YASHWANT SINHA

with ADITYA SINHA



HOW THE MODI GOVERNMENT BROKE THE ECONOMY

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India Unmade

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Yashwant Sinha
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Aditya Sinha

juggernaut

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To all those who are not afraid to pursue the truth

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Introduction
Why I Wrote This Book

India Unmade is a critique of the Narendra Modi government's economic management.

I have not always been a critic of Modi. Nor do I have a personal vendetta against him for not appointing me minister or giving me some other post, as some
people incorrectly speculate. Whom he chooses as his advisers and to be in his council of ministers is his prerogative as prime minister. In fact, the truth is that I recognized his mettle early on and was one of the first senior Bharatiya Janata Party (BJP) leaders to say he should be made the party's prime ministerial candidate in the 2014 elections.

Sometime in the final year or so of Dr Manmohan Singh's government (2004–14), I was visiting a far-flung corner of my Lok Sabha constituency, Hazaribagh, Jharkhand, to condole the death of the wife of a prominent BJP worker of the area. Dusk had fallen but because their representative to Parliament was visiting, twenty-five to thirty people were still waiting about when I arrived. After we had offered our condolences the people assembled there began discussing politics, as usual. They told me in one voice that to win the next Lok Sabha elections all that the BJP needed to do was make Modi the prime ministerial candidate of the party and our victory was assured. This was the kind of reach and penetration Modi had achieved in many parts of the country long before polling day.

Soon after, I was at Kolkata airport. A complete stranger ran towards me as I alighted from my car and said with passion, 'You should make Modi your prime ministerial candidate.'

Around the same time, I was visiting Hyderabad with the Parliamentary Standing Committee on Finance, of which I was the chairman. After finishing our business for the day we decided to visit the Golconda Fort. It was late in the day and most visitors were coming out of the fort as we waited to enter it. Some of them recognized me and came over to chat. I was standing surrounded by a few left party members of Parliament (MPs). The visitors said to me, 'The BJP should make Modi its prime ministerial candidate and you will win the elections hands down.' I asked them, 'Where do you come from?' 'Bengal,' they replied. So I turned to the left MPs and said, 'Did you hear that? This is the feeling even

in Bengal.'

It was clear that Modi had successfully projected himself as the ideal prime ministerial candidate well before the 2014 elections and I genuinely believed that if we succeeded in turning the elections into a presidential contest with Modi as the BJP's candidate then our chance to win would increase manyfold.

The 2014 Lok Sabha elections, as predicted and as planned by us, became presidential in nature; on one side was the corruption-ridden United Progressive Alliance (UPA) government led by a tired Manmohan Singh and on the other was the National Democratic Alliance (NDA) led by the knight in shining armour on a white charger – Narendra Modi. The contest was one-sided, the BJP emerged with a majority of its own and the NDA with a very comfortable majority. India was blessed with a single-party majority government after three decades. Hopes soared, aspirations rose sky-high, and every section of the population looked forward to a new dawn.

But we waited and waited in vain. The elusive dawn never materialized, people's condition did not improve, and in fact it went from bad to worse; the promises made at the time of elections were not fulfilled and soon enough hope turned into despair, despair into anger and anger into rage in many sections of the population, especially among farmers, the youth, Dalits, the minorities, women, etc. The truth was hidden from the people through 'media management' and soon the country was left with nothing more than jumlebazi, alternative facts and bombastic claims. I waited for forty months before I opened my mouth and once I did there was no turning back. I realized that the country was in the solid grip of a couple of individuals whose sole objective was the pursuit of power and for whom nothing else mattered, not the people, not Parliament, not the conventions of our great and unique democracy, in fact, not even democracy itself. The country has never faced a threat of this kind before, more so because it is camouflaged by sweet talk and false promises.

The Modi government had everything going for it on all fronts; it had the kind of opportunity few governments have had in independent India's history, yet it squandered its mandate. The government no doubt tom-toms the fact that it managed around 7 per cent growth over its five years in office, the highest rate of GDP growth in large economies; however, as I have repeatedly said and now the former Reserve Bank of India (RBI) governor Raghuram Rajan has also

pointed out, 7 per cent is not enough to generate jobs for the million youth joining the workforce each month; India requires over 10 per cent GDP growth to pull its masses out of poverty.

The Modi government's lasting legacy will be the catastrophe that was the demonetization of high-denomination currency on 8 November 2016. Its effects were so disastrous across sectors that it broke the back of a BJP core vote bank – the micro, small and medium enterprises (MSME) sector – and to mollify this sector and forcefully improve liquidity and the disbursal of banks loans, which have dried up thanks to the non-performing asset (NPA) crisis, Modi's government threatened the RBI's autonomy, another move fraught with long-term negative consequences. At the time of going to press, two major developments loomed: whether or not the RBI governor Urjit Patel, Modi's pick to replace Rajan who was not in favour of demonetization, would himself resign after the finance ministry's continued assaults on his autonomy; and whether or not the government will find money to help bail out non-banking financial companies (NBFCs) that are also in trouble, apart from commercial banks.

In a televised address to the nation, Modi said demonetization was aimed at tackling black money, corruption and terrorism. He also added counterfeiting to the list of ills it would solve. Five days later, he told an audience in Panaji, Goa, that if his move or motives were suspect, he should be taken to 'the *chauraha* and burnt alive'. Such dramatics were characteristic of a man faced with the reality that he had committed a historic blunder.

In fact, the *Indian Express* reported in November 2018 that four hours before the announcement of demonetization, the RBI okayed the move but put in writing that it would be ineffective against black money: 'Most of the black money is held not in the form of cash but in the form of real sector assets such as gold or real-estate and . . . this move would not have a material impact on those assets.' On counterfeiting, the RBI said that the government's estimate of Rs 400 crore as the amount of counterfeit money in the system was just a drop in the ocean of the Rs 15.41 lakh crore of high-value notes in circulation and didn't justify demonetization.

As for corruption, the Modi government's claims of 'na khaunga, na khaane doonga' have been shown as cynical, hypocritical and plain false: first, by the ability of rich people charged with fraud or worse to flee the country unhindered.

These include the promoter of the defunct Kingfisher airline, which racked up unpaid debts of somewhere between Rs 4000 crore and Rs 7000 crore (the banks list figures closer to the latter as they include interest that continually adds on); diamantaire Nirav Modi, who defrauded Punjab National Bank of over Rs 12,000 crore; his uncle Mehul Choksi, whom the prime minister has referred to as 'Mehulbhai', as videos on YouTube can attest; and Gujarati businessman Nitin Sandesara, director of Sterling Biotech, who, accused of a Rs 5000 crore bank scam, fled to Nigeria. And these are just the big fish.

Second, the Modi government has been implicated in a defence scandal where, according to France's former president François Hollande, the French were told that India would only buy Dassault's Rafale fighter jet – approved by the Indian Air Force (IAF) in 2012 after five years of scrutiny and tests – if they chose Reliance Defence Limited instead of Hindustan Aeronautics Limited (HAL) as their Indian offset partner. Reliance Defence is owned by Anil Ambani, who set the company up a mere ten days before the deal was announced, and who stood to gain substantially from this deal. (More on this in chapter 7.) India is paying 40 per cent more for the aircraft that the Modi government renegotiated, favouring Ambani; and while the government was at pains to show that the extra money was for specialized 'add-ons', a report in *Business Standard* in November 2018 conclusively showed the same 'add-ons' were included in the earlier version of the deal negotiated by the previous government.

Corruption requires a clean-up, and on that the government's record has been one of cluelessness and ineptitude. Rajan in 2015 forced the banks to clean up their books, and in the process he sent a list of major bank loan defaulters who were suspected of having committed fraud to the Prime Minister's Office (PMO). Despite demands by Parliament's Estimates Committee, the government has released neither the list of bank loan defaulters nor an account of the action it has taken against them. Probably because no action was taken against the fat cats.

As *India Unmade* went to press, the second anniversary of demonetization arrived. The Modi government, otherwise not shy of talking up its achievements, did not mark the anniversary in any significant
way. Finance Minister Arun Jaitley did make some post facto justifications: that

digitization of the economy had increased, as meaningless a statement as saying that Facebook use increased after demonetization; that the tax net had spread wider and collections had increased, another meaningless claim since the widening and increases followed a pattern of growth that existed before demonetization; and other marginal claims.

Dr Manmohan Singh, who in Parliament a fortnight after demonetization called it 'organized loot and legalized plunder', predicted it would dent GDP growth by 2 per cent. He was not wide off the mark – conservative estimates showed a drop of 1.5 per cent, as we shall see later in the book. An otherwise taciturn politician, Dr Singh spoke out again on demonetization's second anniversary, saying that 'the long-term ramifications were still unravelling'. He said, 'This has had a direct impact on employment as the economy continues to struggle to create new jobs for our youth. The financial markets are volatile as the liquidity crisis wrought by demonetization is taking its eventual toll on infrastructure lenders and non-bank financial services.'

It is true: there is a crisis of payments in our economy at the moment, and it is under-reported by a media made pliant by the government. This crisis will get worse in the days to come because there is no liquidity in the economy. The Modi government made a grave miscalculation: as the attorney-general of India in an affidavit to the Supreme Court said, the government expected that as a result of demonetization, Rs 3 to 4 lakh crore would not return to banks because it was 'black money'. Those notes would be extinguished and the government would ask the RBI to hand over that amount for government expenditure. However, as per the RBI's annual report in September 2018, 99.3 per cent of the cash was returned. The bonanza never materialized for the government.

As mentioned earlier, infrastructure lenders like Infrastructure Leasing and Financial Services (IL&FS), which in September 2018 defaulted on bank loans, long- and short-term borrowings of Rs 12,000 crore, are in huge trouble. Their troubles stem from deep problems in the infrastructure sector, including slow clearances and high interest rates. The government reconstituted the IL&FS board, which found that it was in debt to the tune of nearly Rs 90,000 crore. The new board has asked the government for a bailout of the type that Lehman Brothers Holding, Inc., the fourth-largest investment bank in the world, demanded from the US government in 2008, triggering the global recession.

(Lehman Brothers, which had debt of USD 613 billion, went bankrupt.) But the government has no cash to do so.

The government will have to bail out IL&FS because its tentacles were spread far and wide into the Indian economy, and it was literally 'too big to fail'. As a result of IL&FS's troubles, other NBFCs have started to face liquidity troubles and seem unable to meet their payment obligations.

Banks, however, are themselves in a deep hole due to bad loans. When this government presented in Parliament the Economic Survey of 2014, it quantified bad loans, or NPAs, at Rs 2.05 lakh crore. Then, in October 2018, Jaitley shifted the blame to the previous government, saying the NPAs when Modi took office were not Rs 2.05 lakh crore but Rs 8.5 lakh crore. Did he then lie to Parliament in 2014? If yes, this demands a privilege motion against the finance minister.

The government, in election mode, was in late 2018 leaning on the RBI to hand over a humongous Rs 3.6 lakh crore – the same amount it had expected from demonetization but did not get – from the RBI's reserves. (The government, under pressure, changed its story, saying it needed just Rs 1 lakh crore.) Neither governor Patel nor RBI deputy governor Viral Acharya was willing to dip into the RBI's reserves; also, they wanted to use that same amount to recapitalize the banks hit by NPAs. The government made a noise about unprecedentedly invoking Section 7 of the RBI Act, which basically means giving the RBI orders in the national interest. Speculation grew that after this attack on the RBI's autonomy, Patel might resign.

A good relationship between the government and the RBI governor sends a message to markets, to investors, to officials down the line, as well as to the citizens of India.

But what the Modi government has done is the opposite; it has brought BJP–Rashtriya Swayamsevak Sangh (RSS) ideologues on board, namely, S. Gurumurthy and Satish Marathe, who have been pressuring the RBI governor to toe the government's line. Gurumurthy is widely believed to be the genius behind demonetization, and he has been needling the RBI governor at board meetings. The irony is that both Patel and Acharya were appointed by Modi, and now both are in revolt. It is a case similar to that of the Central Bureau of Investigation (CBI) director Alok Verma, who was appointed by Modi over the objection of the Leader of the Opposition –

M. Mallikarjun Kharge of the Congress party – and was deposed, in a murky midnight drama during the night of 23 October 2018. Verma's crime? He was investigating special director Rakesh Asthana, an officer of the Indian Police Service (IPS), close to Modi from his days in Gujarat, for corruption. Asthana, it has been widely reported, was placed in the CBI as part of 'the Centre's attempt . . . to carry out more blatantly political investigations'.

Decisions like demonetization, and the fact that his own appointees eventually turn against him, seem to indicate that Modi takes decisions on a whim, even if it is against the advice of his own appointed experts. While his bhakts might interpret this as an iron will to get things done, to my mind it betrays that deep in his heart Modi is insecure. He seems to take no one's advice. He brooks no dissenting view.

While others may have stifled their own dissent, I have not. I cannot remain silent; history will not forgive me if I did. I speak out now in the national interest, not for any other reason. One could object that the book points out only the failures of the Modi government, and that there must exist a success or two that deserve mention. Yet over the last fifty-five months, the Modi government has dished out a stunning continuum of untruths and boasts about its economic management, performance and accomplishments. It thus becomes essential to speak truth to power, and so it is my job that this book be a statement of fact.

Having been a finance minister, it is my duty to point out the Modi government's disastrous economic mismanagement.

I know that economic reforms and politics can be an unpredictable combination. But when the people of India give you a responsibility to govern the nation, you should govern in the interest of the people and the country's future, not just with an eye on electoral considerations. That should be the criterion; not just winning the next election, as it seems to be with the Modi government. If you govern only to win the next election, you will only take populist decisions which may not be in the interest of the country, certainly not in the long term.

For instance, demonetization was a whimsical decision that served no purpose of governance. It did, however, provide Modi with a populist campaign plank of having taken tough decisions to nab the corrupt rich. His decision paid a rich electoral dividend in Uttar Pradesh in 2017. But as far as the constantly shifting

governance objectives of demonetization went, it was a big zero.

During Vajpayee's time, however, posed with a clash between our electoral prospects and the national interest, we would always choose the latter. This meant taking risks in governance. If you can't take such risks and prefer to stay populist, then you're not worth your salt. This goes to the core of ethics in governance. This inherent tension between undertaking difficult reforms and doing what will be popular with people is something we'll see throughout this book. You'll see, from the point of view of a former finance minister, what a balancing act reforms can really be.

Sometimes even a benign measure can have adverse consequences, like the national highway project. I later found that in 2004 we lost all the constituencies that lay along the Grand Trunk Road that goes from West Bengal and through Jharkhand, Bihar, Uttar Pradesh, Haryana and Punjab up to the Pakistan border. It was a paradox. The highways programme was the Vajpayee government's most outstanding project – his enduring legacy, the accomplishment now cited by even his staunchest political opponents – so we should have won in those very constituencies. We lost, however, because all highway encroachers were evicted. Even in my constituency of Hazaribagh, removing encroachers made a lot of voters angry. This is the political reality of India.

There is thus an argument to be made that there is no correlation between good work and getting re-elected. Any correlation is the first fallacy of punditry. Voting is only marginally connected to the work you might have done, or the government you were a part of. It is dependent on many other factors which may or may not work in your favour.

The biggest factor is managing voter perception, a fact of which the Modi government is obviously keenly aware. Take the election in 1989, in which V.P. Singh overtook Rajiv Gandhi as Mr Clean because the Congress prime minister was bogged down by the Bofors scandal. Chandra Shekhar as prime minister used to wonder out loud to me that V.P. Singh as Rajiv's finance minister had to have given approval to the Bofors gun procurement. Yet he was never stained by the scandal. Rajiv Gandhi's defeat by V.P. Singh was thus a result of perception management.

Yet perceptions can't be managed only by slick slogans. 'Feel Good' and 'India Shining' backfired on NDA 1, probably because we chose the wrong slogans.

Perhaps
we needed different slogans? But I now can't help but think that coining slogans is foolhardy and can only bring grief.

In this book, I will demonstrate why the Modi government's various slogans have come back to haunt it in the worst way, be it Achhe Din or Sabka Saath Sabka Vikas. The reason is that it made promises in 2014, and those promises have not been kept. The promises have been broken because the government has managed the Indian economy poorly. Modi has been accused of running a suit-boot ki sarkar – of serving private interests rather than the national interest.

Though India has been the fastest growing large economy in the world, it has performed below potential, and in Modi's fifth year it is up against severe macro challenges: oil prices above USD 65 a barrel; the rupee well above 70 per dollar; rising interest rates to keep inflation reined in as the country goes to the polls; and a rising current account deficit (CAD).

In this book, you will read about how Modi blew a golden opportunity to send the economy soaring to new heights. He could have fixed the UPA's legacy issues and fundamentally raised India from a poor country to a middle-income country, but he squandered the chance. In the following pages I will demonstrate how Modi unmade India. This book is an attempt to place the truth before the people of India which has been denied to them by a pliant media and a barrage of false propaganda.

1
Modi's Inheritance,the UPA Government's Economic Legacy

India lives in every century of time. That's how complex our nation's economy is. The Indian film industry, which *Forbes* in 2015 estimated at USD 10 billion, began over a hundred years ago with *Raja Harishchandra* (1913). Jammu's Bakerwal nomads graze animals on exactly the same hills their ancestors did in prehistoric times. Infotech workers in Bengaluru work at jobs that were little known before the dawn of the twenty-first century. The rituals performed at the Brihadisvara temple in Thanjavur are exactly the same as they were a thousand years ago, when the temple was brand new. Weavers produce the same textiles that the mystic Kabir's family made six centuries ago. We have highways dating back to medieval India, such as the 2500-kilometre-long Grand Trunk Road (whose route was laid by Chandragupta Maurya). South Indian ports have been active for thousands of years, conducting trade with, among other countries, Malaysia and Egypt. The railway network that began at Red Hills in Madras in 1837 has now spread to Kashmir and the North-East, connecting them to the rest of the country.

It is India's fortune that complex economic management is in its DNA; in fact, even the ancient Mauryan and Chola empires had trade-led economies. The Cambridge economic historian Angus Maddison tells us in his *Contours of the World Economy 1 – 2030 AD* that from year one to year 1000, India had the largest economy in the world, controlling nearly a third of the world's wealth. China overtook us by the year 1500, but once the Mughals reunified the subcontinent India once again became the world's leading economy in the year 1700. During the Mughal era, India led the world in manufacturing and continued to do so for several decades more.

India's economic downturn arrived with the British, who deindustrialized the Indian economy and commercialized its agriculture, which led to many man-made famines, and also decreased demand for Indian-manufactured products, leading to the collapse of these sectors. In 1750 India accounted for 25 per cent of the world's industrial output, but that declined rapidly to 2 per cent by 1900. One major reason is that Britain's textile industry killed India's. Incredibly, during Akbar's time, 15 per cent of India was urbanized; during British colonial rule, that figure decreased so much that by the 1872 census 91.3 per cent of Indians lived in villages. When the British finally left in 1947, India was not only

one of the poorest countries on earth, but the imagery associated with India was one of 'black holes', 'naked fakirs' and starving masses as seen during the Bengal famine of 1943 (that many convincingly argue was a result of Winston Churchill's wartime policies).

As an independent republic, India borrowed many ideas from other countries. We borrowed the parliamentary system from the United Kingdom and we took inspiration for our Constitution from the United States. We already had the concept of a permanent civil service which was patterned on Britain's. Our politics was based on Western models of governance.

Our model of economic management, however, was borrowed from the erstwhile Union of Socialist Soviet Republics (USSR), aka the Soviet Union. We had to temper it a fair deal because a private sector already existed here. Private business, however, was not at the forefront of our economic development as we had made a firm commitment to socialist raj, when, on 10 January 1955, at the famous session of the Congress in Avadi, Tamil Nadu, our first prime minister, Jawaharlal Nehru, declared that a socialistic pattern of society was the party's goal.

Whereas M.K. Gandhi believed that India was economically best suited to being a union of village republics – I think there was wisdom in wanting to develop our rural infrastructure, without which the nation cannot develop rapidly – Nehru chose the path of central planning, state-directed industrialization and import substitution. But the socialist raj soon degenerated into the stranglehold of a licence permit quota raj, in which an all-powerful bureaucracy dictated what would be produced by Indian industry, who would produce it, how much they would produce, and where and who they would employ.

