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theirview

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The hits and misses of the NDA government

At the end of four years, we are left musing about what might have been rather than what has been

On the occasion of the fourth anniversary of the Prime Minister Narendra Modi-led government, it is tempting to use cricketing metaphors. Is this like the end of the fourth day of a Test match heading to an uncertain finish? Or the end of the 40th over of a One Day International (ODI), and heading into the slog phase? Or, has it simply failed to convert the batting power play into maximum runs?

The basic job of citizens and stakeholders is to hold the government accountable for what it is supposed to do, and what the parties who form the government promised in their manifesto. In that spirit, any objective assessment would be biased towards what wasn't done, rather than praising what was done as promised. The purpose of appraisals of this kind is not rewards but, rather, improvements. The rewards are at the hustings.

The appraisal can be done with respect to intent, communication and delivery. On this front, the Modi government has a mixed record. There are many unmet promises (for example, swift action on criminal cases against elected lawmakers), mixed communication (for example, on demonetization) and underperformance (for example, disinvestment). Of course, the government had to bear the burden of disproportionate expectations in light of the thumping victory in 2014. Analysts wrongly assume that a majority in Parliament means licence to steamroll disruptive reforms, be they economic, political or social. Even the Rajiv Gandhi-led government, with an unprecedented mandate in 1984, floundered midway in its term, and was unable to get re-elected. India is and will remain a land of incremental, persistent yet meaningful reforms. It is a land, nay, a civilization, of gradualism, but with continuity.

It is wrongly assumed that a majority in Parliament means licence to steamroll reforms

As the fifth year begins, the economy faces adverse macro winds while its micro situation is substantially stronger. The insolvency code and the bankruptcy process is chugging, the goods and services tax (GST) pickings are healthy and sustained, corporate results are improving, consumption spending packs reasonable steam, the income-tax net has widened significantly and the financial markets are performing decently. But high oil prices threaten inflation, interest rates and the twin deficits. Large commitments like pensions, rural employment guarantee, farm loan waivers and a huge need for bank recapitalization are leaving both the Centre and states incapable of rolling back excise taxes on petrol and diesel. The government was right in not fully passing on the windfall bonanza of very low oil prices in its first two-and-a-half years. Some of that gain was used to hike infrastructure spending (railways, roadways) and some to trim subsidies on oil. Cumulatively, the government may have gained a whopping 8% of gross domestic product in oil windfall gains. Given the enormity of that gain, its record of whether it was put to productive use is highly unsatisfactory.

The most impressive gains were in the social spheres. Thus, financial inclusion (through the mass-scale opening of bank accounts), widening the scope of direct benefit transfer (now operational in more than 300 government schemes), completing universal access to electricity, maintaining the spend on the National Rural Employment Guarantee Act (which is actually a proxy for rural unemployment insurance), and the emphasis on sanitation, are some examples. Related to these was the focus on small businesses and initiatives like the Pradhan Mantri Mudra Yojana. The announcement of a universal national health insurance scheme signals the right intent on social security, although issues like funding, and sharing of responsibilities with states, remain unanswered.

The disappointments were in areas of disinvestment, falling capital formation ratio, continuing tax terrorism (for example, the Vodafone and Cairn cases remain unresolved, Nokia required the PM's intervention), lack of reforms in education, which still exhibits a Soviet-style control mindset, and in addressing the hurdles to improve agriculture and manufacturing productivity. Legal and procedural barriers that prevent scale economies continue to hamper these two sectors. Farm distress has become a recurring theme, aggravated not least by depressed prices. On GST too, while the rollout was welcome and timely, the implementation goof-ups could have been avoided.

While India's strength lies in incremental reforms with continuity, they do need to be punctuated with discontinuous leaps on occasion, as PM Narasimha Rao did in 1991. The global crisis of 2008 and the Indian edition in 2013 presented similar opportunities. They have been only partially grasped at best. The regret is all the deeper because after four years in office, the PM retains immense personal popularity and the nation remains willing to trust his convictions. If only he was better prepared to "cash in" on his political capital, rather than squander it on experiments like demonetization, the economy might be far better placed to handle the next global crisis than it was in 2013.

The coming year presents a huge macroeconomic challenge, for which there are few fiscal options and much less policy room. Further, a national election looms large and Karnataka weighs heavily. The slog overs, or the fifth day of the Test match, could be weighed down by electorally-induced populism. At the end of four years, we are left musing about what might have been rather than what has been. In other words, if only the PM had utilized the middle overs better.

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