The Economy: The end of euphoria*

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Having come to power by fanning high expectations of what it would deliver on the economic front, the Modi government's first year has proved dull and dreary. Dull because there is little the government has to show, even on the economic growth front, despite all the hype. Dreary because those in the periphery of today's divided economy find that things have been made worse for them by the new government's policies.

Moreover, the government rather than addressing the challenge of indifferent performance with proactive fiscal policies, has chosen to cut back on expenditures, especially that on the social sector spending. This pro-cyclical policy of cutting expenditure during a downturn has been justified by the need to rein in the fiscal deficit, which is a declaration of the Modi government's commitment to an extreme form of neoliberalism.

There have been three consequences of this desire to make such a declaration. First, the Modi government has put a tight squeeze on expenditures, so much so that the recently released actual (though still provisional) figures on the central budget just released by the Controller General of Accounts (CGA) places the expenditure to GDP ratio in 2014-15 at 13 per cent as compared with a low of 13.3 per cent in the revised estimates presented in the budget. This implies that the ratio of total central expenditure to GDP has fallen from 14.1 per cent in 2012-13 to 13.8 per cent in 2013-14 and just 13 per cent in 2014-15, the first year of the Modi government. Not surprisingly, besides a number of Chief Ministers, even Maneka Gandhi, the minister for Women and Child Development in the NDA cabinet, have reportedly conveyed their disapproval in writing to the Finance Minister.

Second, with the gross tax revenue of the centre having come down from 10 per cent to 9.8 per cent of GDP, the government has had to additionally look for alternative resources, especially receipts from disinvestment (treated as non-debt capital receipts) to meet its fiscal deficit targets. But here the government has not been as successful as it wanted to be. The Budget documents for 2015-16 had indicated that against a budgetary target of Rs. 58,425 crore from disinvestment receipts in 2014-15, the government had managed to raise only Rs. 26,353 crore. That was not much higher than the Rs. 24,362 crore obtained in the previous year. The actual figures suggest that the sum mobilised was only Rs. 24,885 crore. So the Modi government's disinvestment thrust aimed at raising additional revenues, besides demonstrating its ability to push through reform with the help of a brute majority in the lower house of parliament, has also failed to take off. This explains the excessive reliance on expenditure reduction.

Third, faced with failure on the ground, the government has been desperate to establish its reformist image by diluting labour legislation, getting the Goods and Services Tax passed despite objections from many states, and, above all pushing through the a patently pro-corporate land acquisition bill. In the run up to the 2014 Lok Sabha elections, Modi partly won the battle for Prime Ministerial candidateship within his party by winning the overt support of big business. This he did by convincing capital that he would deliver them a bonanza. After all, what Modi did in

Gujarat was to leverage power to win the support of big capital by showering concessions on them. According to Forbes Asia, the Adani group was given 7,350 hectares of land on 30-year lease in Mundra at a pittance of between one cent and 45 cents per square metre, which besides being used partly for a port, power plant and an SEZ, was partly sublet to even public sector Indian Oil Corporation for $11 a square metre. Tata Motors is reported to have been given sops totalling Rs. 30,000 crore to move the Nano project to Gujarat rather than elsewhere. A Comptroller and Auditor General of India (CAG) report, relating to 2012-13 alone, found that the Gujarat government and state Public Sector Undertakings extended “undue” benefits to major industrial houses such as Reliance Industries Ltd (RIL), Essar Steel and Adani Power Ltd (APL), causing a loss of Rs 750 crore to the state exchequer in a single year.

This history generated expectations. The government’s failure to be able to deliver such concessions at the same pace has disappointed many in the private sector, so much so that pro-Modi business persons have had to come out against his critics. Ratan Tata has had to appeal to his peers to give the PM more time and a self-appointed ‘business leader’ like Kiran Mazumdar Shaw has been compelled to attack Rahul Gandhi for declaring the Modi government as one that focuses on favouring corporates.

All this is troubling the Modi government at the end of its first year because it has not been able to deliver on its promise of growth either. This is evident from some of the most obvious indicators to consider. The month-on-month industrial growth rate as measured by the index of industrial production collapsed from a positive 5.9 per cent to a negative 5.6 per cent during the first six months (May to October 2014) of the regime. Though it recovered to 4.7 per cent in November (helped by a low base in the corresponding month of the previous year), more recent signs are of continued deceleration with the rate placed at 2.2 per cent according to the provisional figure for March 2015.