The private sector that was allowed was at the mercy of the government. I remember well the workings of the department of the Directorate General of Technical Development (DGTD) in the Ministry of Industry, where each and every proposal for the expansion of an existing industry or factory or the setting up of a new industry or factory had to be examined. I myself experienced how someone sitting in Udyog Bhawan would decide whether a particular sector needed additional capacity or not. The DGTD was abolished in the wake of the economic reforms of 1991 and young Indians today may not even be aware that such an institution once existed, nor can they imagine the immense influence it

wielded in those days.

The licence raj led to rent-seeking, i.e., the practice of manipulating public policy as a strategy for increasing personal profits. Or in other words: rampant corruption. Companies depended not on efficiency, but on access to Udyog Bhawan to get the required clearances. It was the worst kind of system that flourished during the socialist raj.

Take the automobile sector for instance: for decades we relied on the Hindustan Motors Ambassador car (based on the British Morris Oxford Series III), the Premier Padmini (based on Fiat's 1100D), the unwieldy Hindustan Contessa (based on the Vauxhall VX Series) and the 1970s Jeep. There was very little variety, and little incentive to adopt new (or clean) technologies – because there was no threat of competition. The Maruti car came into existence thanks to political influence. Sanjay Gandhi, the younger son of Prime Minister Indira Gandhi, applied for a licence to produce this new kind of vehicle, and it was promptly given to him. He made a hash of the project, and a proper version was launched a couple of years after his death. His true contribution, however, was the on-demand acquisition of large tracts of land for his company in Gurgaon, Haryana, at throwaway prices, thanks to the largesse of the state government helmed by his own political party.

Then there was the concept of 'commanding heights', which came from the Soviet era, in which most large-scale industry, banking and foreign trade were all kept under the control of the state, in order to keep a tight leash on the rest of the economy. Indira Gandhi extended the public sector through the nationalization of banks and insurance companies. Once nationalized, many private industries were then converted into state monopolies, as in the case of the Life Insurance Corporation (LIC). In general insurance there were only four companies, and together they enjoyed a complete market monopoly.

The government carried this to ridiculous limits where it had a public sector undertaking to make bread, and even to manufacture Ayurvedic medicine. Naturally the public sector ran at a loss but no one was bothered as there was no concept of fiscal deficit in those days, and budgets allocated money to these pointless public undertakings freely. As a result the economy suffered and the consumer was taken for a ride.

In due course instead of competition this policy led to corruption:

manufacturers did not rely on efficient production but rather on which babu to bribe. Instead of an adequate supply of public goods, essential items and consumer goods, we had long lines, enforced austerity and a beggared imagination: to get a landline phone one had to wait years, a domestic liquefied petroleum gas (LPG) connection needed the recommendation of an MP – something unimaginable in today's times.

This flawed model of economic management was, for many years, one of the central debates of our political life, although nowadays the major all-India parties agree on the efficacy of the free-market model. It was only in the 1980s that Indian economists began clamouring for change, having seen the transformation in post-war Japan, South Korea, Taiwan and even China in the 1980s, all of which were to grow at fantastically high GDP growth rates. (The economist Jagdish Bhagwati was among the first in the 1970s to advocate that India reform and open up its economy for higher GDP growth.)

But Prime Minister Rajiv Gandhi's response to this clamour from economists in the 1980s was so flawed that his five years in power, from November 1984 to November 1989, were a disaster. While imports were opened up and the GDP grew at 6 per cent, there was little attempt at maintaining either fiscal balance or reining in the current account deficit. The GDP growth came at a huge cost to the country. To quote a former RBI governor and famous economist of his time, Dr I.G. Patel, from a lecture he delivered at the Indian Institute of Management, Bengaluru, in October 1991, 'successive governments in the 1980s chose to abdicate their responsibilities to the nation for the sake of short-term partisan political gains and indeed out of sheer political cynicism'.

Patel said, in the same lecture: 'With the new wave of ushering in the twenty-first century, we had a series of financial excesses – large increases in defence expenditures, unbridled growth of subsidies, a quantum jump in public salaries and indeed a philosophy stated in so many words that money did not matter.'

By 1986 the Indian government was raising money to finance its profligate spending by borrowing not just from domestic lenders but also from foreign ones. In particular, the government was resorting to taking short-term loans which are risky: they are typically extended at higher interest rates than long-term debt, and if the borrower has a cash flow problem then repayment of one short-term loan can mean having to take yet another one. We were in an internal

debt trap that threatened to engulf us in an external debt trap. Prime Minister V.P. Singh (1989–90) continued in Rajiv Gandhi's footsteps. Having himself been finance minister, he would have been acutely aware of India's precarious position, but he only exacerbated the situation with his own reckless spending on farm loan waivers, etc.

Chandra Shekhar's government replaced V.P. Singh's short-lived one in 1990. In the interim budget of 1991 that I presented as finance minister in Chandra Shekhar's government (I was a member of the Samajwadi Party in those days), I made mention of the fiscal deficit for the first time in a budget document. In earlier budgets finance ministers would talk only of the budget deficit (when a government's spending exceeds its earnings, including the debt it takes). They would say: we'll show a budget deficit of Rs X and the rest of the shortfall of government spending over its earnings would be covered by loans. The concepts of fiscal deficit (when a government's total spending exceeds its earnings, excluding borrowings), revenue deficit (when earnings fall short of the projected expenditure on the revenue side), primary deficit (fiscal deficit minus interest payments) and current account deficit (when imports exceed exports and invisible earnings from abroad) simply did not seem to exist.

And why should they have? Did the Congress party at the Centre ever lose an election because GDP growth was poor? The country as a whole was not bothered about the growth rate in those days, so it was not a political issue unlike nowadays.

My long-held view is that economic reforms have been undertaken by India either under complete duress or when it has been politically expedient. If it meets the slightest resistance the reforms are immediately abandoned.

When the Chandra Shekhar government took office in November 1990 we found ourselves staring at a tremendous balance of payments crisis. That is, our imports were more than our exports and so India's foreign exchange reserves were enough to cover only one month of imports. We were on our knees. That is when the questions were asked: What happened? Why? How? If the balance of payments crisis had not happened, we would not have undertaken reforms, not even in 1991. But the crisis did happen and we had to go to the International Monetary Fund (IMF), and everyone knows that the IMF has strict conditions if you ask for a loan. While it did not enforce as stringent conditionalities for the

loans as it might have for other developing countries, it still had prescriptions, and the IMF discussed them with me as I prepared the budget for 1991–92. I could not present a full budget in 1991 as the Chandra Shekhar government fell and fresh elections were called for that year, after which the P.V. Narasimha Rao government, with Manmohan Singh as finance minister, would assume charge.

Apart from devaluation, on which our government had not made up its mind, even a socialist like Chandra Shekhar accepted many of the IMF's prescriptions. The main areas for those reforms included the abolition of the licence permit quota raj – which meant a dilution of the power of the DGTD and the government in general. The second reform was to liberalize external trade and reduce import tariffs. The third was currency reform and exchange market reform. Others were taxation reforms, banking sector reforms, and then public sector enterprise reform.

Then we also had to reform the stock markets. In those days, there was a Controller of Capital Issues in the Ministry of Finance. He controlled the stock markets. The Securities and Exchange Board of India (SEBI) existed but it was not a statutory body; it had limited powers and reported to the Controller of Capital Issues. This office was abolished in 1992 when Manmohan Singh was the finance minister. But surprisingly, when I took over as finance minister again in 1998, I found that the appeals against SEBI orders were with the finance secretary.

He was the appellate authority. I changed that because there was no reason for him or her to have this burden. Rather, it ought to lie with a separate body comprising largely of judicial officers, and that's how the Securities Appellate Tribunal was set up. The point is that the stock market needed serious reform, even if it was an IMF instruction.

Importantly, even the industrial sector needed reform. The Industrial Policy Resolution of 1956 had to be abolished or modified, and this was done on the same morning that Manmohan Singh presented his famous budget in 1991. The industry ministry was with Prime Minister P.V. Narasimha Rao himself, so it was his minister of state, P.J. Kurien, who, on the morning of the budget presentation, read out a statement in Parliament announcing this important reform. Narasimha Rao did it deliberately, knowing that the budget, which was to be presented at five in the evening, would dominate the news cycle entirely;

the industrial sector reforms would go unnoticed – and therefore provoke no protest. And that's exactly what happened.

These were the various areas in which reforms continued. An important area for reform that most urban Indians pay little attention to is agriculture: agricultural marketing reform, essential commodity act reform, trading reform and rural infrastructure. The Chandra Shekhar government started these, and they continued in Manmohan Singh's first three budgets, 1991–92, 1992–93 and 1993–94.

But by then, the Congress party began losing elections in the state assemblies, and those in the party who were wedded to socialism and were unhappy with the economic reforms began to pressurize Narasimha Rao to change course. This pressure shows in Manmohan Singh's last two budgets of 1994–95 and 1995–96, which were not reform-oriented. But the balance of payments crisis had tapered off and the economy had picked up, so there was no urgency for further reforms.

The Rao government was succeeded by the United Front government, led one year by H.D. Deve Gowda (1996–97) and the next by I.K.Gujral (1997–98); P. Chidambaram was the finance minister throughout. I don't think his 1996–97 budget was a great reform budget but his 1997–98 budget was, where he carried out a cleansing exercise of direct taxes, among other things. His second budget was called a 'dream budget' because it was pro-industry.

But meanwhile, the lack of reforms in Manmohan Singh's last two budgets and the East Asian crisis in 1997 led to a collapse of the GDP growth rate, from 7.29 per cent in Manmohan Singh's last year as finance minister (1995–96) to 4.30 per cent in Chidambaram's second year as finance minister (1997–98).

These were the legacy issues that confronted me when I took over as finance minister in the government led by Atal Bihari Vajpayee in 1998: one, huge banking NPAs, as we have had in Narendra Modi's government; two, a declining GDP growth rate; three, declining foreign exchange reserves as a result of the East Asian crisis; and four, a fiscal deficit of 5.5 per cent which was higher than what was budgeted at 4.5 per cent.

Then there was a double whammy effect because of the May 1998 nuclear tests by the NDA 1 government, which led to international economic sanctions. A modern economy runs on sentiment, and that sentiment was destroyed by the sanctions, so the stock market tumbled. We used to get about USD 2 billion of

support from the World Bank and another billion dollars from the Asian Development Bank, and all that came to a halt – even the funds for approved projects that were in the pipeline dried up. Almost all countries ceased their bilateral assistance programmes and overseas development programmes in India, which together came to USD 1–1.5 billion a year, which was an important source of foreign exchange.

So in total the USD 4 billion in funding that we used to receive was in danger of being cut off. I was terrified that we would again be up against a balance of payments crisis.

Even while preparations were on for a 1 June budget, I travelled with Finance Secretary Montek Singh Ahluwalia to the United States for the spring meeting of the World Bank and the IMF in Washington. It was the first overseas trip by a member of Vajpayee's cabinet. En route we met investors first in London and then in New York, all of whom were curious about the new BJP government that had dared to go nuclear.

In New York, I told potential investors, look, I'm normal, I have two arms, two legs; I'm no aberration. This government comprises normal human beings. But there certainly had been a change. Pointing to Montek, I said, he represents continuity and I represent change. In India, in our democracy, you always have change with continuity, or continuity with change.

Anyway, in those meetings people suggested that India issue sovereign bonds. These are bonds issued by the government on which it pays interest and full face value on maturity. But India had never issued sovereign bonds before. I was not too keen either. Instead, we came up with the idea of the Resurgent India Bonds, issued in August 1998 by the State Bank of India.

It was not a sovereign bond, but it was still criticized at the time for being expensive, which it was not. It was open only to non-resident Indians (NRIs) and was hugely successful: it collected about USD 4.25 billion within ten days, and we were able to breathe easy after that on the foreign exchange front and on all the other challenges in general.

My 1998–99 budget did disappoint some people. This was inevitable because we were still in a period of instability, and of course the coalition government led by the BJP fell in 1999. But when the BJP returned ours was a more stable government (though still a coalition government). Now one could push

economic reforms through more strongly and faster. In other words, one had to hasten slowly.

The model that we followed in Vajpayee's government was that we focused on investment first, consumption afterwards. Not the other way around. We laid emphasis on infrastructure projects like highways and housing, and in this book I will keep returning to this underpinning of our economic management.

We basically wanted to create demand for investment goods in the economy by starting several large infrastructure projects. Investment goods or capital goods are things needed to produce final consumer goods. So a machine is a classic investment good. But so is a highway. If the production of investment goods goes up then demand for things such as steel, cement, tools, etc., also increases, leading to higher employment. Money would as a result go into people's pockets and they would then go to the market for consumption. This became the focus of my budgets. Therefore we had the national highway programme and the rural roads programme, we reformed telecom and we spurred demand in housing and even in railways. Wherever we could create demand for investment goods we took it up as a challenge and began to resolve the problems in those sectors.

Importantly, we brought about a sharp decline in administered interest rates which proved a major incentive for investment. Demand plus availability of cheap funds: this combination spurred private/public sector as well as consumer demand. For the corporate sector I had a debt restructuring scheme, where companies could exchange their old high-cost loans with lower-cost loans. We encouraged the state governments to do the same.

This brought about a feel-good factor in the economy. When I left the finance ministry in 2002 and Jaswant Singh took over, he carried on with this thrust. As a result, the fruits born out of these steps can be seen in the GDP growth between 2003–04 and 2007–08, which are still the most glorious years in our economic history: we had consistent 8-plus per cent GDP growth, and not the bubble-one-year-burst-the-next kind that we had witnessed since Independence. The UPA's initial years of high economic growth were in large part thanks to the policies that the Vajpayee government had undertaken.

When the UPA took over and P. Chidambaram returned as finance minister, he presented in Parliament, in the run-up to the 2004–05 budget, the 2004

Economic Survey of India. In it, he said that the economy was in the pink of health: 'The economy appears to be in a resilient mode in terms of growth, inflation, and balance of payments, a combination that offers large scope for consolidation of the growth momentum with continued macroeconomic stability.'

There can be no better certificate than your successor government, belonging to another party, saying this.

The UPA continued this momentum with some tinkering. It did not pursue further fundamental reforms, merely implementing what was left over from the NDA 1 government – such as legislation like the Fiscal Responsibility Budget Management Act and the value added tax at the state level. Possibly they saw no need for major reforms, since the growth rate was extremely healthy.

Then two events took place that had a big impact on the budget-making exercise: the 2008 financial crisis in the United States and the 2009 parliamentary elections in India. Chidambaram's 2008–09 budget was curious because while in the budget speech he spoke of the farmers' debt waiver scheme, for which about Rs 60,000 crore was needed, he did not provide for it in the budget. It was done subsequently through the supplementary demands. Clearly, it was an afterthought. Likely, as the talk went, it was done under political pressure from Congress president Sonia Gandhi only for electoral considerations.

If the farmers' debt waiver was a populist step, the other was the Mahatma Gandhi National Rural Employment Guarantee Act (MNREGA). It was a badly designed scheme aimed at providing hundred days of wage labour to the rural poor. In the 2008–09 budget, Rs 16,000 crore was initially allocated but then an additional
Rs 14,000 crore or so was allocated, bringing the total allocation to a little over Rs 30,000 crore.

But the UPA's management of the economy was flawed. When the global financial crisis hit us the government decided to focus on increasing consumption demand, and it began reducing or even eliminating some excise duties. This, along with the debt waiver and MNREGA, was meant to put money in people's pockets to encourage consumption demand. Yet all these welfare measures hardly encouraged productive activity and did not increase

investment.

The reduced excise duties brought down tax receipts. The result of this populism in expenditure and compression of tax led to the fiscal deficit shooting up to unacceptable levels. This is an important point because successive governments had brought down the fiscal deficit and by 2007 it had gone below 3 per cent, which was the legally mandated target. (The Fiscal Responsibility and Budget Management Act passed by the NDA 1 government lays out a glide path for reducing the fiscal deficit. Therefore, hitting a certain fiscal deficit target is the legal responsibility of a government. That governments do not do this, thereby violating the law of the land, is a scandal.) Revenue deficit was also just a bit over 1 per cent in 2007–08. Had the UPA carried on with this, the revenue deficit target of zero could have been easily achieved.

Unfortunately, the fiscal deficit due to the populism went up to 5.99 per cent in 2008, and 6.46 per cent by March 2009. The bulk of it was revenue deficit – when earnings fall short of the projected expenditure on the revenue side. This meant the UPA government preferred consumption-driven growth over investment-driven growth.

This boost to consumption sustained the economy for another two years. Under the new finance minister, Pranab Mukherjee (Chidambaram was made the home minister following the November 2008 attack by terrorists in Mumbai), we continued with high growth for two years: 8.48 per cent in 2009 and 10.26 per cent in 2010, according to the World Bank's figures. It went downhill from there on, because you can't sustain an economy merely on the basis of consumption, without taking adequate measures on the supply side.

The result of this consumption boom was inflation. Why? Because while people's pockets had been filled with money thanks to loan waivers, MNREGA and a reduction in excise duties, the productive capacity of the economy had not increased to keep up with this new consumer demand because investment was not promoted. This led to the raising of interest rates by the RBI, which increased it continuously thirteen times. Money became expensive, also unavailable. Investment therefore collapsed further. The GDP growth rate collapsed. The UPA lost the elections in the Lok Sabha and its regime came to an end.

This was the backdrop in which Narendra Modi became prime minister of

India in May 2014. It was a golden opportunity for him to return the economy to the pink of health.

It was an opportunity he squandered, as I will demonstrate in the rest of this book.

2
Modi and the GDP Beanstalk

It was almost farcical. Early in its tenure, in January 2015, the Narendra Modi government changed the methodology for calculating GDP. It seemed that the growth rates were recalibrated to make the government's economic management look good, with an average rate of 7.35 per cent over its first four years. What this managed to do instead was make Manmohan Singh look even better. According to the new series, GDP growth touched 10.08 per cent in 2006–07, and averaged 8.86 per cent during the UPA's first term, dipping to 7.38 per cent in its second term – still higher than the Modi government's.

The recalibrated 'new series' figures came by changing the calculation from a factor-cost-based formula to a market-cost-based method, and by changing the base year from 2004–05 to 2011–12. But once the new methodology was put in place in January 2015, it made sense that the UPA's figures should also be recalculated so that the government's performance could be benchmarked against a comparable series. But this was not done. Initially the GDP series was only recalculated going back to 2011–12. It took the Central Statistics Office (CSO) three years to recalculate the GDP series from 1994 to 2014 using the new methodology. Once it was in, economist Sudipto Mundle and his team presented the 'new series' in a report on the website of the Ministry of Statistics and Programme Implementation (MoSPI) in August 2018. It was in this report that the UPA's growth track record outshone the Modi government's. It was taken down two days later, and put in the 'draft reports' section of the National Statistical Commission's webpage along with the following disclaimer: 'These Reports are not final and the figures/estimates are also not final and should not be quoted anywhere. The Reports have not been approved by National Statistical Commission or MOSPI.' The Modi government's mantra, as usual, was when it comes to bad or embarrassing news, it is best to shoot the messenger.

Let's step back for a second. A nation's GDP is considered the most important indicator of its economic health. It measures the monetary value of all goods and services produced in a nation, including net exports and government spending. It is an aerial snapshot of the economy. The richest country in the world, the United States, has the world's highest GDP. China, still considered a middle-income country, has the second highest GDP.

GDP growth is the first figure that governments, policymakers, industrialists,

investors, academics, and even the man on the street use to judge a country. Governments use it to make budgets. It sways the stock market and financial institutions. As the recalibrated GDP numbers showed, it can also become a political football.

In post-Independence India, growth was never considered a major political issue. The GDP would grow at a yearly rate of 2.5 per cent, 1.5 per cent, 3.5 per cent, but no one bothered. From the 1950s – when other newly independent countries like South Korea or Taiwan emerged – to the 1980s, India averaged a chronically low GDP growth of 3.5 per cent. Professor Raj Krishna of the Delhi School of Economics in the 1970s coined the phrase 'Hindu rate of growth' for this anaemic growth, which led many around the world to assume that
Indians were fatalistic about their poor economic health and the overwhelming poverty that India came to be associated with.

As mentioned earlier, the Congress party never lost an election due to a poor growth rate because nobody bothered about the growth rate. Economic issues began to dominate the political discourse only after the balance of payments crisis in 1991. In 2014 Narendra Modi swept to power because economic growth was a major issue. He promised achhe din, he promised good governance, he promised development; the economy dominated the politics of the elections. It is likely that the next parliamentary elections in 2019 will be no different.

Once, I examined the annual growth figures since 1950 as given in the Economic Survey of India, a document that is presented by the Ministry of Finance each year just days before the national budget is presented, and which, as its name suggests, surveys the nation's economic development over the past financial year. I checked how many times the country had registered a GDP growth of 7 per cent or so from 1950 to 1991, and it turned out that India had hit the number seventeen times. In fact, in 1975 GDP growth was 9.15 per cent and in 1988 it was 9.63 per cent, according to World Bank figures. The trouble was, the growth would hit 7 per cent one year and collapse the next. It was not sustained. It was a bubble one year that burst in the next.

Growth touched 10 per cent in 1988–89 during Rajiv Gandhi's tenure as prime minister (1985–89) but it was at a huge cost to the country, including a severe depletion of foreign reserves. After 1991, when growth plummeted to a depressing 1.057 per cent, a GDP growth rate of 7 per cent has been the norm

rather than the exception. The golden period when a sustained growth rate of nearly 9 per cent (under the new figures) was recorded for over five years was from 2003–04 to 2007–08.

India's reluctance to pursue economic reforms whole heartedly can be seen by the fluctuating GDP growth. For instance, as mentioned earlier, after the economy was liberalized in 1991, the government under Prime Minister P.V. Narasimha Rao pursued reforms for another three years and then abandoned them due to political opposition from within the Congress party. So in Manmohan Singh's last year as finance minister (1995–96) the growth rate recorded was 7.29 per cent; but since reforms had ground to a halt, and there were external factors like the East Asian currency crisis, the growth rate under Finance Minister P. Chidambaram (1996–98) dropped precipitously to 4.30 per cent in his last year.

No wonder then that when Vajpayee took charge of the government in 1998 and appointed me his finance minister, there was an obsession with GDP numbers. In India, GDP growth means a healthy growth rate in the three main sectors of the economy: agriculture, industry and services. It is not possible for a single sector to grow without a parallel growth of the other sectors. If agriculture grows then it is beneficial for industry, which also grows. And when industry grows then the service sector also grows.

For the Vajpayee government, as I have mentioned, the basic issue was simple: to sustain demand for goods (and services) in the economy and increase that demand so that there is economic growth to meet that demand. This is the fundamental issue. Simply put, if there is no demand for goods there will be no growth. And demand will come from the people.

Once demand has been created, we must encourage production to meet that demand. Production will occur in the private sector (controlled by private individuals and groups) and in the public sector (controlled by the state), but largely it will happen in the private sector.

While the public sector depends for financing on the government, on its own savings and on borrowings from the market, the private sector depends exclusively on its own savings and on borrowings from the market, so banks and financial institutions must be ready to finance this urge for growth to meet the demand. This is the important role financial institutions play in economic

growth.

Yet in a developing nation like India, demand is not generated automatically. There is of course always some demand that gets generated, but if you want your economy to grow at a higher rate, then you have to create demand. That becomes an important goal of economic policy, but how do you do it? One way is to undertake big projects that will create demand for investment goods, and the other way is to create demand by putting money in people's pockets which will create demand for consumption goods.

Since the creation of demand – either by undertaking a big project or by putting money in people's pockets – will require the outlay of money by the government, what is of prime importance is the sequencing of the expenditure – which demand do you want to create first, investment or consumption? – and which demand will then follow. In the Vajpayee government what we did was deliberately follow a policy of sequencing the demand for investment goods first and for consumption goods later. So first we had all these projects for roads, telecom, housing, etc., which created demand for investment goods, which gave a fillip to industries producing investment goods like cement, steel, building material, etc. Their boost led to employment generation, which brought additional money into people's pockets, which led to an increased demand for consumption goods.

We sequenced it in such a way that government intervention helped to create a demand for investment goods, and demand for consumption goods naturally followed. Addressing issues like infrastructure and roads provides two payoffs – they not only create demand, they also reduce the transaction cost in the economy and increase the economy's productive potential. Building a road, for example, not only generates demand for the material that goes into road-laying but also makes the future cost of transportation of various products cheaper, which helps create further demand for those products. We reached a stage where both kinds of demand began to prevail in the economy, which then took off.

In the meantime we fixed things like banking, which faced a problem of NPAs – where borrowers stop paying interest or principal on a loan – though nothing on the scale as what has happened under the Modi government's watch. Banks have to be ready to cooperate so that there is a source of funds for investment – if the banks are not in a position to provide funds, there will be no

generation of demand, and growth will slow down.

Then your laws and regulations – your ease of doing business – is another factor that reduces the transaction cost in the economy so that you stay competitive, especially in this day and age when you don't have to go outside the country's borders to get ambushed by global competition; it comes to your doorstep on a daily basis because of the country's opening up. Therefore you have to help your industry be lean, mean and efficient, so that it can fulfil the demand on a competitive basis.

But GDP growth cannot be an end in itself. The objective of growth has to be that the fruits of that growth reach all sections of the population. It is the government's responsibility to make sure that distribution channels everywhere work efficiently and to this end taxation, transportation, other laws, etc. become important, as well as a deliberate policy to put money in poorer hands so that they too participate in the benefits of growth.

That was the broad picture of the economic policy we followed in Vajpayee's government. As mentioned earlier, the UPA government reaped its benefits – particularly as GDP growth hit 10.08 per cent in 2006–07 – so it allowed the Vajpayee government's policy to chug along till the global financial crisis of 2008.

Faced by the crisis, the UPA government panicked, and in 2009 it took steps that reversed the sequence of our economic policy. These steps included the reduction in excise duties on consumer goods and the waiver by Finance Minister P. Chidambaram in the 2008–09 budget of Rs 60,000 crore of loans taken by farmers.

This ballooned the demand for consumption goods. But in the absence of investments in productive infrastructure, the increased demand put pressure on the system and led to high inflation.

With inflationary conditions created, the RBI raised the rates of interest thirteen times between March 2010 and October 2011. The RBI also tightened liquidity (these are the only monetary tools at the RBI's disposal – rates and liquidity). It is the kind of measure that kills the good along with the bad. Rising interest rates hurt investment, especially private investment. And with investment hit, we had an imbalance where the growth in demand for consumption goods continued but the growth in demand for investment goods

was stalled.

When the growth of investment stalled, the growth rate declined. Consumption sustained the economy as long as it could and then it collapsed, because the demand for investment was not driving the demand for consumption goods. The GDP growth rate declined to 4.47 per cent in 2012–13 (recalibrated to 5.42 per cent in the new series).

When Modi came to power, it seemed as if no one in his government understood these basic principles of the Indian economy. Instead they adopted a method of 'trial and error': in some areas they encouraged consumption goods; in others they encouraged investment goods. Their biggest blunder was allowing the bank NPAs to go from bad to worse, which meant that bank financing for new projects dried up.

As a result, investment and the demand for investment goods declined sharply during the Modi government's first four years. This naturally hurt the GDP growth rate. Loss of momentum in exports added further to the decline in the GDP growth rate.

And despite their attempted cleverness at playing with the GDP numbers, by changing both the base year from 2004–05 to 2011–12 (when a precipitous plunge in numbers had taken place, so anything higher would look magnificent) and the method of calculation, the GDP numbers of the Modi government's years in power are not spectacularly high. To hide this sleight of hand, the Modi government took over three years to produce the new series of the GDP growth numbers of the UPA. Till the writing of this book, the government has not told us what its numbers might look like under the 'old series'.

Under the new calculation, the growth rate for 2013–14, which was earlier calculated as 4.74 per cent went up to 6.05 per cent. Chidambaram was of course happy. Yet even the government's Chief Economic Adviser, Arvind Subramanian, in an interview to *Business Standard* in February 2015 said he was puzzled by the new numbers. 'The revised numbers show GDP growth rose from 4.7 per cent to 5.1 per cent in 2012–13 . . . This means acceleration in GDP growth of 1.9 percentage points in 2013–14 . . . This is mystifying because these numbers, especially the acceleration in 2012–13 are at odds with other features of the macroeconomy.'

A brief glance at the CSO's changed method of collecting data makes it clear

that you cannot use it to calculate earlier years. To take two calculations: the CSO's subcommittee's calculation of 'gross value added in manufacturing' from 2014 to 2015 showed an increase of an amazing 108 per cent. Similarly, its calculation of 'savings in non-financial private corporate sector' went up a mind-blowing 257 per cent. Economists who have studied these figures say the variables for calculation have changed, hence it cannot be extrapolated backwards.

There are several reasons to believe that this change in calculating the GDP has led to phoney numbers during the Modi government's tenure.

The first is that bank NPAs have risen massively – in March 2014 they stood at Rs 2,04,249 crore (3.9 per cent of total loans) and rose to Rs 10.25 lakh crore (11.8 per cent of total loans) by 31 March 2018. Power sector NPAs alone would add Rs 1,74,000 crore to the overall NPAs. The government has allocated Rs 2.1 lakh crore for bank recapitalization, but even optimists agree that without further banking reform, the money will just get sucked into a black hole. The point is, bank NPAs will not rise if there is growth. Simple.

Second, many serious people dispute the government's claims that GDP has grown 7.35 per cent during its first four years. Former prime minister Manmohan Singh warned, after the November 2016 demonetization of high-value currency, that the GDP would take a hit of 2 per cent. The economist Arun Kumar, who in his book *Demonetization and the Black Economy* studied the impact of the cash disruption in detail, says that GDP growth does not measure the unorganized sector, and that it actually declined in 2016–17 to negative or close to zero, rather than the 7.1 per cent the government claims.

Even the World Bank said in a report that GDP growth in certain districts where the informal economy is more prominent had declined by as much as 7.3 percentage points, much more than what Manmohan Singh had predicted, during the first two months of demonetization. A study conducted through satellite photos by Robert Beyer, Esha Chhabra, Virgilio Galdo and Martin Rama, all from the office of the chief economist for South Asia at the World Bank, examined the intensity of evening and night-time lights to gauge economic activity.

It found that there had been a dip in nightlight intensity for two months after demonetization, and that local economic impact would have been more in

informal activity where cash is dominant. They calculated that GDP growth went down by 4.7 to 7.3 percentage points in districts dominated by informal economic activity during the third quarter of 2016–17.

Third, there is other evidence which points to the GDP growth figures being unreliable. The government doesn't appear to have cash in hand. Its defence budget, for instance, is increasingly swallowed by pensions and day-to-day expenses (revenue expenditure) and in a couple of years there will be no money to invest in long-term new projects or capital expenditure.

The situation is worse in social spending. The scholarships for Scheduled Caste (SC) students came down to Rs 3000 crore in the 2018–19 budget – with no indication of how it would pay the pending arrears of Rs 6824.5 crore.

It is not merely that GDP growth has not been commensurate with the economy's needs and the people's requirements. It has also led to sectoral distress. Sunrise sectors like information technology and telecom have seen slowdowns and layoffs. Power and civil aviation are new additions to the list.

Power, where Piyush Goyal made his name as an efficient minister, turns out to be in distress and filled with NPAs. As a result, at the time of writing this book, there was a stubborn tug-of-war going on between the finance ministry and the power ministry on changing the definition of NPAs – the power ministry wants the definition to be stretched from 180 days to 365 days of default, and it is reluctant to send cases under the Insolvency and Banking Code (IBC).

Goyal's successor as power minister, R.K. Singh, has exhorted all thermal power units to import coal because there's a coal shortage in the country. Goyal, whose legacy as an efficient power minister is bruised on a daily basis, is also the coal minister and the minister for railways, and was made the acting finance minister when Jaitley was on medical leave. He says there is no shortage of coal. Whoever may be right, the power sector is clearly ailing and the left hand of the government is blissfully unaware of what the right hand is up to.

The biggest casualty has been the agrarian sector where there is untold distress. We will look at it in detail in chapter 4, but we can simply note here that the Modi government, for the first time in four years, raised the minimum support price (MSP) for paddy, wheat, coarse grains, oilseeds, etc., and claims they have raised it by 150 per cent. However, when you average it out over four

years, you see what a great disservice has been done to the Indian farmer.

In fact, large parts of the country – particularly Gujarat, Bihar and Jharkhand – are facing drought-like conditions. Overall, the monsoon rains were 9 per cent below normal.

But the national average figure hides more than it reveals. Hidden in 2018's 9 per cent deficit figure is the fact, for instance, that Manipur had a 59 per cent deficit and Kerala had a 24 per cent surplus. What matters for good agricultural productivity is that the rainfall
should be evenly distributed spatially, not concentrated in one area, leading to flooding. Equally, rainfall
should be well distributed temporally, occurring regularly across the monsoon season. Farmers need rainfall at the time of planting seeds, transplanting, when the crop is growing and before the crop bears fruit. The national average tells us relatively little of the ground realities. The fact is that this year many regions received
their entire quota of rainfall in a relatively short span of time.

And once again, the Indian Meteorological Department (IMD) got it wrong (they predicted 97 per cent normal rains) and a private start-up called Skymet got it right (they predicted 92 per cent normal rains). One wonders sometimes whether the IMD's arm is twisted to get it to give rosy predictions to please the stock market.

Weighed down by poor GDP growth, the government in its desperation to collect money has unleashed tax terrorism. It is milking the RBI and the public sector undertakings, especially LIC, as never before. This is definitely not a sign of robust GDP growth. Then if we look at our savings and investment rate, we see that savings have declined by 4 percentage points, which means we will not be able to sustain a growth rate of even 5 per cent.

No wonder then that Ruchir Sharma, head of emerging markets and global macro at Morgan Stanley Investment Management, wrote in the *Times of India* in February 2015 that the 'dramatic upward revision of the GDP growth rate is a bad joke, smashing India's credibility and making its statistics bureau a laughingstock in global financial circles'.

The saddest aspect of this is the effect on unemployment (we discuss this in detail in chapter 3). The Centre for Monitoring Indian Economy (CMIE)

Consumer Pyramids Household Survey showed there was no net gain in employment in 2017–18.

It is obvious that come the next parliamentary elections, Modi's government will make some tall claims: that India is growing at double digits, that they have provided jobs to more than one crore people per year. Statistics will be manipulated; data will be fudged. That is the tragic aspect of this: a government that resorts to untruth to sustain its claims.

Yet there is only so far that untruth can take you. The RBI's own consumer confidence survey, released in August 2018, showed that no more than half of Indians expected improvement in their incomes, job prospects or economic conditions. The survey, hitting a low point with no sign of bottoming out, showed that in June 2018 only 49.8 per cent felt their income would grow in a year's time; only 49.1 per cent thought their job prospects would improve; and only 48.2 per cent thought that economic conditions would improve. Worse, more than a quarter (27.7 per cent) felt that economic conditions would worsen. This was the feeling in India's six largest metropolitan cities; the feeling is sure to be worse in the countryside that is reeling under agrarian distress. Does this feel like a country growing at breakneck speed?

India has been registering the fastest GDP growth among the world's large economies, but even if the figures were not fudged, as they surely are, 7 per cent is way below India's potential. It is only when India's GDP growth goes into the 8 to 10 per cent range on a sustained basis that we will be able to create enough employment opportunities for our citizens and deal with the problem of poverty. However, with the macro-economic challenges – rising oil prices, rising inflation, rising interest rates, rising deficits, stalled investments and a sinking rupee – things are sure to get a lot tougher for the Modi government as the elections approach.

But then India is the only country in the world that grows at 7.35 per cent, without investment, without industrial growth, without agricultural growth. Just like magic.

3
The Jobs Mirage

- In May 2017, 25 lakh people appeared for a competitive exam for 6000 jobs as Group D employees in the West Bengal government. Candidates travelled from Bihar and Jharkhand for the exam, in which over 400 people were competing for each job.
- In January 2018, 12,453 people applied for the job of peon in the Rajasthan government. There were only eighteen vacancies, which means nearly 700 people vied for each post. The applicants included 129 engineers, twenty-three lawyers, a chartered accountant and 393 postgraduates in the arts stream.
- On 31 March 2018, newspapers reported that over 2.8 crore people had applied to take the online exam for nearly 90,000 jobs: 26,502 posts of train drivers and 62,907 posts of gangmen, switchmen, trackmen, cabinmen, helpers and porters in the Indian Railways. That translates to over 300 people applying online for each job.
- In a month-long process that began on 8 April, the Mumbai Police looked to fill 1137 vacancies for the post of constable. Among those who applied were 167 MBAs, 423 engineers, 543 postgraduates, three bachelors of law and 167 bachelors in business administration.
- 150 engineers, with BTech and MTech degrees, have become constables in the Haryana Police.

There is clearly a jobs crisis in India.

'Where are the jobs?' Road Transport and Highways Minister Nitin Gadkari asked reporters in August 2018, in the midst of a stir by Marathas for job reservation. Labour Minister Bandaru Dattatreya confessed in May 2017 that India was undergoing 'jobless growth'. He said his ministry would compile figures for the last three years, but in June 2018 the Modi government withheld the labour ministry's quarterly employment survey (QES) for 2017–18. The QES had been in place since 2009; officials said it was now likely to be abandoned. BJP president Amit Shah defended abandoning the survey saying its formal employment figures did not include those who were self-employed. Further, there were reports in October 2018 that the government is embarrassed by the draft report of Parliament's Estimates Committee on GDP which uses labour ministry data and so BJP MPs were attempting to derail the report's adoption by the committee.

What is self-employment? Modi, in the course of a television interview in January 2018, asked rhetorically: 'If a man selling pakodas outside the TV office takes home Rs 200 at the end of the day, is that not self-employment?' It became a joke. Had the prime minister instead spoken about a carpenter becoming an entrepreneur, people would have taken him seriously. But the mighty pakoda is such a thing that it only evoked derisive laughter. Also it was a distraction from the more serious issue of unemployment and underemployment. The other jobs he mentioned were of autorickshaw drivers, tea-stall boys and newspaper deliverers – all in the informal sector. These are nobody's idea of an aspirational job.

Then, in July 2018, the prime minister, in his reply to the motion of no-confidence moved in Parliament by the Telugu Desam Party, asserted that employment generation under his government had been robust. He defended his administration's record with remarks that relied on conjecture rather than data.

- 'India produced 17,000 new chartered accountants [CAs] in the fiscal year 2016–17; 5000 of them may have started their own accounting practice. If we assume each accounting practice hired twenty new people, there were one lakh new accounting firm jobs created,' said the prime minister. But according to the Institute of Chartered Accountants of India the total number of CAs in India was 2,82,193 at the end of 2017. A large chunk does not practise in India. An informed guesstimate of the number of new CAs India produces each year is between 4000 and 7000.
- 'India produces 80,000 new doctors, dentists and health care graduates every year. If we assume 60 per cent of these started their own medical practice and employed five new people each, then the medical profession created 2,40,000 jobs,' said the prime minister. But many of the doctors may themselves be unemployed!
- 'India produces 80,000 new lawyers every year. If 60 per cent of them started their own new legal practice and each employed two or three people, the legal profession created two lakh new jobs,' said the prime minister. But if you go to any district or subdivisional court, you will find countless briefless lawyers hanging around waiting for clients. How can briefless lawyers afford to hire more people?

- 'There were 7.6 lakh new commercial vehicles sold in India last year. If we assume 25 per cent of these were replacement vehicles and 75 per cent new vehicles, and each new vehicle employs two people, then the transport sector created 11.4 lakh new informal jobs,' said the prime minister. But in fact the industry expects that replacement vehicles will drive growth in the coming years due to an ageing fleet.
- '25.4 lakh passenger vehicles were sold last year. Let's now assume 20 per cent are for replacement of old vehicles and 80 per cent new. If only 25 per cent of these new vehicles employed one driver, this alone created five lakh new jobs for drivers,' said the prime minister.

The keywords in all these assertions are 'may', 'assume' and 'if'. Instead of hard data, the prime minister relied on hypotheticals in the Lok Sabha. In fact, Mahesh Vyas of the CMIE argues, even if one were to accept these numbers, they represent a shift of workers from one sector to another (from agriculture to transport, for instance) so that the net gains in employment are almost non-existent – and it is new employment which India urgently needs.

But not to worry. The government announced that Modi would, on Independence Day 2018, launch a special magazine on employment and self-employment. The magazine would be edited by the PMO, and it would be available free of cost. The government is desperate in the election year to control the narrative on employment generation in India. As of October 2018, there has been no sign of this magazine.

That is why Modi and his advisers have made much ado about the enrolment figures shown in the Employees' Provident Fund Organisation (EPFO) to substantiate their narrative about job growth. Companies with twenty or more employees are supposed to register
with the EPFO. By March 2018, the EPFO showed
new enrolment over the previous six months of about six lakh new employees per month (these figures were by August scaled down by the EPFO itself to below four lakh per month). For 2017–18, the estimate came to 70 lakh jobs.

Yet I would argue, as many others have, that EPFO figures cannot be the basis for fresh employment data. Let me give a simple example. If I have a business that employs eighteen people, I'm not registered with the EPFO. The

moment I hire two more, I have to register. The fresh employment here was only two persons, but according to EPFO data it is twenty people. That is obviously incorrect.

What the EPFO data shows is the formalization of the economy. With the introduction of goods and services tax (GST) in July 2017, it is now difficult for businesses to escape notice. Thus the rate of formalization of businesses is growing – which is a good thing for the country. One can never oppose this. What I oppose, however, is taking this formalization data and treating it as if it is fresh employment data. And if the formal economy only employs a slice of the workforce – estimates range from 8 per cent of the total workforce to 15 per cent, and even at the most liberal guesstimate that would mean just a bit over seven crore Indians in the formal sector – then the EPFO is going to be generating big numbers of formalization for quite some time to come.

As a result, in the eight months from September 2017 to April 2018, the CSO endorsed the EPFO statistics to say that 41 lakh new jobs were created. The labour bureau's QES, however, showed only two lakh new jobs in the formal sector. No wonder, then, the government has decided to abandon the labour bureau's survey, citing time lags and the need for the survey to move out into the informal sector.

This is after Wire.in reported in February 2018 that in a joint presentation to the PMO, the chief economist of the State Bank of India and a professor of the Indian Institute of Management (Bengaluru) found that 30 to 40 per cent of the EPFO data was 'unclean'.

So what is the true picture of jobs in India? According to the World Bank, India's population in 2016 was 132 crore. The Bank also says the employment rate (the proportion of working age people who are employed) in 2017 came down to 51.9 per cent.

A more reliable figure comes from the CMIE: it says the employment rate averaged 42.9 per cent January–October 2016. Then it fell, thanks to demonetization. In March 2018, it stood at 40 per cent. 'The number of persons employed in 2017–2018 was 406.2 million (40.62 crore). This was 0.1 per cent or (46 lakh) lower than the 406.7 million employed in 2016–2017,' its report says. In statistical terms, employment has stagnated, while there are one crore Indians who reach an employable age every year.

How did we deal with the issue of employment generation in Vajpayee's government? Vajpayee had somewhere promised that we would help generate one crore new jobs every year.

There are two ways of generating employment. One is through starting direct employment support schemes like the MNREGA, which was introduced by the UPA government to provide 100 days of paid wage labour per year in rural areas. In my view, MNREGA is an enormous waste of money, and I once told the Lok Sabha that with MNREGA the UPA had set up factories of corruption in every panchayat in the country.

It is a faulty scheme, one of whose conditions is that the labour component of the programme should be at least 60 per cent and only 40 per cent of the budget can be spent on material. This means that the majority of work undertaken under this programme has to be of earthwork and manual. For instance, if you construct a paved road, your labour cost may be only 30 per cent and the material cost might be 70 per cent. So if MNREGA stipulates a 60 per cent labour content, you are basically building unpaved roads, among other things. Unpaved roads mean largely earthwork, which is not durable and which has scope for dramatic corruption.

Each Lok Sabha member is the chairperson of the district vigilance and monitoring committee which is charged with the responsibility of reviewing the development work in the district. Meetings are supposed to be held every quarter. I gave it my full attention when I was a member of the Lok Sabha. When I looked at the material supplied to me by the district administration in the month of June 2009, I found that a whole lot of MNREGA schemes had been sanctioned that month. They all involved earthwork, like building unpaved roads, etc. And each scheme had to be completed within three months – during July, August and September, which comprise the rainy season.

I called up the deputy development commissioner (DDC) of the district and told him that the first lesson we were taught while training for the Indian Administrative Service (IAS) at Mussoorie was that earthwork should be avoided during the monsoon season. It does not take rocket science to understand that whatever earthwork you do will get washed away by the rains. It should therefore be done either after or before the rains. So what was the meaning of ordering all this work now, during these three rainy months, I asked

the DDC.

The DDC told me that the main purpose of MNREGA was to provide employment and therefore even these kutcha works had to be done during the rains.

Surprised, I rang up the concerned joint secretary in the rural development ministry. I asked her, how could earthwork be allotted under MNREGA during the rainy season? I told her what the DDC had told me. 'He's wrong,' she said; along with employment generation, MNREGA's objective was also to create durable assets in the rural areas. I wrote letters here and there but nothing came of it.

After that I noticed the horrifying corruption that prevailed in MNREGA. For example, if a pond existed in a particular rural locality there would be a separate scheme for deepening the pond, a separate scheme for putting hedges around it, a third scheme for beautifying it. In total there would be three to five schemes around one existing pond, totalling around Rs 1 crore for a single already existing pond!

That's not all – an influential local politician was behind this particular pond scheme, and one of the job card holders in the scheme was his domestic help. I complained to all and sundry but, again, nothing came of it.

Another method of corruption I found was that instead of having labour doing the work, people would have a machine do the work and then falsify the ledgers. I even wrote to the Governor about this scam when Jharkhand was under President's rule. Once again nothing happened. There was a conspiracy of silence.

I kept struggling against the corruption under MNREGA, against the lack of creation of durable assets and against the waste of money. I pointed out that during Vajpayee's government, we had started the Sampurna Gramin Rozgar Yojana whose focus was more on creating durable assets. Compared to that, MNREGA is a huge waste of money.

When Modi became prime minister, he criticized MNREGA in the Lok Sabha, saying it is a standing testimony to the previous government's folly, and I was happy because I thought he would change it. But he did nothing. It continues, and he has raised the budgetary allocation to Rs 55,000 crore. Compare that to what

P. Chidambaram announced in the 2008–09 budget: Rs 16,000 crore. Indeed, the government doesn't seem to think as poorly of MNREGA any more, with Union minister Rao Inderjit Singh telling Parliament, 'It helps to reduce poverty.' That's not true, though. Most of it is a waste; nothing has changed.

The other method of employment generation is to impart momentum to the economy. You take up projects that are by nature employment-intensive. What we did in the Vajpayee government, for instance, was to start the national highway project or the rural roads project. We gave money for state highways.

But a large part of our employment generation efforts was through real estate construction. There was tremendous progress in housing especially and real estate generally, which generated a lot of employment. You could see this when you went to a city where the boom was taking place, and looked at the labour force employed. Construction is basically done by surplus agricultural labour. So in Delhi you will see women at construction sites, from rural Delhi and even Rajasthan. Skilled work like plumbing is dominated by migrants from Odisha. Masonry and carpentry are dominated by migrants from Bihar and Uttar Pradesh.

Subcontractors are often from Bihar, who have their own outfits for skilled works. A few such people came to my house one day and when I asked them where they worked they told me they worked in Noida, but also in Delhi and Gurgaon. They said they did plastering work. I was surprised that plastering had so much scope, but they said that large buildings gave them ample work to do. This brought home to me the scale of employment that construction alone generated.

Similarly, the telecom industry underwent an unprecedented expansion during Vajpayee's time, and provided a lot of employment, as did the railways. We gave Railway Minister Nitish Kumar Rs 17,000 crore for improving existing tracks, the signalling system, existing bridges, etc., all of which had not been upgraded since the British left India. The money was spread over four years and I insisted that the railways should raise a certain amount, through enhancement in passenger fares and freight charges. Nitish agreed. It not only generated employment to carry out these improvements, but the UPA's railways minister, Lalu Prasad, also benefited: for instance, before improvement a bridge could only carry 60 per cent of its load, but after improvement it could carry 90–95 per

cent, so the railways' business increased when he was in the saddle. That was when the going was good.

When asked about the current jobs crisis, Modi told a magazine in July 2018 that 'more than a lack of jobs, the issue is the lack of data on jobs'. His complaint was that this lack of data enabled his political opponents to paint a grim picture of employment in the country. He also claimed that there were three lakh village-level entrepreneurs, a claim that has not been backed up by any data.

What is true is that the employment figures come with a lag of three years or so. Vajpayee's government also used to face the Opposition's taunts. They asked us where the employment was. Our reply was that all the work that was going on – in roads, construction, telecom, etc. – certainly wasn't happening by itself, someone was doing it.

Later on, however, we got validation when the figures came out that during the five years of the Vajpayee government, 1999–2004, we created 60 million jobs, which was six crore, or more than a crore jobs per year. That record has not been surpassed either by the UPA regime or by Modi's regime – simply because the quantum of activity that was happening at the time is not happening now. Of course, the Modi government axed its own foot with demonetization in November 2016 which hit construction the hardest. Not only did construction slow down, but MNREGA went up in the states which sent migrant labour for construction work, like Bihar; the implication was that with work drying up in construction, this labour returned to the villages and sought wage labour under MNREGA.

Incidentally, construction has been further hit by action under the IBC, in which a lot of construction firms have been caught. I met a builder a few months back and asked him how things were with small-time builders, and he said, 'All of them are in jail.' Most of them were small-time contractors who had other people's money, but there were some big fish, too. This is certainly not to say that they shouldn't be in jail if they have cheated people but only to point out that the sector is in the doldrums.

The situation now is that if you travel from Noida to Greater Noida, all along the expressway you will see these modern ruins standing testimony to the Modi government's policies. Instead of generating employment, the government has subjected Indians to de-employment.

Demonetization led to de-employment not just in construction, but also in small industries. Take for instance Tiruppur, the textile centre in Tamil Nadu, which was hit with a double whammy of demonetization and then the sloppy introduction of GST. It became virtually a ghost town in 2017, with many units shutting down since their costs rose 10 to 15 per cent.

There has been de-employment in each and every place that is dominated by the unorganized or informal sector. This has not been captured in figures; some say 20 million were de-employed. The CMIE says 12.7 million jobs were destroyed in the month after demonetization. There is a great discrepancy between the health of the corporate sector in India and the unorganized sector. The corporate sector was not so badly hit by demonetization; but small and medium enterprises, and those that were virtually hand-to-mouth, were destroyed.

An important point in all this is the disturbing imbalance that has developed in our economy. According to the World Bank, the contribution of agriculture, forestry and fisheries to the GDP has declined to 15.5 per cent in 2017 – but it supports a population of around 55 per cent. How can 15 per cent of the GDP support 55 per cent of the population?

This has to be addressed because it fuels the rural–urban drift that puts pressure on the cities. For instance, a toilet costs three times as much to construct in a city than it does in a village. Therefore your infrastructure costs can be contained if the rural–urban drift can be contained – but the only way to do so is to create employment opportunities in the villages of India. This is axiomatic.

China did this by implementing its theory of the pole industry: they established an industry in the countryside so that the ancillaries could come up in the villages surrounding it. Where the industry was established itself became a township, and the villages became small towns and were easier to improve. If you visit China, you don't see our types of villages, but rather urban villages.

Now there is talk that the Delhi–Lucknow road be turned into a defence corridor, that even small aircraft can land there. The talk of turning that into an industrial corridor started with the Vajpayee government and it was to be set up with Japanese assistance. But the problem in our country is that everything takes an enormous amount of time and there were the usual problems with land

acquisition. Thus, the defence corridor, which would have been India's version of a pole industry, hasn't yet taken off.

Another manner of generating employment in rural areas is to develop agriculture and allied industries as small-scale enterprises. The first requirement in rural areas is roads so all villages and tolas should be connected by all-weather roads. Second, they need water for irrigation. Third, one has to encourage allied agrarian activity like poultry farming, goatery, piggery, fisheries, beekeeping, etc. The possibilities are endless. The government will have to ensure that the marketing end is taken care of through proper institutional arrangements.

Then we have the Khadi and Village Industries Board (KVIB) which can go into rural areas, impart skills and help them set up units, like carpet-making, dari-making, weaving, honey-collecting, carpentry, soap-making. KVIB has been in existence for a long time, but it has never been motivated enough to go out and take up such work on a large enough scale.

We should encourage processing plants in rural areas, we should encourage pickling enterprises and fruit packaging. This is especially important for products like tomatoes, which are highly perishable. Again, we generate employment while minimizing agricultural waste.

Of course, this is not something you can do sitting in Delhi; the state governments play a critical role. The progress of a state in India is directly in proportion to the efficiency and clout of its chief minister. If the chief minister wants, then things will happen, be it infrastructure, roads, pole industries or small-scale enterprises. And of course, the chief minister will have to involve the local bodies.

It is true the world over that employment generation comes mainly from manufacturing. Manufacturing means investment, be it foreign or local. There is today a disconnect between investment and growth in our country – thus while the government claims high growth, a pick-up in private sector investment is still a far cry. In any case, when investment comes, it will have to be in the field of manufacturing, and since India is behind developed countries in infrastructure, that ought to be the first target for investment. And the most important infrastructure would be rural infrastructure as mentioned above: rural roads, electrification, water supply, irrigation, etc. Each village should be asked to draw up a list of ten things it requires, and then that should be provided for.

Self-employment, which both Modi and Amit Shah claim to have discovered for the first time in India, is an alternative to job employment and has been recognized as such from the very beginning. Ever since India began planning its economy, the country has given importance to self-employment. One can see it in the erstwhile Planning Commission documents. It was Prime Minister P.V. Narasimha Rao who introduced a formal scheme for self-employment in 1993 called the Pradhan Mantri Rozgar Yojana.

Under the programme an entrepreneurial development cell was set up in every district industries office which was meant to develop new entrepreneurs. If a candidate landed up at the office, his background was checked, then he was helped in preparing a project report, and then he was linked with a bank. For instance, if a youngster wanted to set up a soap-manufacturing unit, then the cell would check to see if he had any expertise in the matter and then help him prepare a project report. The district industries officer would take him to the local bank, and on his recommendation the bank would give him a loan. Then when the unit is up and running, the entrepreneur begins repaying the loan.

Under the Vajpayee government, the then Planning Commission deputy chairman Jaswant Singh and I decided to divide the programme into two: a Pradhan Mantri Rozgar Yojana for jobs and a Pradhan Mantri Swarozgar Yojana for small entrepreneurs. Now the Modi government is linking the second scheme to their Micro Units Development and Refinance Agency (Mudra) loans and claiming that every loan granted under Mudra creates a job or more.

Modi has said that under Mudra, from 2015 to 2018, 12.27 crore loans have been given, out of which 3.49 crore were to new entrepreneurs. But this is a most misleading figure.

For one, the applicants to Mudra have not been verified and there have been minimal background checks. Reports have appeared of Mudra loans being misused to build residences or for marriage expenses. There is no proper survey of how many loans were actually used to start a small enterprise. To say that they created three crore new entrepreneurs is fallacious.

What has failed in a similarly spectacular manner is the Modi government's ambitious skill development initiatives that were launched with great fanfare. These included the National Skill Development Mission, the National Policy for Skill Development and Entrepreneurship 2015, the Pradhan Mantri Kaushal

Vikas Yojana and the Skill Loan Scheme. The government claimed they would train 40 crore people in different skills by 2022. But the then labour minister Dattatreya has himself said that 'our country only has 2 per cent technical workforce against the requirement which is huge'. The government's skill development programmes were supposed to be a step in filling that chasm. So what happened?

The truth of the matter is that till July 2018, more than four years into the Modi government's tenure, the number of youngsters trained had not even touched two crore – against a target of 40 crore. This was reported by the television journalist Punya Prasun Bajpai, who, for his troubles, was forced out of his television channel; his own testimony is that his increasingly popular *Masterstroke* show had upset the Modi government, which reportedly has 200 people monitoring all media, including television channels in its tireless efforts at image management.

That will not stop the prime minister and his diehard fans from shouting from the rooftops that they have solved the jobs crisis. They realize that on employment they are on the defensive, and in such a situation it's best to go on the offensive.

Rumour has it that at some point soon they will again change the base year for calculating the GDP; one hears that the department of statistics is working on it. It will be part of their offensive: to say India is growing in double digits, unemployment has vanished, black money has vanished, and all is well. Even though to the average Indian, all is not well.

4
Jai Kisan? Hey Bhagwan!

Though P. Chidambaram admitted that the Vajpayee government had left the economy in a healthy condition, the same could not be said after the UPA's departure ten years later. The country witnessed widespread farmer distress and a plunging employment generation. With Modi's promise of providing 'good governance', one expected his government to hit the ground running. Yet it could not. Industrial production suffered during his years, and while services met the challenge for two years or so, even they hit the doldrums eventually. However, the worst hit was agriculture.

The Modi government promised to double farmers' income by 2022. But during his first four years, farmers' income actually declined by 1.38 per cent. On top of that, the Ashok Dalwai committee on doubling farmers' income, under the Ministry of Agriculture, said that in order to do so agriculture has to grow at 10.4 per cent per annum. For that, India has to achieve a 20 per cent GDP growth! Not even God can achieve that in the foreseeable future, much less Modi.

During those four years, according to the CSO, agricultural growth was an anaemic 1.9 per cent, and this is after the GDP numbers were reconfigured (by changing the base year) to register a growth rate of 7.2 per cent over the same period. This 1.9 per cent is in fact half of the agricultural growth rate that the UPA registered during its first four years. The UPA comes up top yet again compared to the Modi government.

Agrarian distress has led to such a spate of farmer suicides that the Modi government stopped printing the numbers of farmer suicides from February 2017 onward.

The Modi government had promised to give farmers an MSP equal to cost of cultivation plus 50 per cent.The government gives the MSP on twenty-two crops (for sugar cane it is FRP – fair and remunerative price) during the two sowing seasons: rabi (winter) and kharif (monsoon). This is intended to protect the farmer from crashing prices during bumper crop seasons. The twenty-two crops include seven cereals, five pulses and eight oilseeds. The government, however, does not procure all crops, mostly just rice, wheat and coarse grains for its public distribution system. But if there is no procurement the MSP is just a meaningless number.

While the growth rate declined, the government was squeamish about raising support prices – for fear of inflation – and the result was the farmer would not get adequate prices even for crops where an MSP was declared and procurement was taking place. The situation is now such that the market prices are far below the MSP. The government is not in a position to procure every crop for which it fixes an MSP – so, as mentioned, in such cases the MSP has no meaning. What's more, not all states benefit from the MSP – Punjab, Haryana, Andhra Pradesh and lately the eastern states benefit the most because that's where the bulk of procurement takes place. If you are a farmer in a state where procurement isn't taking place, the MSP, again, has no meaning for you.

This is the chief reason for the agrarian distress that we have noticed in the past two years. From 2015 less than 10 per cent of farmers have been able to sell their produce at the MSP, according to the Dalwai committee's report.

Farmers have resorted to throwing tomatoes (there is no MSP for them anyway) on the roads – it is highly perishable, and transporting it back and forth during a time of crashing prices makes it uneconomical – in Chhattisgarh, Karnataka, Andhra Pradesh, Telangana, Maharashtra and Madhya Pradesh. Dals have been selling at 15 to 40 per cent below the MSP.

Let's not forget the diversity of Indian agriculture. The primary stakeholder in agriculture, besides the Indian consumer, are India's 14.43 crore farmers. There are the large landholders, the medium landholders, the small and marginal landholders and then the landless labour. The large farmers will produce a marketable surplus; the small farmers will not. As far as the MSP is concerned, its impact is limited to farmers producing a marketable surplus and generally cash crops. So the MSP as a tool is again meaningless to farmers who do not produce a marketable surplus.

When I stood with the farmers of Akola in the Vidarbha region of Maharashtra in December 2017, in protest against government apathy towards cotton and soya bean cultivators, the farmers explained their predicament. Say the produce from one acre is five quintals, and say the crop has an MSP. Even if a state agency actually starts procurement it will buy only one quintal. That purchase is too meagre to help the farmer. If he goes to the market to sell it, the prices are depressed, and he's forced to distress-sell four quintals. The state government rewarded my effort by first arresting me and then concluding a

written and signed agreement on which it has not acted upon despite reminders and a lapse of almost a year.

The farmer also lacks staying power to avoid distress sales. Once when I was visiting Ranchi, I was travelling in the morning and I passed by a large village haat. It had produce like cauliflower and potato. The farmers who were arriving there with their produce had traders trailing them even before they reached the mandi, each asking them to sell the goods to him. The traders were taking advantage of the farmers' compulsion, which came mainly from not having storage.

No wonder then that on 10 January 2018, the Modi government summoned about a hundred economists to help it out of the mess it is in, in agriculture, the rural economy and unemployment. It seems to have no idea what to do; its own Dalwai committee report calls for investing Rs 6.4 lakh crore to double farmers' income by 2022. The prime minister, speaking to farmers via video-conferencing in June 2018, said that during his five years the agricultural sector had been allocated Rs 2.12 lakh crore. While he highlighted how this was double what UPA 2 had allocated during its five years, he neglected to mention that it was marginally less than a third of what his own government had been advised to do by the Dalwai committee to meet its target.

The Modi government had promised crop insurance but, as detailed elsewhere in this book, this benefited the insurance companies, not the farmers. It promised welfare for farmers aged sixty and above, the poor farmers, the landless labour, but this was a promise also not kept.

In my view, the key to India achieving double-digit growth lies in the growth of agriculture. As mentioned earlier, though it contributes just 15 per cent of our GDP, it supports 55 per cent of our population and it also provides the foundation for the other sectors. If your agricultural sector grows, then your industrial sector will grow. And if your industrial sector grows, then your services sector will grow. Grow the first, and watch its effect on the second, then the third. Agriculture is critical to high growth.

Frankly, any prime minister who is serious about improving the agricultural sector will have to address the issue of agricultural production and trade policy will play a big role in this. The agrarian economist Ashok Gulati of the Indian Council for Research on International Economic Relations (ICRIER) feels that

though many refer to agriculture as India's largest private enterprise, it is actually the most regulated private enterprise. This is because there is a constant tug-of-war and tension between doing what's right for the farmer and ensuring that consumers do not have to pay too high a price for food. The farmers gain if prices are high – but then ordinary consumers lose. Ordinary consumers gain if prices are low – but then farmers lose.

Consider the amount of regulation of agricultural trade: a farmer can't move his produce between districts and he can't move it between states. He has to sell it at designated mandis and nowhere else. This is on account of the Agricultural Produce Marketing Committee (APMC) laws that each state has. Experts like Ashok Gulati call the APMC 'broken', and say that it is monopolistic and rent-seeking. What about exports? Again, a galaxy of restrictions come into play.

Price discovery is an issue. The farmer does not know what the price of his crop will be when it is ready three months or six months down the line; he certainly doesn't know what the price is in another part of the country. During Vajpayee's government we had introduced forward trading (that is, an agreement between a buyer and a seller to buy a certain quantity of a product at a certain price at some specified date in the future) in agricultural produce, so that the farmer would be able to better discover the price for his crop. We wanted to give the farmer the capacity to take advantage of prices anywhere in the country – which implied the freedom to transport his produce, the freedom to market it anywhere. We wanted a free – and common – market in agriculture for India.

However, during the UPA regime, prices began to rise and many, including Sonia Gandhi, blamed it on forward trading. They obviously did not comprehend the concept. Political pressure led to restrictions and on some produce forward trading was abolished altogether. Again, please note the essential tug-of-war between 'consumer welfare' and farmer welfare. But why shouldn't farmers be allowed to benefit from the free market?

Despite the BJP 2014 election manifesto speaking of evolving a national agricultural market (NAM) to give farmers the best price while protecting consumers from high prices, the Modi government has done little to achieve that goal. It launched the NAM scheme in April 2016, but it was budgeted with peanuts, and has not moved an inch. If a NAM is to be achieved, the government has to encourage the states to suitably amend their APMC acts,

which, given the GST implementation experience, does not sound easy.

If India were to become a free market for agricultural produce, exports would necessarily be involved. Trade policy in agriculture has been at best a whimsy. Jute has been a traditional export, as have tea, rubber, spices and coffee. But for the rest, policy is capricious. If sugar prices rise, imports are allowed; if sugar prices drop, exports are allowed. Sometimes we permit onion export; sometimes we forbid it. Sometimes we permit the import of wheat, sometimes not.

Through these unpredictable import and export restrictions, our agriculture has not been allowed to be linked to the global markets. Some would say agricultural export has been discouraged systemically by vested interests: exports dropped from Rs 2.8 lakh crore in 2013–14 to Rs 2 lakh crore in 2016–17. As a result, Indian farmers are unable to cultivate foreign markets. If they do go out and sell, they only fetch distress sale prices. In the global markets, prices are generally higher than they are in India. We are unable to synchronize the two due to our export restrictions. Again, why shouldn't farmers be allowed the benefits of the export market?

The most fundamental issue in agriculture is the economic return to the farmer. The eminent agricultural scientist M.S. Swaminathan has said that the farmer should get whatever he has spent, plus 50 per cent. The Commission for Agricultural Costs and Prices (CACP) gives three definitions: A2, which covers all costs such as seeds, fertilizer, hired labour, irrigation, etc.; A2+FL, which covers costs plus family labour; and C2 is costs plus family labour plus whatever capital the land might have earned.

But whatever formula we may decide, getting it to the farmer is problematic because the marketing of agricultural produce, as we have seen, is so complicated. There is a private sector, small traders, mandis, large traders, and even the state which buys through the central and state governments. Madhya Pradesh introduced a Bhavantar Bhugtan Yojana in September 2017, which pays the difference between what a farmer sold his produce for and the MSP, but in February 2018 the state government launched an investigation into what it called one lakh 'suspicious' transactions.

And then, what about those farmers who do not produce a marketable surplus? How do we compensate them? He produces for his own consumption, and it is hardly rewarding.

Then, of course, most governments are conservative about fixing MSP because it is a subsidy burden. The government has to pay for the differential between the price at which it sells produce at fair price shops and the MSP. (The government on the one hand buys wheat and rice at MSP and on the other supplies it through fair price shops.) It gets tied in knots. It is in a constant struggle to break even, and so the food subsidy bill goes up exponentially.

And an ever-increasing MSP is inflationary, which hurts consumer interests. This is why the Modi government did not raise the MSP in any significant way for four years because the prime minister knows that all strongman leaders have traditionally been toppled from power by inflation – though in his last year he had no choice but to raise it in the face of agrarian unrest. And then, ironically, the government tooted its horn about raising it 150 per cent, which doesn't sound so impressive if you average it out over five years. In any case, raising the MSP while keeping the price of foodgrain low in the public distribution system puts a burden that the government must absorb.

My suggestion is that instead of all this regulation and meta-regulation, let it be a free market. Completely free in terms of movement and time of sale, etc. Backed by storage capacity for all kinds of produce: rice, wheat, other grains, onion and even potato. Tomato, the most highly perishable, may not be amenable to even cold storage. For that, there ought to be food processing industries, as mentioned in chapter 3.

Telangana has fixed the best model we have: its input assistance scheme that was announced in January 2018, mainly for the benefit of 'ryot' farmers (peasant or tenant farmer). Under this, each farmer gets Rs 4000 per acre for each rabi and kharif crop. The Telangana government has specifically aimed at ending farmers' dependence on moneylenders. Since the programme covers nearly 1.5 crore acres, the government bill comes to Rs 5685 crore. The farmer is not required to register his land or crop – unlike under the Madhya Pradesh Bhavantar programme which has had problems, as we saw. The Telangana model is crop-neutral and more transparent. Moreover, it does not distort the agricultural market.

I strongly recommend the adoption of this model on a nationwide scale. If implemented fully it may cost Rs 2 lakh crore. This is a direct subsidy to the farmer, and has desirable economic implications. One, the market will be ruled

by market forces, because the farmer will get the market price, whatever it may be, while he also gets this relief from the government. The consumer will not face artificially high prices because the market determines the correct price. This is a great advantage.

On the other hand, it puts a burden on the fiscal deficit and it will be a revenue deficit because it is a subsidy; so other deleterious effects come into play. How much would that be? The 2018–19 budget estimated total expenditure would be Rs 24.42 lakh crore. The direct subsidy to the farmers may cost about Rs 2 lakh crore. But we can cut back on some other subsidies, which will lessen the burden somewhat. The Centre and the states may share the burden in the ratio of 70:30.

Over nine years till March 2017, governments waived Rs 90,000 crore of loans to farmers. In 2017 Uttar Pradesh, Punjab and Maharashtra waived Rs 77,000 crore; some of the other state governments face demands to waive what would total an additional Rs 2.5 lakh crore – and since many of those states face assembly elections in 2018–19, we can assume that much of these demands will be granted. So if we look at ten years of loan waivers, it is likely to work out to an average of about Rs 40,000 crore per year. This means that our effective Telangana model cost is reduced from Rs 2 lakh crore to Rs 1.6 lakh crore per year. This is a cost to the Centre and the states. But this payment will be offset by the huge positives for both farmers and the consumer.

Yet the Modi government has done next to nothing. Agrarian distress has gone up; farmers have committed suicide; agricultural income has declined; and market prices in almost every commodity are lower than the MSP, causing losses to the farmer.

To add to this, the demonetization of high-value currency on 8 November 2016 – a theatrical move that achieved none of the aims set out publicly, forcing the prime minister to avoid speaking about it on Independence Day 2018 – wreaked havoc on India's agricultural markets. Farmers had just bounced back from two years of drought when suddenly they saw their supply chains cruelly cut. The shortage of cash led to a fall in demand and prices, leading to distress sales and suicides.

We cannot forget the usurious practices that farmers are subject to by moneylenders. I once said in a budget speech that the farmers' fundamental

needs were paisa aur paani (money and water). This is why I came out with the kisan credit card scheme nineteen years ago. And if the farmer gets water on time, he is king. So I started the watershed development programme in mission mode. I cannot claim that the scheme was a roaring success like some other schemes started by me. While I will touch on these matters again in chapter 5, when I talk of the Pradhan Mantri Krishi Sinchai Yojana (irrigation programme) and the Pradhan Mantri Fasal Bima Yojana (crop insurance programme), let me mention a couple of things about water here.

Many areas in the country are one-crop areas, like my home state, Jharkhand, which produces only rice. We do not produce wheat, like people in next-door Bihar. But if you make irrigation easily available, the area will turn into a multi-crop area and the economics of farming in that area will change dramatically.

For instance, in Jharkhand, I know of a few villages where in winter you find fields of wheat, and when I asked them how they did it they said they worked together and formed a water (paani) panchayat: they dug a bore well in the nearby river and drew the water; they manage it themselves, taking it via channels to each field. Each farmer pays for the water he gets, so the costs are recovered. The government is not involved. The area is now multi-crop.

Another experiment happened when General S.K. Sinha was the Assam Governor. He invited me when I was finance minister to Guwahati to talk agriculture. I took along the chairman of the National Bank for Agriculture and Rural Development (NABARD) and representatives of other agencies. There is great scope in Assam for shallow tube wells. As in north Bihar, Assam has a shallow level of topsoil, so he suggested we dig one lakh shallow tube wells. I discussed it at a seminar in Guwahati and put all my agencies to work with the state government, and within a year we had dug one lakh shallow tube wells. The Assam farmer got water, so he began to produce rice, and suddenly Assam became surplus in rice, to the extent they demanded that the Food Corporation of India (FCI) start procurement there.

A larger initiative during Vajpayee's time was the plan for linking of rivers. Wherever it is environmentally feasible, it should happen. The Vajpayee government's plan was to connect fourteen Himalayan rivers and sixteen peninsular rivers by constructing thirty canals and 3000 reservoirs to irrigate 8.7 crore hectares of land and generate 34 gigawatt (GW) of energy.

Yet under the Modi government, there has been no work on these schemes in the last four years. The first water resources minister, Uma Bharti, showed interest in the linking of the Ken and Betwa rivers of Uttar Pradesh and Madhya Pradesh, and this project was evaluated at Rs 9393 crore. But only Rs 100 crore was allocated in 2014–15, and the project was stuck in forest and environmental clearances.

As mentioned earlier, the monsoon of 2018 was 9 per cent below normal. The Ministry of Agriculture's data showed that kharif acreage has declined. This has affected Bihar, Uttar Pradesh, Jharkhand, Odisha and other states, which faced almost drought-like conditions because of the uneven monsoon. As mentioned before, in agriculture average rainfall is not as important as its timing: it should happen when you've planted your paddy seed. Then when you transplant. Because if the seedlings die in the field, the yield drops to 50 per cent if the rain is delayed, and some fields remain uncultivated.

It is clear that agriculture is the backbone of the Indian economy, and it must be taken care of if you want to grow the economy as a whole.

And the ideas to put agriculture on a war footing, as shown in this chapter, are all there: water, credit, storage, market access, deregulation. Underpinning it all conceptually is the urgency to give our agriculture a free market. I personally would start with implementing the Telangana model. It would avoid inflation and would spare our farmers financial uncertainty. It is an additional budgetary burden, but its time has come.

5
Pradhan Mantri Attention Deficit Disorder Yojana

In April 2015 Congress president Rahul Gandhi stood in Parliament and accused Modi of running a 'suit-boot ki sarkar'. It was not just a reference to Modi's monogrammed suit that he wore for the visiting US President Barack Obama earlier that year, but in general to Modi's own version of crony capitalism, which we will look at in more detail in the chapter. Modi was stung by this. It shook him so deeply that he went on a welfare scheme announcement spree – not that his government wasn't launching any before, but they were more in the mould of economy-building announcements. Now, he woke up and intended to show his concern for India's weak and vulnerable.

According to the website pradhanmantriyojana.co.in, by Modi's fourth anniversary he had announced a grand total of ninety-seven 'pradhan mantri yojanas'. This did not include myriad other plans, projects and programmes of the government, such as the 'Restructured National Bamboo Mission', etc. The sheer number indicates that this government's mantra is quantity, not quality.

Also, many of these are merely repackaged programmes. In Parliament, Modi was lampooned as a 'name-changer' and not a 'game-changer'. For instance, it was noted that the UPA government had in 2008 started the Jan Aushadi scheme which Modi relaunched as the Pradhan Mantri Jan Aushadi Yojana, aimed at providing pharmaceutical drugs to the weaker sections at affordable prices.

Similarly, in 2008–09 the UPA declared 24 January as National Girl Day, and consolidated various programmes such as the Sarva Shiksha Abhiyan, for the education of the girl child, and schemes for improving child sex ratios and reducing school dropout rates. The prime minister's Beti Bachao Beti Padhao Yojana launched in January 2015 was just a repackaging of the same. If earlier it was only in 161 districts, it had now increased to 600 districts; but as one MP pointed out, since it was allocated
Rs 200 crore earlier, it should have been allocated Rs 800 crore now. In the 2018–19 budget the allocation was just
Rs 280 crore.

Over a dozen UPA programmes were similarly renamed and taken ownership of by Modi – one such is the Pradhan Mantri Jan Dhan Yojana (PMJDY), which gained infamy after the November 2016 demonetization. But more on

that later. Why only programmes, Modi has renamed entire policies, like the 'Look East' policy of previous governments which he recast as India's 'Act East' policy, with no discernible break from policy continuity and no real justification for a change in name.

One programme that Modi did not bother renaming was MNREGA, even though he mocked it in Parliament. This programme was launched by the UPA government in 2005, and it guarantees 100 days of wage labour to each rural household without any other income. On 27 February 2015 – nine months into his term – the prime minister told Parliament, during his reply to the discussion on the motion of thanks to the President's address: 'MNREGA should not be shut down because it is a living monument to [the Congress party's] failures. Sixty years after independence you still have to send people to dig holes in the ground . . . I will tell the world you are digging these holes for these sins.'

Indeed, Modi found it essential and kept it running. In 2016–17 he gave it Rs 47,000 crore. In 2017–18 he gave it Rs 48,000 crore. In 2018–19 it was given Rs 55,000 crore. Whereas in the 2008–09 budget the UPA – which he had derided for this very programme – had announced Rs 16,000 crore (the year's total later went up to Rs 30,000 crore, approximately). On top of that, MNREGA has also been used by the Modi government to justify the welfare need for the biometric Aadhaar card of the Unique Identity Authority of India.

The ninety-seven yojanas announced by Modi during his first four years are diverse, ranging from the Pradhan Mantri Surakshit Matritva Yojana (Prime Minister's Safe Motherhood Scheme) launched in November 2016, which guarantees free antenatal services to pregnant women from the economically weaker sections, to the Pradhan Mantri Rozgar Protsahan Yojana (Prime Minister's Employment Encouragement Scheme), launched in August 2016, which aims to offer social security to workers in the informal sector and create better job opportunities. The programmes sound sincere and ambitious, but they are fundamentally flawed.

This chapter looks at some of Modi's flagship programmes to illustrate these flaws: the multiplicity of schemes; the paucity of funds; the varying financing patterns; the lack of monitoring; reluctance of states to make progress in those schemes; incapacity of states to make financial contributions; and the bad design of schemes, which makes impossible any nuts-and-bolts follow-up after the

grand announcement.

That money is scarce after the announcement might be for two reasons. One, to keep the fiscal deficit low, the finance ministry plays difficult and does not release funds. This is simply a master example of red-tapism. A state government which wants to implement a scheme will send its requirement to the line ministry (the ministry that deals with the particular subject; for instance, for electrifying villages, it will go to the power ministry). The line ministry will recommend it and pass it along to the finance ministry for clearance. But the finance ministry will not clear it.

Its excuse? The 'utilization certificate', or UC. Several state governments, particularly the laggards, fail to send UCs. If the UC doesn't come, the finance ministry doesn't release funds. And even after the UC finally arrives, then to control the fiscal deficit, the finance ministry will reduce the budgetary allocation – or won't even release it in the budget. And if the states don't get the money, then work under that particular programme halts.

An example of this is the scholarships for SC/Scheduled Tribe (ST) students. The government in February 2018 admitted that about Rs 7500 crore of scholarships for these students were pending, and the finance minister assured Parliament that much of it would be released before 2019. This did not reassure students who could not sit for exams before paying dues. Yet these scholarships are held up because of the UCs.

The other bottleneck for a programme's implementation is that it is standardized across India, even though different states may have different requirements. For instance, take the Smart Cities Mission, announced with great fanfare. To make a particular city a smart city would require a prescribed number of projects – but these are never prescribed in the programme. Whatever projects are required to make Kota a smart city are not the same as what Patna needs. Patna sits along the mighty Ganga, while Kota is in the desert. How can the two cities' needs be similar? Patna will have to prepare its own scheme. This leads to a whole mountain of red tape and the ever-elusive clearances.

It is impractical to fund ninety-seven schemes in ninety-seven different ways. Some would be 80:20 (80 per cent by the Centre, 20 per cent by the state), some 60:40, some 50:50. There's no fixed pattern of government financing. Ideally, the Government of India should not run so many schemes.

As the finance committee of Parliament observed in a report when I was its chairman, the government should run only ten programmes, which should be its flagship schemes, financed 100 per cent by the Government of India, like the Gram Sadak Yojana the Vajpayee government launched. We said the Centre would finance it 100 per cent, but also monitor it 100 per cent. Otherwise, there are innumerable projects that no one monitors.

It is clear that Modi's good governance is nowhere to be seen because it is conceptually flawed. Good governance also means effective governance.

And if the government has no money – meaning that if most of its budget is spent on revenue expenditure (on day-to-day costs, salaries, etc.) rather than on capital expenditure (long-term expenses, major projects) – then where would the funding for these schemes come from? That's why though Modi announces schemes by the dozen, practically speaking, these announcements are meaningless.

Pradhan Mantri Jan Dhan Yojana

The PMJDY is an avatar of the Basic Savings Bank Deposit Account (BSBDA) launched by the UPA. The BSBDA was a no-minimum-balance service with all the facilities of the usual retail bank account; it came with an ATM card, though withdrawals were limited. It was meant to open up banking services to the poor. The PMJDY was launched in August 2014 with the same aims and services; the new feature added was a Rs 1 lakh accident insurance cover and a Rs 30,000 life insurance cover. The other difference was that while the BSBDA covered villages with a population over 2000, the PMJDY covered all areas.

In November 2014 the department of financial services replied to a right to information (RTI) application to say that 7.1 crore Jan Dhan accounts had been opened. Out of that, 5.3 crore, or 74 per cent of the accounts, had zero balance. The remaining had a total balance of Rs 5400 crore.

By 31 January 2015, the programme had 12.54 crore accounts with a total balance of Rs 10,500 crore, according to the government's website. However, according to the economist Arun Kumar, there were a large number of zero-balance accounts, and one RTI revealed that bankers had deposited a few rupees into these accounts to lower the number of zero-balance accounts.

The amount deposited gradually increased to Rs 45,636 crore by 8 November 2016 when the demonetization of high-value currency was announced. At the time there were 25.51 crore accounts. There was a spurt of deposits into these accounts, and simultaneous withdrawals began taking place. A week after demonetization was announced, the number of accounts remained stable at 25.58 crore, but the deposits climbed to Rs 64,252 crore. It reached Rs 74,321 crore on 30 November. After this the withdrawals began picking up pace; by 20 January 2017, a total of Rs 50,481 crore had been deposited after demonetization was announced, and Rs 27,880 crore had been withdrawn.

Oddly, a month after demonetization, 23 per cent of the Jan Dhan accounts remained without balance. This added to the suspicion that the accounts were being used as a window for black money – that the affluent were paying their employees or other poor people to deposit up to Rs 50,000 in demonetized currency into their accounts (the limit after which deposits invited income tax scrutiny), and later withdrawing it. Even Modi realized this when he urged the poor not to return money to the rich who had deposited high-value currency into their accounts during demonetization.

Here was an instance then of a prime ministerial flagship scheme turning into a window for money laundering – one of the very things demonetization was supposed to fix (though the prime minister kept changing the goals of demonetization, including that of turning India into a 'less cash' society, which was also a failed goal).

Was the PMJDY devised to help 'friends' to convert black money into white when demonetization was announced?

Pradhan Mantri Mudra Yojana

Mudra stands for Micro-Unit Development and Refinance Agency, and this programme was intended to help small businesses, companies, start-ups and entrepreneurs who collectively make up the category of micro-units.

What was Mudra patterned on? There used to be a Pradhan Mantri Rozgar Yojana under P.V. Narasimha Rao. It was basically to connect the small entrepreneur with a bank, as mentioned in chapter 3. When Vajpayee came to power, it was rechristened the Pradhan Mantri Swarozgar Yojana because it was

for self-employment. Jaswant Singh was then deputy chairman of the Planning Commission, and he and I consulted and agreed to separate the Swarozgar Yojana from the wage employment scheme.

This is exactly what the Mudra Yojana that Modi announced on 8 April 2015 is. It is intended to extend financial support (or seed capital) to the existing 5.77 crore functioning small businesses as well as budding micro-unit entrepreneurs. Of these, 62 per cent are owned by SCs, STs and other backward classes (OBCs). The government also set up the Mudra Bank which disbursed loans in three categories: Shishu, in which Rs 50,000 would be given at an interest rate of 12 per cent; Kishor, in which funds ranging from Rs 50,000 to Rs 5 lakh would be given to existing businesses which are still not established, at interest rates ranging from 14 to 17 per cent; and Tarun, for established businesses, of funds up to Rs 10 lakh at an interest rate starting at 16 per cent. The interest rates are usurious.

In the 2016–17 budget, Finance Minister Arun Jaitley set a target of Rs 1.22 lakh crore under Mudra for reviving and supporting micro, small and medium enterprises. In 2017–18, this was doubled to Rs 2.44 lakh crore, but the primary targets were mentioned as women, minorities, backward classes, tribals and Dalits. However, in that financial year only 71 per cent of the amount was given out as loans, according to a study[1] by the Amity Business School.

This unachieved Mudra target, the study found, was, ironically, the victim of demonetization. It also found that 62 per cent of the loans were taken by people falling in the general category, while 24.3 per cent were utilized by OBCs. Among SCs and STs it was a great failure, with these categories receiving just 10.6 per cent and 2.9 per cent of the loans, respectively.

The weaknesses of this scheme, according to the study, were mainly ignorance and confusion. There already existed a number of refinancing agencies, and because of the Mudra Bank there was a multiplicity of interest rates. Most threatening was the 'potential of conflict of interest due to the nature of roles and responsibilities of the Mudra Bank' – in other words, scope for corruption and bad loans, something that already blights the Indian banking system.

In August 2018 a newsmagazine reported that 93 per cent of the loans given under Mudra were loans of up to Rs 50,000 (about 12.2 crore out of a total of

13.5 crore loans disbursed). Economists have questioned how many jobs such a small loan size could create – or even if such a small amount can initiate genuine entrepreneurial activity. It is not just a matter of scepticism but falls into a pattern of Prime Minister Modi making tall claims that fall apart when the fine print is scrutinized.

Pradhan Mantri Ujjwala Yojana

The government's website says that of the total 24 crore households in India, 10 crore were without an LPG connection. The Pradhan Mantri Ujjwala Yojana, launched by Modi in May 2016, meant to give LPG connections to five crore households over a period of three years. It is a great idea. About a lakh Indians die prematurely of diseases from inhaling the smoke of wood and gobar. And the coverage has marched on unfailingly: by the second anniversary of the launch, 3.9 crore households had been covered by the scheme.

However, despite Modi's stated aim of weaning the poor away from chulhas, those very households were still using traditional stoves and still dying of diseases related to smoke inhalation.

Under the scheme, the government had said it would provide a subsidy of Rs 1600 per new connection, which would cover the security fee and the fitting charges. The consumer had to buy her own stove. Also, she had to pay for all refills after the first cylinder.

As a consequence, once the first cylinder finished, families sold off the gas stove, and once again began going out to the jungle to collect firewood. This is borne out by the government's petroleum and planning statistics, contained in its LPG profile: connections have gone up by over 16 per cent, but the use of gas cylinders has gone up less than 10 per cent.

It is not that this problem was unforeseen. A report by CRISIL, the analytical advisory company, to the government in 2015 warned that 83 per cent of Indians it had surveyed found the price of refilling gas cylinders too costly. Also, in rural areas, there would be the long wait for a refill. It was just simpler to go out and pick firewood – for free.

The Indian Oil Corporation has said that of the 48 lakh LPG connections it released in 2017–18, only 43.7 per cent, or less than half, remained active. The

Pradhan Mantri Ujjwal Yojana exudes the scent of data manipulation.

Pradhan Mantri Krishi Sinchayi Yojana

The Pradhan Mantri Krishi Sinchayi Yojana (PMKSY) was launched by the prime minister in July 2015, with the motto 'Har Khet ko Paani', that is, water to every field. Its aim is to make India drought-proof and to increase water efficiency as per the tagline 'More Crop per Drop'. India's irrigation coverage is just under half of its total sown area, which means we are too dependent on a good monsoon for agricultural productivity.

The yojana is an amalgamation of earlier schemes: the Accelerated Irrigation Benefit Programme of the Ministry of Water Resources, launched in 1996–97 by the government headed by H.D. Deve Gowda; the Integrated Watershed Management Programme, launched by the UPA government in 2009–10 and itself an amalgamation of the existing Drought Prone Areas Programme, Desert Development Programme, and the Integrated Wastelands Development Programme; and the On Farm Water Management Programme of the department of agriculture, also launched in the 1990s.

According to a *Hindustan Times* report in May 2018, the target for coverage was 12 lakh hectares, of which a respectable 9.3 lakh hectares was covered. The target for micro-irrigation was 8 lakh hectares, of which 8.4 lakh hectares was covered. Even if these figures are taken as reliable, the catch is that the gains are confined to five states – Andhra Pradesh, Gujarat, Karnataka, Maharashtra and Tamil Nadu – which account for 78 per cent of the new coverage.

The North-Eastern states have made zero progress. While Andhra Pradesh expanded micro-irrigation coverage by 1.86 lakh hectares, Bihar expanded it by a mere 86 hectares. One reason has been the funding – the Centre gives 60 per cent, while the state gives 40 per cent. Bihar is one of India's poorest states and is unable to make its 40 per cent contribution, and is therefore a 'laggard'.

I had recommended that a scheme like this be fully financed by the Centre for it to be successful; the adverse impact of the 60:40 financing formula is evident.

Swachh Bharat Abhiyan

This may surprise many, but even this is a renamed programme. The government admitted so in its press release. It was a restructured version of the UPA government's Nirmal Bharat Abhiyan. The genesis of the programme was the Central Rural Sanitation Programme, launched by the Congress government in 1986. That was renamed the Total Sanitation Campaign in 1999 by the Vajpayee government. That was renamed in April 2012 as the Nirmal Bharat Abhiyan. It says something if the same hygiene programme keeps changing its name over decades, to no avail.

The prime minister announced this mission with great fanfare in 2014. Several celebrities joined him in publicizing it. Bollywood even made a film, *Toilet: Ek Prem Katha*. The problem is that people defecate in the open, in fields, near drains and rivers, or behind bushes. In October 2014 an estimated 55 crore people defecated in the open; in 2016, a Swachhta Status Report stated that 52 per cent of the rural population and 7.5 per cent of the urban population defecated in the open.

The government aimed at building 12 crore rural toilets by 2019 at a cost of Rs 1.96 lakh crore, in its drive to make India open defecation free (ODF). In January 2018, 300 districts and three lakh villages were declared ODF. However, in the first year of the Swachh Bharat Abhiyan reports came in that 80 lakh rural toilets were underused – some studies said only 1 per cent were used – and that people's preference for defecating in the open hadn't changed. An October 2017 study by the Institute of Development Studies suggested that villages declared ODF still practise open defecation – in the case of Pali, Rajasthan, it noted, only 1 per cent of the toilets were used. Similarly, the Centre for Policy Research (CPR) did a study in Rajasthan and found that only one of nine gram panchayats had 100 per cent access to toilets; and that more than a third (38 per cent) of toilet owners defecated in the open.

Also, there was the usual corruption – ghost beneficiaries, missing households, duplicate entries, according to an accountability study by the CPR in December 2015.

To drive the mission, the government imposed a Swachh Bharat cess – which unfortunately compounded the GST people were paying when the latter was implemented – and in the first two years it collected a healthy Rs 16,400 crore. Just Rs 12,200 crore of that amount was used – and all of it for rural projects,

none for urban projects. The journalist Punya Prasun Bajpai has questioned where the remaining Rs 4000 crore went.

The Swachh Bharat Mission provides 20 per cent for urban areas, where the population according to the 2011 census was 32 per cent, and growing faster than in rural areas. Obviously, Indian behaviour has to change, and the mission's guidelines stipulated that 8 per cent of the money be spent on information, education and communication. The government has spent much money on Swachh Bharat Abhiyan – according to Scroll.in, a total of Rs 530 crore was spent till end 2017, Rs 37 crore in 2017 alone. Most of this was on television and print ads, instead of creating grassroots-level awareness. No wonder people say it is just to create hype for the prime minister's personal image.

Then in December 2017, the United Nations' top water and sanitation expert, Leo Heller, gave an adverse assessment of the progress of Swachh Bharat Abhiyan. He said that the implementation of the 'open defecation free programme' should not come at the cost of human rights; he said the authorities were engaged in 'aggressive and abusive practices' in order to meet the Swachh Bharat Mission targets, cancelling ration cards or cutting power lines to homes that did not have a toilet. He also expressed scepticism that manual scavenging would end with this programme.

'The Indian government's emphasis on constructing toilets should not overshadow the focus of the drinking water provision for all, and it should not involuntarily contribute to violating the fundamental rights of others,' Heller said. In response, Modi's government said his report contained 'inaccuracies, sweeping generalizations and biases'.

In his 2018 Independence Day speech, Modi claimed that the World Health Organization (WHO) had said that Swachh Bharat Abhiyan had saved three lakh children's lives. He was economical with the truth, for the WHO had said that once the Swachh Bharat programme concludes in 2019, it will likely have saved three lakh children's lives.

Pradhan Mantri Fasal Bima Yojana

Here our job is made easier by an analysis by Dr Ashok Gulati, who in the *Indian Express* (14 May 2018) looked at the farm insurance scheme for crop loss

that Modi launched in 2016. Premiums for crops were fixed as follows: rabi (winter) crop at 1.5 per cent, kharif (monsoon) crop at 2 per cent, and horticulture and other commercial crop at 5 per cent. The analysis showed:

- Target was to bring 100 million hectares (half the gross cropped area, GCA) under the scheme by 2018–19; this will not happen. Primary reason: 'administrative glitches', according to Gulati, and red tape, which means farmers have to wait months or years for compensation. This undermines confidence in the scheme.
- State governments which are to finalize the insurance company do not do so in time. This leaves them vulnerable to the whims of usurious insurance companies in a year of a poor monsoon forecast.
- The government's insurance portal in kharif is not up to date; hence data for insurance companies and farmers is insufficient to determine premiums, etc.
- In 2016–17, gross premium paid to insurance companies was Rs 22,189 crore. Farmers paid Rs 4327 crore out of this. Tamil Nadu, which implemented the scheme efficiently, showed it can be a success.
- In states, however, the norm is that red tape delays finalizing tenders, payment of premium subsidy, conducting crop-cutting experiments, etc.
- Bihar, Chhattisgarh, Haryana, Karnataka, Kerala and West Bengal had not paid the premium subsidy for even the 2016–17 crops, though companies are now insuring kharif crops for 2018.

It is clear that the scheme's quality has to be improved. The need is to set up a team of insurance experts at the Centre to track, evaluate, monitor and guide states in implementing the schemes, as well as to keep renegotiating insurance premiums with the companies.

The Centre for Science and Environment (CSE) carried out a study which showed that in 2016 insurance companies earned a profit of Rs 10,000 crore, while settling 32.45 per cent, or less than a third, of claims.

Smart Cities Mission

Soon after Modi was sworn in as prime minister in 2014, he announced his smart cities project and it was launched the following year. The Cabinet

approved Rs 48,000 crore to be allocated here, and the urban development ministry said it would provide Rs 100 crore per city per year till 2019. Till March 2018, a total of 99 cities had been selected for this mission. The aim was to use technology- and data-driven solutions to steer India's rapid urbanization – the urban population is expected to hit 60 crore by 2031.

However, in March 2018, the Parliamentary Standing Committee on Urban Development reported that no more than 1.83 per cent of the funds released had been utilized (Rs 182.62 crore out of a released Rs 9,943.22 crore). The committee blamed it on tardy implementation: 'Even after three years into the Mission, the majority of the identified projects are still at the stage of preparation of detailed project report,' it said. Also, a shortage of urban planners is holding up many projects.

According to IndiaSpend.com, only 23 of 642 approved projects under the Smart Cities Mission had been completed by February 2017.

The minister for urban development, Hardeep Puri, came back aggressively against Factchecker.in on its claim that of Modi's projected Rs 2 lakh crore to be spent on the 100 smart cities, only 0.09 per cent had been utilized. He gave a detailed list of 948 smart city projects under implementation and 399 projects having been tendered out. Puri, however, did not contest the Parliamentary Committee's assertion on actual funds utilized.

Deendayal Upadhyaya Gram Jyoti Yojana

This is basically the renamed Rajiv Gandhi Gramin Vidyutikaran Yojana (RGGVY). In November 2014 Modi announced that by May 2018 his government would electrify the remaining unelectrified 18,452 villages of India's nearly six lakh villages.

On 28 April 2018 Modi announced that his government had electrified the last village – Leisang in Manipur. As per his government's definition, if 10 per cent households of a village get an electricity connection then the village is considered electrified.

However, on 2 May 2018, the *Indian Express* reported that according to the Ministry of Power's own website, 3.14 crore rural households were still without access to electricity, out of a total of 17.99 crore rural households. That meant

that 17 per cent of households are still without an electrical connection. This statistic can be broken down into individual states: 25.64 per cent of Bihar's rural households were still without any access to electricity, 44.2 per cent in Uttar Pradesh, 43.3 per cent in Assam, 52.25 per cent in Jharkhand and 36.34 per cent in Odisha. The laggard states are still lagging behind.

The RGGVY, which I used to monitor at the district level as an MP, had a design fault. And once there's a design fault, see how damaging it can be. That scheme provided for a single-phase line to the village, and the government gave the free connections only to SC/ST families – the rest of the village would have no connection. The transformers they would get would vary from 10 kVA to a maximum of 25 kVA in terms of capacity.

But almost everyone in the village would draw electricity through an illegally hooked connection, and use it to operate their flour grinder. Naturally, the transformer would blow up after a few days. And the village be de-electrified.

But there was no scheme to replace transformers!

As an MP, I was approached by constituents with this common story about their blown-up transformers. They said a 10 kVA or 25 kVA transformer was useless and would not meet their needs. They would ask me to arrange an upgrade to at least a 63 kVA transformer.

The villages were getting de-electrified faster than they were being electrified. For government reports it was enough to say that electricity had reached, but there was no mention that within three days the transformer no longer worked and was sitting idle while the village sat in darkness as before.

The solution to this of course was to make it a three-phase line and install a 63 kVA or 100/200 kVA transformer, depending on demand. And it is our duty to meet everyone's demand, not just those of a particular community.

This is where design faults in a scheme made by people sitting in the various bhawans in Delhi without experience of ground conditions kill a scheme or kill its implementation. In a sense, what Modi proposes, the babus dispose – but as the prime minister, it is ultimately his responsibility, if he's going to go around making grand announcements that evaporate into air.

The Deendayal Upadhyaya Gram Jyoti Yojana is for the most part single phase – in the distant reaches of the North-East, in Jammu and Kashmir, in the Himalayan foothills and in the forested lands of central India, among other

places. I also have issue with the dubious claim that all villages have been connected.

Anyone who is familiar with a village knows that it is usually divided into tolas, that it is not one composite unit. This is particularly so in the hilly areas where different tolas are far-flung. This connectivity then, by the government's own admission, is of 10 per cent of households, and what the data does not reveal is whether the 10 per cent is clustered in a single tola or dispersed. The latter would obviously require more time and money – which a government in a hurry to reach a dubious milestone does not have. This usually leads to great resentment within a village – when one tola gets the connection while the others do not.

Such, however, are the hallmarks of jumlas.

Modi's most ambitious flagship scheme is perhaps the Make in India scheme, and we will look at it in the next chapter, along with the general failure his government has faced in industry.

[1] ‘Pradhan Mantri Mudra Yojana: A Critical Review’, by Manish Agarwal and Ritesh Dwivedi, *Parikalpana,* December 2017, p. 97.

6
Break in India

The malaise of Indian industry during Modi's tenure is typified by his most famous flagship scheme, Make in India. It is his biggest failure; it is also an unoriginal idea. It is nothing more than a revival of the National Manufacturing Competitiveness Council that the UPA set up in 2004, whose first chairman was V. Krishnamurthy.

Yet even a copied idea can produce good results. 'Make in India' has not produced results. The value of stalled projects till October 2017 remained an astounding
Rs 13.22 lakh crore. If projects are stuck, industry will be reluctant to take on new projects: the CMIE's CapEx (capital expenditure) database showed that new investment proposals went down from Rs 25 lakh crore in 2010–11 to less than Rs 9 lakh crore in 2017–18.

The World Bank said that in 2018 manufacturing in India as a percentage of GDP had dropped to 15 per cent, down from 18.6 per cent in 1995. Modi had promised, at the July 2018 launch of Samsung's plant in Noida, Uttar Pradesh (clearances for which were given by the Samajwadi Party government before Akhilesh Yadav lost power in 2017), that manufacturing would become 25 per cent of the economy by 2020. This is an impossible target, given that till 2015–16 manufacturing had grown at an average of 1.6 per year (according to a 2017 report of the Parliamentary Standing Committee of Commerce). Of course, this has never stopped Modi from making tall promises and equally tall claims.

Worst of all, in four years, Indian exports have grown just 0.5 per cent. Exports constitute about 18.9 per cent of our GDP. This is another reason why, despite the rigged GDP growth numbers, employment has not taken off in recent years. Modi has taken the country in the wrong direction.

Clearly, 'Make in India' should have been preceded by 'Make India', as I wrote in an article in the *Economic Times* a few weeks before the budget was presented in 2015. The reason is this: unlike in China and the East Asian economies, which thrive on export-led economic growth, GDP growth in India has been achieved on domestic savings and domestic demand. As I have said earlier, this means that we must continue creating demand for investment goods – another way of saying 'Make India'. We ought to enhance agriculture, provide water, build roads, generate power, invest in construction, link rivers, expand

telecom, and so on.

One example is the national highway programme of the Vajpayee government. When we announced it, we found that we didn't have the equipment to make world-class roads in a short time. People had to import modern roadrollers for instance, and they came to me saying give us customs duty concessions. So I did, making it zero customs for some equipment, and large-scale imports happened. Side by side, people started making the same equipment in India. Thus when we decided to 'Make India', 'Make in India' followed. And thousands of kilometres of roads were built.

This was the basic philosophy we followed in NDA 1. What sustains the Indian economy is domestic demand, and external demand is the icing on the cake. I fault the UPA for not following the NDA 1 strategy: we wanted Indians to earn and then spend, whereas the UPA wanted Indians to just spend, thinking that earning would emerge from that.

In the NDA, we tackled the problem of transaction costs by reducing the cost of money – by reducing interest rates. Then administrative costs: customs, excise duty, simplifying the laws of movement. The consequence is that Indian industry started becoming globally competitive.

India had signed the 1995 WTO agreement at Marrakesh, Morocco, which stipulated that we had to abolish all quantitative and non-tariff restrictions by 1 April 2000. (A quantitative restriction [QR] is a trade quota.) We could keep permitted tariffs, but not QRs. It was an international commitment we had to keep, and we did.

Many were apprehensive about how our industry would suffer once QRs were lifted, about how China was waiting in a sinister manner to flood us with cheap goods. For instance, two-wheeler manufacturers came to me and moaned, 'Sir, we will be ruined.' They claimed Chinese two-wheelers had been kept in storage in Dubai, ready to be shipped to India the moment QRs were lifted.

Fifteen items were monitored after we lifted QRs every fifteen days to see if imports had jumped but nothing like that happened. Indian industry was fine. I have no idea what happened to those Chinese two-wheelers.

In another case, the veteran politician Sharad Pawar called on me with a delegation of poultry manufacturers. They said, 'America has mountains of chicken legs, which they consider red meat and so don't eat, but we enjoy it and

these mountains of frozen chicken legs will be exported to India and we will be ruined.' I said okay, let's see, we'll put the maximum permissible tariff on those imports. But no invasion of frozen chicken legs took place.

In fact, in various areas Indian industry came of age because foreign competition came to India, right to our doorstep. Indian industry weathered it well. It was a significant experience. That eased the way for exports because if you can weather global competition at home, you can weather it anywhere in the world.

But it rests on domestic demand, and the problem in India today is that of demand. This might have been avoided had Modi followed the earlier NDA precept. If demand increases, then you have capacity utilization, a critical factor for industry. They aim at using 120 per cent of their installed capacity then they look for fresh investment and increase capacity.

I got a pleasant first-hand experience of this after I had shifted to the external affairs ministry. I was travelling abroad and in the first-class cabin of Air India there were a handful of industrialists. After the aircraft took off, we stood around chatting. One gentleman asked me what I considered my most important achievement in the Ministry of Finance, and I promptly referred to reduction of interest rates. Another person who was sitting and listening to this conversation stood up and told us how he had personally benefited from this step. He had a plastic products manufacturing unit and had taken a loan at 22 per cent rate of interest; servicing the loan was getting difficult and he began running into losses. He had to shut the factory and fire the workers. When the interest rates went down, he returned to the bank, retired the old loan and renegotiated a fresh loan. He rehired all his old workers, he turned a profit, he expanded his unit and now he was going abroad to promote his exports.

Currently, the RBI has been raising rates to keep inflation at bay; a rise in prices is not something Modi wants before a general election. But this tendency to raise rates will have a deleterious effect. The cost of money affects investment, not consumer demand; a person will buy what is essential. You need look no further than the UPA mess.

During the UPA years, I was the BJP spokesperson on economic affairs and journalists used to ask me what we would do if we came to power. Two things, I told them: we would fix bank NPAs and we would clear the stalled projects that

were valued at Rs 18.7 lakh crore in 2014–15. I said we would clear all roadblocks to the projects, for example, what Modi had called 'Jayanthi tax' (after the previous forest and environment minister Jayanthi Natarajan), and get the projects going.

Getting the projects going would solve much of the NPA problem. Our system is such that suppose I get a road construction project, say, to six-lane the Jaipur to Ahmedabad national highway. Once I get the approval, I go to a bank (or a consortium) and get a loan. In the meantime, it's my responsibility to get the forest clearance and the environmental clearance and wait for land acquisition and anything else needed for the construction of that road. Even if I get the clearances, most of the time land acquisition is tough if not impossible. The project is hanging, and the government has no effective mechanism with which to monitor it. And meanwhile I have to start repaying the loan. If I don't do that, it becomes an NPA.

Genuine defaulters are not personally at fault; circumstances have compelled them to become defaulters. And the NPAs keep rising.

According to the 2017–18 annual report of the MoSPI, of the projects in progress, the most (38 per cent) were in road transport and highways; then came railways at 28 per cent; power at 9.82 per cent; and so on. Modi's government has brought down the percentage of stalled projects to about a quarter: Road Transport Minister Nitin Gadkari in August 2018 claimed that he had cleared 99 per cent of the 403 stalled projects, saving Indian banks Rs 3 lakh crore of NPAs. He is also initiating new projects. With the former power minister, Piyush Goyal, it is an entirely different matter, as we shall see in chapter 9. As a result, the power sector is in the doldrums; it is where most (40 per cent) of the stalled projects were in September 2017.

Modi should have hit the ground running but he did not. Perhaps that's why he keeps talking about prime ministers who are long dead and gone. Gadkari is continuing with the older ideas on infrastructure, like our Sagarmala programme in 2003, which was the maritime equivalent of the Golden Quadrilateral highway project. But other than that, like agriculture, other sectors are in distress.

The Economic Survey 2018 stated that the telecom sector, which employed 40 lakh people, was going through a period of stress and debt; its debt was said

to be Rs 7.7 lakh crore. About 1.5 lakh jobs were lost, 30,000 in 2018 alone, some from shut telcos, some from the merger between Vodafone and Idea, but the bulk from the distress in the sector.

The textile sector, saddled with outdated machinery and low productivity, saw a 13 per cent year-on-year decline in exports in January 2018. The steel sector, according to data gained through the IBC, is the biggest defaulter among corporates on debt: a total of forty-five cases involving Rs 57,000 crore were with the IBC. Domestic producers were hit by the dumping of cheap imports from China, South Korea and Ukraine.

The IT sector saw 40 per cent of its start-ups in 2016 fail, and complicated tax rules led to a decline of angel funding (investment in small start-ups or entrepreneurs, the opposite of venture capitalists) by 53 per cent in the first half of 2017. According to the 2018 Economic Survey, software exports contracted by 0.7 per cent in 2016–17 before rising again by 2.3 per cent in the first half of 2017–18. The survey blamed protectionism in Western countries for the slowdown in IT exports.

The MSME sector was worst hit by the twin shocks of the 2016 demonetization and the 2017 GST (which we deal with in detail in chapter 7). According to the RBI's Mint Street report in August 2018, demonitization came with a further decrease in credit to the sector, while GST deeply dented its exports. The MSME sector comprises 6.3 crore units and employs about 11.1 crore Indians, contributing about 30 per cent of the GDP, 43 per cent of manufacturing output and around 40 per cent of total exports.

The CSO measures the Index of Industrial Production (IIP) growth year on year, and the figures have not been encouraging during the Modi years, particularly if you look at them after the whimsical demonetization of November 2016. In July 2017 it was a measly 1 per cent. In October 2017 it was again a sad 1.8 per cent, before bouncing back to 7 to 8 per cent for the next few months. But in March, April and May of 2018 it hovered around an anaemic 4 per cent. This oscillation shows a depressed industrial environment.

The UN Conference on Trade and Development (UNCTAD) in its World Investment Report 2018 shows that foreign direct investment (FDI) to India declined from USD 44 billion in 2016 to USD 40 billion in 2017. Even if you were to consider USD 40 billion a good enough figure, it is still only 1.2 per cent

of overall investment; and the bulk of it did not go into manufacturing, according to figures from the department of industrial policy and promotion, which means that 'Make in India' failed to bring FDI into manufacturing, as was envisioned.

In 2015–16, services, computer software and trading got 41.5 per cent of FDI, while core manufacturing got only 14 per cent. Other non-manufacturing sectors that got foreign money were hotels, tourism and telecommunications. Because Indian economic growth relies heavily on services, to revive manufacturing requires a boost to infrastructure. 'Make in India' is thus basically an investment promotion plan, unlike the 'Make in China 2025' plan which looks at strategic industries through subsidy and public investment.

Still more curious is the fact that the Cayman Islands is the number one FDI source, raising the suspicion about the origin of the funds – that it may possibly be 'round-tripping' (when Indian companies reroute their money abroad and back to India to save tax; Cayman Islands is tax-free).

So while the World Bank in 2017 ranked India at 100th, jumping up 30 places, on the list of 190 countries in ease of doing business, that does not necessarily mean India will get more business, particularly as the world grows more protectionist.

Due to this decline in industry, our exports took a massive hit during Modi's first four years. This, coupled with rising crude prices in 2018, is causing our CAD to climb to dangerously high levels (we will look at this in chapter 10). India's exports started shrinking in December 2014 due to weak global demand and a slide in oil prices, and continuously shrank till September 2016. In 2016–17, the growth was 5.2 per cent, and in 2017–18 it was seen at 9.8 per cent.

But if you want to average the export growth over Modi's four years, in June 2014 it was USD 26.48 billion and in June 2018 it was USD 27.7 billion, according to the Ministry of Commerce and Industry. That is a rise of just half a per cent in Modi's four years (0.046 per cent, to be precise). And exports make up 20 per cent of our GDP.

Exports also tell us a story of misery depending on the industry we speak of. Export sectors that employ many workers, like carpets, gems and jewellery, small engineering goods, tobacco, tea, or leather and leather goods, for instance. The distress in these industries generally goes unnoticed because it is confined to

pockets; it does not become a national story.

Modi's love for grand announcements and mega projects can undermine 'Make in India', as in the case of the proposed Ahmedabad–Mumbai bullet train, whose estimated cost of Rs 1.2 lakh crore will go up as the rupee goes down. News reports stated that 70 per cent of the components would come from Japanese companies. There has been other criticism of the bullet train – that no one has studied the potential demand, particularly given that air travel keeps getting cheaper and cheaper. However, all that matters to Modi is that even in remote corners of India, like Jharkhand, people hear that a bullet train is coming.

Possibly there is a time for such projects. China has been making bullet trains for long, and they run all over that country. There could of course have been better use of the funds: the railways need all kinds of improvements, they have very old tracks and bridges, overbridges need to be constructed on a large scale, etc.; its modernization and safety are also urgent requirements. In the manner that the national highways have expanded, from four lanes to six lanes, the railways also need to expand to four tracks and six tracks, or have a separate freight corridor on the Delhi–Mumbai or Delhi–Kolkata routes. This will expand the demand for investment goods that I repeatedly talk about.

Incidentally, the RBI governor at the time, Raghuram Rajan, in December 2014, criticized 'Make in India'. He said that an import substitution strategy (irony: Nehru adopted this) or an incentive-driven export-led growth mechanism would not work for India.

Incidentally, the great irony about 'Make in India' was brought out by the Parliamentary Standing Committee on Commerce, which on 26 July 2018 tabled in the Rajya Sabha its report 'Impact of Chinese Goods on Indian Industry'. The report said that the central government, the state governments, and public sector undertakings don't buy stuff that is 'Made in India'; they buy cheaper Chinese goods. Chinese-made drugs, bicycles, toys, steel, solar panels, textiles, firecrackers and other products were being dumped in India. The committee noted that a differential duty scheme on mobile phones had reduced Chinese imports, and suggested the same with other products.

Part of the reason was that Indian exports suffer a great deal of red tape, whereas Chinese goods are easily registered and rapidly certified by the Bureau of Indian Standards. The government in the summer of 2018 raised tariffs on

Chinese solar panels, but the Directorate of Revenue Intelligence, according to an August 2018 news report, found that the Chinese were nimble enough to reroute their exports through the Association of South East Asian Nations (ASEAN) countries like Malaysia, with which we have a free trade agreement.

It ought to be mentioned that a component of 'Make in India' was skill development, but it was such a disaster that the minister for skill development and entrepreneurship, Rajiv Pratap Rudy, was fired in September 2017. The ministry was given to the extremely busy petroleum minister and party troubleshooter Dharmendra Pradhan, only proving that behind the theatrical announcements and grand plans are poor homework and worse follow-up.

Even the mascot of 'Make in India' could not escape an ironic twist, according to a Bloomberg report. A large lion composed of gears, and built by a public sector undertaking, was defeated by red tape and political interference. It was placed outside the office of the department of industrial policy and promotion but had to be removed as it was found to be breaking rules. A similar lion in Mumbai was also removed as it violated local heritage restrictions.

The biggest irony, however, was reserved for the Rs 3000 crore statue of Sardar Vallabhbhai Patel that was commissioned in Gujarat. It is to be the tallest statue in the world. The engineering giant Larsen & Toubro won the tender, but subcontracted the bronze-cladding to Jiangxi Toquine Company in Nanchang, China. The Gujarat government shrugged helplessly as it could not control who Larsen & Toubro subcontracted the work to.

Poor Sardar Patel. Little could he have imagined that his statue would be 'Made in China'. Such is the metaphor for Modi's 'Make in India'.

7
Hail Caesar! Modi's Style of Functioning

At a book launch function in Delhi I had once remarked that in the Mahabharata, among the hundred Kaurava brothers most of us remember only two names: Duryodhana and Dushasana. The rest did not matter. My hint was clearly understood by the audience, which responded with a huge applause.

Modi is the kind of man who wants to do everything himself and who is obsessed with creating history every day. If he can become the first Indian prime minister to visit Timbuktu he would do so whether it is necessary and impactful or not. There is one thing he has done which no prime minister has done before – he has taken most of the existing government programmes and renamed them, so that the credit and glory accumulate to him.

Modi has centralized all decision-making powers in the Government of India in himself, assisted by a few chosen officers in his PMO. However, he is known to be more interested in PowerPoint presentations than in reading voluminous files. This is a pity. It means that he does not grasp the nuances that are stored in institutional memory. Perhaps it suits a man whose intellectual training lacks rigour at best (indeed, no one has seen his higher education degree in 'entire political science').

In the Government of India, administration is driven by three centres: one, the prime minister and his PMO; two, the finance minister and his ministry; and three, the Planning Commission. A politician used to head the Planning Commission earlier, but now it has been silenced and replaced by the NITI Aayog, where Modi has placed people who have zero influence on governance.

That leaves only two drivers of government. Everyone knows how the finance minister's influence in government has declined to almost zero and he is unable to push things even in his own ministry. After all, while his finance secretary Hasmukh Adhia was involved in the infamous demonetization exercise, the finance minister himself was in the dark. The finance secretary's proximity to the prime minister goes back to their days together in Gujarat. Everyone familiar with the functioning of the finance ministry is aware that independent political leadership of that ministry is absolutely essential to get things moving in the government.

Modi is unfortunately a man who is impatient with institutions. His faith in himself blinds him to the fact that he is not a king, that he is only the head of a

parliamentary party with a majority that enabled it to form a government, and which is prescribed with limits by the Constitution that has inbuilt checks and balances.

For instance, the government allowed the 2018 budget to be passed by Parliament without a discussion. This is unprecedented. Parliament represents all of India – and by not giving the MPs a chance to discuss the budget proposals, a large chunk of India was deprived of expressing its view. On top of that, Modi went on a farcical day-long fast on 13 April 2018 – after Parliament went into recess. He said it was to protest the washout of the first part of the budget session, which he blamed on the Congress party. But he was wrong: if he was genuinely interested in Parliament's functioning, he would have held discussions with leaders of the Opposition to take care of their concerns and enlist their cooperation in the functioning of Parliament instead of fasting after the session was over. It was nothing more than one-upmanship.

The Cabinet is collectively responsible to Parliament. But as an institution it has been turned into a rubber stamp for the prime minister's decisions. It is said that most Cabinet ministers are not allowed to speak unless an item of their ministry is up for a decision. Modi stands on a different plane from the ministers, and he has no time for them, because they don't matter. Only he does, and he will rule through bureaucrats – this appears to be his mantra.

The November 2016 demonetization of high-value currency, for instance, was revealed to the Cabinet only minutes before it was announced to the nation – at no stage was it discussed with the collective political brains trust of the government. Perhaps a wider discussion would have made it more effective in achieving any of the goals that Modi set for it again and again during that surreal winter.

Another big decision which took the concerned minister by surprise was the BJP's withdrawal of support to the People's Democratic Party in June 2018, with whom it was in a coalition government in the sensitive, strife-torn state of Jammu and Kashmir. It was a decision taken by Modi and Shah alone. The home minister, who historically has been so important that he has also been deputy prime minister, had just days earlier visited Jammu and Kashmir energetically with a peace initiative in mind. As soon as he heard the decision – like everyone else, as it was breaking – he scampered off home, unwilling to face

his bureaucrats or the media.

The most cavalier treatment of a line minister is that of Sushma Swaraj, our external affairs minister, who was the leader of the Opposition in the last Lok Sabha. She is trolled by lunatics on social media, and Modi goes on to congratulate some of those trolls for their activity on the Internet on his behalf. She is not only kept out of important policy decisions, she does not even travel abroad with her prime minister. This is in stark contrast to Vajpayee; after I became the external affairs minister in 2002, there was not a single foreign trip that he did not ask me to accompany him on. But in this regime there has not been a single occasion where the prime minister has asked his external affairs minister to accompany him on a foreign trip. His constant companion on these trips is the national security adviser. The prime minister did not take his defence minister into confidence while deciding on buying thirty-six Rafale fighter planes from France. Vajpayee would never have done such a thing. But then it is my mistake to compare Modi to Vajpayee.

That he does not bother about his council of ministers can be seen by the lack of synchronicity in the hierarchy: Manoj Sinha, for instance, is a minister of state with independent charge in communications, but he is a subordinate minister of state in railways. The same for Vijay Kumar Singh, who was a minister of state with independent charge in the ministry of statistics and programme implementation between 2014 and 2016, but at the same time was a subordinate minister of state in the external affairs ministry.

And that Modi trusts almost no one can be gauged from how Arun Jaitley and Piyush Goyal have accumulated so many ministries and do justice to none of them. When I was finance minister, I found it was a job for which twenty-four hours in a day were not enough; I would bring correspondence and files home at night and finish them before going to sleep. Here, on the other hand, Jaitley is finance minister, which gives him his status, plus he handles the Ministry of Corporate Affairs, which gives him an important influence with corporates, plus the department of disinvestment, plus, for much of the first half of the government's tenure, the Ministry of Defence – another full-time job. Goyal, when he took over finance for a while, was also the railway minister, the coal minister and the informal party treasurer.

This lack of focus, in my opinion, is why the finance ministry lacked

leadership and vision. The fact that each finance minister was burdened with so much else also shows Modi's lack of trust in anyone else, if not a dearth of talent in his council of ministers.

The dearth of talent in the council of ministers was illustrated by Shekhar Gupta when he asked in a column: Can you name the country's agriculture minister? Most people probably have no clue who Radha Mohan Singh is. The same, Gupta says, is sadly probably true for the ministers of health, chemicals and fertilizers, heavy industries, science and technology, social justice, and micro, small and medium enterprises.

Modi's relationship with India's chief ministers looked promising at the start of his term, when he announced 'Team India' during the birth of NITI Aayog. 'Team India' would comprise of, he said, the prime minister and the chief ministers of all the states. Possibly this was a residual memory of how he thought of Centre–state relations when he was Gujarat's chief minister. But four years after he became prime minister, his relationships with the chief ministers have soured so much that the concept of 'Team India' went the way of 'Make in India'. Team India is today nothing more than Team BJP.

This is critical because we have entered a phase of economic development where most reforms depend on the cooperation of state governments. This is particularly true of the backbone of the Indian economy, agriculture and rural development, including education and health, which obviously cannot be done without the state governments' cooperation.

Modi's own party chief ministers are subservient to him, but that is okay. The important thing is what kind of relationship you are able to build with chief ministers who are not from your party. He has bad-mouthed West Bengal Chief Minister Mamata Banerjee. He bad-mouthed the former Karnataka chief minister Siddaramaiah during the 2018 assembly election. He back-stabbed Mehbooba Mufti when she was Jammu and Kashmir chief minister.

He has a running battle with Delhi Chief Minister Arvind Kejriwal – who doesn't even have all the powers that other chief ministers have; for instance, Delhi's law and order is not under his control, and even his bureaucrats make no bones about trying to undermine him. When Modi's former Gujarat chief secretary Achal Kumar Jyoti was the chief election commissioner, he tried to disqualify twenty of Kejriwal's members of the legislative assembly (MLAs), but

fortunately the Delhi High Court put an end to that nonsense. The government is forever trying to lodge cases by the CBI, its 'caged parrot' (in the words of the Supreme Court), against Kejriwal's people.

Kerala Chief Minister Pinarayi Vijayan got a taste of the same medicine administered to Kejriwal when his state was ravaged by floods during the 2018 monsoons, killing 483 people and sending more than 10 lakh people to relief camps. Modi initially announced a paltry Rs 100 crore relief, till public outcry forced him to raise it to
Rs 600 crore. When the United Arab Emirates, where many NRI Keralites live and work, wanted to give Rs 700 crore, the Modi government said no aid could be accepted from foreign donors – though Modi himself had lifted the ban on foreign donations to political parties.

When Vajpayee was the prime minister, his interference in such work was negligible. He left us central ministers to our own devices. This was the correct thing to do. Even a great man and thinker like Vajpayee realized, correctly, that he did not have the mind space to consider and control all aspects of government policy for a vast country like India.

Our relationship with Opposition leaders was warm and cordial. When E.K. Nayanar was the communist chief minister of Kerala, I used to take a liberal view whenever his people came to the finance ministry to discuss central assistance. I took this stance especially if the state government was non-BJP. I helped Nayanar. Later, he wrote me a beautiful letter thanking me, saying he never expected a BJP finance minister to act in such a helpful manner.

There was the Mizoram Chief Minister Zoramthanga, who was second in command to Laldenga in the secessionist Mizo National Front. He sent me a letter thanking me for my help. A former secessionist to a BJP minister – can you believe it?

The then West Bengal chief minister Jyoti Basu was so opposed to the BJP that he commented somewhere that it was filled with uncivilized people. But I made him the convenor of the chief ministers' committee and his finance minister Asim Dasgupta the convenor of the empowered group of state finance ministers to take forward the task of introducing state value added tax (VAT). It was a smart, deliberate political move: I co-opted them and they gave their unstinted support.

In fact, during Vajpayee's time we had more cooperation from non-BJP states on the issue of VAT than from BJP-ruled states. The then Delhi chief minister Madan Lal Khurana of the BJP was so opposed to VAT that he was planning to take out a rally in the capital against it, until he was persuaded not to do so by Vajpayee and Advani to whom I had complained against the attitude of the Delhi government. Madhya Pradesh was also opposed to VAT.

Vajpayee himself had a healthy attitude towards the chief ministers. The then Andhra Pradesh chief minister N. Chandrababu Naidu was a demanding alliance partner so we had to keep him satisfied continually. Bihar kept demanding special status, particularly when Jharkhand was made a separate state. We worked out a package for Bihar with the Planning Commission, which the then chief minister Rabri Devi praised in her speech in the assembly.

The Modi government, on the other hand, mucked up the case of Andhra Pradesh, which demanded special status in the aftermath of Telangana becoming a separate state. It was so mishandled that Naidu walked out of NDA 2. Compare that to Bihar, where Rabri Devi was one of the most anti-BJP chief ministers in India.

The one area where Modi has shown one hundred per cent competence is in running his crony capitalist sarkar. Despite his claims of 'na khaunga, na khane doonga', he undertook a suspect deal for Rafale jet fighters that bypassed all checks and balances in defence procurement, which is most corruption-prone. To illustrate this, you need only read excerpts from the press conference on 8 August 2018 that was addressed by my former colleague in the Vajpayee government Arun Shourie, Supreme Court lawyer and president of Swaraj Abhiyan Prashant Bhushan and myself.

Bhushan and Shourie met the CBI director Alok Verma to demand an investigation into the Rafale deal.

Here are some edited excerpts:

In accordance with the requirements of the Indian Air Force, the UPA government issued a Request for Proposal – or RFP – on 28 August 2007, for 126 Medium Multi-Role Combat Aircraft (MMRCA). The RFP made clear that the bids were to be inclusive of cost of initial purchase, transfer of technology, licensed production, etc.

Six vendors – Dassault Aviation, Lockheed Martin, Boeing, Saab,

Eurofighter GmbH and Russian Aircraft Corporation – submitted bids. After flight trials and technical assessment, the IAF announced in 2011 that Dassault's Rafale and Eurofighter GmbH's Typhoon fighters met its requirements. In 2012 Dassault's bid was adjudged the lowest and negotiations with Dassault began.

The UPA steered the negotiations to fulfil three inter-related objectives. First, the IAF should get aircraft at the earliest possible, since the MiG-21 and MiG-27 fleet had completed their service lives. Second, India's aerospace industry was to be rejuvenated: for this to happen, the country must acquire access to advanced technologies; an order of such a large magnitude – buying 126 fighters – ought to be leveraged to obtain advanced technologies from the foreign vendor. Third, the one Indian company that had decades of experience in building aircraft – HAL – should build the fighter plane in India so that it would be in a position to maintain, service and overhaul the Rafale through its service life of thirty–forty years. In the process, HAL would also acquire advanced manufacturing capabilities to become self-reliant in producing state-of-the-art fighter aircraft.

Accordingly, the 126-aircraft deal envisaged that the first eighteen aircraft would be procured in a 'fly-away condition', that is, these would be fully built by the vendor. The remaining 108 fighters would be manufactured in India by HAL under a transfer of technology agreement. In 2007 the cost for 126 MMRCA was estimated to be Rs 42,000 crore. The final price that was being negotiated under the deal is not in the public domain.

But in an interview to Doordarshan, broadcast on 13 April 2015, soon after Prime Minister Modi signed the deal, the then defence minister, Manohar Parrikar, disclosed that the price for 126 aircraft would have been about Rs 90,000 crore, not Rs 42,000 crore.That would place the price per aircraft at Rs 715 crore. According to Parrikar this cost included everything.

On 8 April 2015, the then foreign secretary, S. Jaishankar, briefed journalists regarding the prime minister's forthcoming visit to France. During this briefing he stated, 'In terms of Rafale, my understanding is that there are discussions under way between the French company, our ministry of defence, the HAL, which is involved in this. These are ongoing discussions. These are very technical, detailed discussions. We do not mix up leadership-level visits with deep details of ongoing defence contracts. That is on a different track. A

leadership visit usually looks at big picture issues even in the security field.'

Yet, just two days later, the prime minister, on his own, announced that a completely new deal was going to be struck. Under this, India would purchase thirty-six aircraft in a 'fly-away' condition.

The India–France joint statement issued on 10 April 2015 stated:

> The two leaders agreed to conclude an Inter-Governmental Agreement for supply of the aircraft on terms that would be better than conveyed by Dassault Aviation as part of a separate process underway; the delivery would be in time-frame that would be compatible with the operational requirement of IAF; and that the aircraft and associated systems and weapons would be delivered on the same configuration as had been tested and approved by Indian Air Force, and with a longer maintenance responsibility by France.

Two implications were manifest:

1. The price of the thirty-six Rafales would be less than what was already being negotiated. Since they were being supplied in 'fly-away condition', they had to be cheaper than the eighteen Rafales that Dassault had bid to supply in the MMRCA tender.
2. The aircraft and systems were to be 'on the same configuration as had been tested and approved by the IAF in the MMRCA evaluation'. That clear and emphatic affirmation in the joint statement nails the falsehood that has been spread since then – namely, that the price per aircraft is so much higher because of some novel 'India-specific enhancements' in the thirty-six Rafales now contracted.

The sort of statements that the then defence minister Manohar Parrikar made in the wake of the announcement left no doubt that he had not been consulted in regard to this drastic change in the project. He moved swiftly to distance himself from the decision after the Modi–Hollande announcement. 'Modi ji took the decision; I back it up,' he told Doordarshan on 13 April 2015. Elaborating to NDTV, he described the decision as 'the outcome of discussions between the Prime Minister [of India] and the President of France'.

There were further startling facts about the decision:

1. There was no explanation for how the number of thirty-six aircraft had been arrived at.
2. There was no mention of any aircraft that were to be manufactured in India.
3. There was no mention of the requirement that the supplier must transfer technology.

1. From securing 126 fighters, the IAF was now to get only thirty-six fighters – there was nothing about the rest.

All that was said by government sources in justification was that the IAF needed the aircraft urgently, and that these thirty-six planes would reach India within two years. Three years later, the aircraft are nowhere in sight. It has in fact been announced in Parliament that the first Rafale fighters will come only by September 2019 (four and a half years after the prime minister's announcement). The full pack of thirty-six aircraft will not be available to India till mid-2022.

If the government had adhered to the original 126 aircraft proposal, the eighteen aircraft would have come within two and a half years and, as Dassault would have been bound to commence production within three years, the additional aircraft would also have been available to the IAF by mid-2022. The aircraft thus would have been available at the pace which the government now claims it has ensured as a matter of urgency and, in addition, the country would have gained from the technology that would have been transferred.

Several questions arise:

- Did the IAF urge that the original deal with its all-important multiple objectives be scrapped and a new one confined to thirty-six aircraft be concluded? How was the IAF's studied estimate that it is in dire need of 126 aircraft summarily jettisoned?
- Did the new deal have the approval of the Cabinet Committee on Security at the time the prime minister announced it in April 2015 and included it in the India–France joint statement?
- As this was entirely a new deal, why were fresh tenders not invited? In particular, why was this not done in view of the fact that the suppliers Eurofighter GmbH had formally written to the then defence minister Arun Jaitley on 4 July 2014, offering to reduce the cost of the Eurofighter Typhoon by a full 20 per cent?

Then the Anil Ambani group entered the picture, displacing HAL.

In March 2014, before the Modi government came to power, it was reported that a work share agreement was entered into between Dassault Aviation and

HAL according to which HAL would do 70 per cent of the work on 108 aircraft that were to be manufactured in India while Dassault would undertake the rest of the work. Just days before the new deal was signed, on 28 March 2015, a new company was incorporated: Reliance Defence Ltd.

Within days of this company getting incorporated, on 10 April 2015, the prime minister announced that India would be going in for thirty-six Rafales in 'fly-away condition'. This announcement had another startling feature: in little time, it became clear that Anil Ambani – who had accompanied the prime minister to Paris as part of the Confederation of Indian Industry (CII) delegation in April 2015 – and his newly minted Reliance Defence Ltd were going to be brought in to benefit from the billions of dollars of offsets that would arise from the Rafale purchase. (That HAL was to produce 108 of the 126 aircraft that the UPA originally envisaged buying is a direct offset – an agreement directly related to the defence product being bought. Similarly, there can be indirect offsets that do not relate to the product in question. Anil Ambani's company was to become the beneficiary of indirect offsets.)

After the formal contract, a new joint venture was struck between Reliance Defence Ltd and Dassault Aviation with Anil Ambani as the chief executive officer. Reliance is to hold 51 per cent of the equity and Dassault 49 per cent. This brand-new company is the one that has reportedly been assigned 70 per cent of the offset benefits, that is, orders worth Rs 21,000 crore out of a total offset liability of Rs 30,000 crore.

Neither Reliance Defence nor any of its allied companies have any experience of manufacturing aerospace and defence equipment. Its Pipavav shipyard is facing serious difficulties in building offshore patrol vessels for the Indian Navy – a long-delayed order that is impacting the navy's operational effectiveness. In contrast, HAL has over sixty years of experience in aircraft manufacturing. As recently as 2014 HAL had entered into a work share agreement with Dassault for the manufacture of Rafale.

Reliance Defence Ltd has threatened defamation suits of Rs 5000 crore each (proving this is less about slander than about intimidating those speaking out against the deal) against Congress party politicians as well as independent media houses. Fortunately, the bottom of Reliance Defence's case was knocked out when former French president François Hollande told a French website in

September 2018 that Reliance Defence was thrust upon them as the partner for Dassault (instead of the earlier agreed HAL) and that the French had no say in the matter.

The Government of India has insisted it cannot disclose the price of the aircraft because of an agreement of secrecy with France. This claim is as much of a lie as it is baseless.

In fact, on 18 November 2016, in response to a question asked in the Lok Sabha on the acquisition of fighter aircraft, the minister of state for defence stated, 'Inter-Governmental Agreement with the Government of French Republic has been signed on 23.09.2016 for purchase of 36 Rafale aircraft along with requisite equipments, services and weapons. Cost of each Rafale aircraft is approximately Rs 670 crore and all the aircraft will be delivered by April 2022.'

This disclosure was not a sudden leap in transparency. On earlier occasions too, the cost of defence and aerospace equipment has been disclosed to Parliament and the people.

Even more conclusive is the fact that the secrecy clause in the agreement binds India not to disclose the technical specifications and operational capabilities of the aircraft. It does not bind India to keep the price secret. In fact, French President Emmanuel Macron himself stated explicitly in March 2018 in an interview that how much is to be disclosed in this regard is entirely up to the Indian government.

It is also the case that anyone and everyone can get information about every aircraft, every component of every aircraft, every missile, every component of every missile that has been imported from data published officially by the Government of India itself.

The actual price of thirty-six aircraft was also revealed in a press release by Dassault and Reliance Defence and in the financial press release statement of Dassault for 2016. Both the documents show the total price of the deal to be about Rs 60,000 crore (about euro 8.139 billion) for thirty-six aircraft. This is embarrassing for the government, for it works out to Rs 1660 crore per aircraft. This is more than double the price of the aircraft under the earlier 126 MMRCA deal. And almost Rs 1000 crore higher per aircraft than the price that was furnished by the government itself to Parliament on 18 November 2016.

Note in particular that the original Request for Proposal had clearly stated

that in addition to the costs of direct acquisition, the cost of the aircraft would include cost of weapons and missiles, warranty for the first two years, licence royalty for manufacture in India, of technology transfer as well as the cost of initial training. The 'India-specific add-ons' excuse that is now being peddled to justify this enormous increase in the price – the missile, the helmet – are just a cock-and-bull afterthought. They are given the lie by the India–France joint statement of April 2015 which states explicitly that 'the aircraft and associated systems and weapons would be delivered on the same configuration as had been tested and approved by Indian Air Force' in the 126 MMRCA tender.

Finally, the government's refusal to disclose the price and terms of the Rafale contract on the ground of a confidentiality agreement is literally a replay of what the then government invoked for not giving details of the Bofors contract – no one had denounced that government for hiding the facts behind the veil of confidentiality as much as leaders of the BJP itself. Thus, as was the case then so is the case now: in effect the government is claiming that they can spend any amount of public money for anything and refuse to disclose it to Parliament and to the people by signing a confidentiality agreement with a foreign government. Such a contention violates the basic principles of transparency and accountability in a democracy.

Can any agreement with a foreign government override the authority of Parliament, and through it of the people to facts that bear directly on national security?

Can any agreement with a foreign government override the laws of our country, such as the Right to Information Act, the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act?

If these details are confidential, how is it that some media outlets are claiming access to this confidential price data and other information of India-specific upgrades, access from none other than government sources?

The net results of the gross misuse of office by which the original project for the acquisition of 126 fighter aircraft has been sabotaged are:

- National security has been jeopardized.
- An enormous additional burden has been placed on the national exchequer.
- The one organization in the country which has had decades-long experience

in manufacturing aircraft – HAL – has been kicked out of the project.
- A private party which has absolutely no experience in manufacturing aerospace and defence equipment has been handed an enormous financial benefit.

That was our comprehensive press conference on the Rafale deal. Despite Anil Ambani sending a 'cease and desist' notice to all and sundry on this clear case of undue favouritism, the nation awaits Modi's response.

8
GST – Gayi Sarkar Teri Taxation

As chief minister of Gujarat, Modi had repeatedly opposed the goods and services tax that the UPA regime had introduced in Parliament in 2011. Modi made fun of GST. He is on record saying that the country's IT infrastructure could not handle its implementation. 'It will never be successful,' he said. In 2011 the then finance minister Pranab Mukherjee went to Gujarat to try to convince the chief minister, but to no avail. When Chidambaram returned as finance minister, he tried in 2013 to push the constitutional amendment that GST required to become law, but Modi remained stubborn. The Congress was mystified. The then rural development minister Jairam Ramesh went to Ahmedabad in September 2013 and asked the local media why their chief minister was opposing GST. According to *DNA*, 'The senior minister of the UPA government said he failed to understand why Modi was opposed to GST when it was the brainchild of former finance minister Yashwant Sinha.'

When Modi became prime minister he apparently saw the light. He shepherded GST through Parliament in August 2016, and it was launched with a special midnight session of Parliament on 30 June 2017. Defending his earlier opposition, he told Parliament that as a chief minister he had seen its weaknesses and as prime minister addressed them.

There was little evidence of him having addressed the weaknesses. When GST rolled out, besides the delay in online registration due to crashing IT servers, businesses found they initially had to fill out dozens of forms every month for compliance. Non-compliance brought serious penalties.

The launch of GST was another case of Modi governance: a grand theatrical announcement followed by bad design and poor implementation. In the words of West Bengal Finance Minister Amit Mitra, a botched-up GST was thrust upon an unprepared nation. To that I would add: by an unprepared government.

As the President pointed out in that midnight session, GST began its journey in 2002. Vajpayee was in office, and indirect taxes was an area we wanted covered in our economic reforms. Indirect taxes include central excise, state sales tax, entry tax and octroi.

I remember in 1998 during budget preparations my officials and I were in the high-security Tax Research Unit (TRU) of the Central Board of Excise and Customs (CBEC) and we were looking for places to raise revenue from. The

joint secretary of TRU, T.R. Rustagi, an expert in indirect taxation, showed me a list of products we could consider for raising additional revenue. One of them was 'branded edible preparations when produced in factories'. It was exempt from excise. It sounded like something for elite consumption, so I decided to impose excise duty on it at the rate of 8 per cent.

In those days I was staying at Vithalbhai Patel House, a hostel for parliamentarians, and one morning while leaving for office I saw a large number of cars including expensive foreign cars parked there. Later, at my office in Parliament, a large number of people along with some MPs turned up to see me; they were the ones who had come to see me at Vithalbhai Patel House: they were mithaiwallahs from around the country, like the proprietor of the famous Nathu's Sweets. They complained that they had come under that category of branded edible preparations, and now had to pay 8 per cent excise.

Their logic was simple: if they packed sweets in a box that had the brand name on top, they have to pay tax. If they packed the sweets in unmarked boxes, then it would not be branded and there would be no tax. It meant that someone would have to come and check how many sweets were packed in branded boxes and how many in unmarked boxes, and this would lead to an 'inspector raj' in sweets: the government wouldn't gain much, but excise inspectors would profit. Dr Manmohan Singh had also tried this tax, they said, but he removed it when we protested. