 'planners' have come out in favour of austerity measures that can deliver fiscal correction such as reduced subsidies and higher energy prices. Common sense would say that the inflation this would unleash would squeeze further those at the margins of subsistence. But the (incorrect) claim is that deficit reduction ensured through high user charges, enhanced administered prices and reduced

subsidies would neutralise the inflationary consequences of such actions. Despite the global experience of recent times, the document also claims that deficit reduction and austerity would also not stifle growth. If the government spends less, more growth is expected. The private sector, constantly clamouring for state support without strings, is expected to substitute for the state as growth driver. Such contradictions make the Plan read like a sloppy piece of work. The Commission had decided to take upon itself the task of salvaging the government's diminishing reputation. It has made a mess of that and damaged its own.

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