The performance of agriculture is predicted to be even worse, with truant rainfall and government inaction combining to push down production. For example, according to the official third advance estimate for food grain production for crop year (July to June) 2014-15, output is likely to fall by 5.3 per cent. With food grain production having been indifferent in the previous two years, this outcome is close to disastrous. Meanwhile, reports of suicides by indebted farmers who suffered crop losses because of unseasonal rains crowded newspaper columns for a brief while.

Two factors confound this obvious picture of poor growth performance. To start with the decision of the CSO to exploit new data sources and to adopt a new methodology while constructing the new series of national Income statistics with base year 2011-12. This has yielded absolute GDP figures during 2011-12 to 2013-14 that are lower than or equal to those from the old series with base 2004-05, but rates of GDP growth in 2012-13 and 2013-14 that are higher in the case of the new series than in the old series. Thus, in 2012-13 and 2013-14, while the old series pointed to a rise in the rate of GDP growth from 4.7 to 5.0 per cent, the rate rise based on the new series is from 5.1 to 6.9 per cent. This, of course, gives no credit to the current NDA government, since the record related to a period under the UPA. All that the NDA can take credit for is that the advance estimate (subject to revision) of GDP for 2014-15 indicates that growth for that year is a relatively high 7.5 per cent. But few believe any of these figures reveal the true picture.

The second confounding factor is the bull run the stock market continued to experience through much of the last year, which took stock indices such as the Sensex to record levels. The media have grabbed on this to say that, performance aside, the Modi government has been able to restore confidence among 'investors'. It is indeed true that the Sensex climbed to touch the 30,000 mark in February 2015. But since then there have been signs of a downtrend. Thus, on 7 May, the BSE Sensex closed at 26,599. Though high relative to where the Sensex stood even at the beginning of January 2014 (for example), this fall of the Sensex troubled investors used to easy profits for many reasons. To start with, the climb in the Sensex has been so rapid in recent times, that even the relatively high May 7 figure reflected a more than 10 per cent decline from the peak of close to 30,000 realised just three months ago.

This slide matters because there is little disagreement among market observers that the bull run, which began three years back when the Sensex was hovering just above 16,000 in May 2012, was driven by the appetite of foreign institutional investors for emerging market paper induced by access to cheap liquidity in their home countries. So the boom seems to be the result of speculative fever, encouraged by availability of cheap liquidity in the developed economies grappling with recession. The most recent phase in that climb began early 2014 and stretched till about the beginning of 2015, when the Sensex rose from just above 20,000 to touch 30,000 about a year later. That was a remarkable rise of close to 50 per cent with a much lower degree of volatility. However, the investor exuberance that delivered this boom occurred in a period when growth was by all accounts slowing. That meant that such exuberance was in all likelihood irrational. If so, the boom it triggered must end. And when it does, the downturn is likely to be much more severe than witnessed when the taper tantrum based on unfounded fears broke. To treat this as a sign of investor confidence speaks of the absence of more convincing indicators to back the case for good performance.

The indifferent and even poor growth performance during the NDA government's first year occurred despite one major windfall it garnered over the last year. That was the decline in international oil prices. The price of Brent crude, for example, fell by more than half from $115 in June 2014 to less than $50 by January 2015. This had four effects. First, it allowed the government to impose additional taxes on petroleum products and absorb a part of the potential decline in retail prices, giving it the benefit of additional revenues. Three successive increases in excise duties on petrol and diesel over a short period (on 12 November, 2 December and 1 January) were expected to provide additional revenues of approximately Rs 10,000 crore. Second, it helped contain inflation because of the direct effect of lower oil prices and the downstream effects in the form of reduced costs and prices of products using hydrocarbons as inputs. Third, the residual decline in prices passed through to the expenditure side of the budget, in the form of a reduction in the subsidy paid out on petroleum products. Fourth, it contributed to a reduction in the trade and current account deficits, though the government squandered a part of this benefit by reducing tariffs and quantitative restriction on gold imports. The consequence of this and other developments (such as reduced domestic absorption resulting from low growth) was a reduction in inflation and an improved balance of payments position—two "achievements" resulting from fortuitous factors that the government has been harping on.

However, this has failed to stall the growing perception of economic non-performance. Given the expectations raised by the BJP's Modi-centred election campaign, the inability to transform major benefits into real growth gains, is disappointing even to sections of the elite and the middle class that had turned ardent Modi supporters. The hype remains, but is increasingly ineffective. In the circumstances Modi, consciously or otherwise, has chosen to focus on his "Make in India" agenda that emphasises policies aimed at attracting foreign capital to use India as a hub for world market production and invest in the infrastructure needed to facilitate that. This perhaps explains the fact that he has been out of the country far, far more than any past Prime Minister has been during the first year of a first term. Unfortunately, there are few concrete signs that this is making a difference.

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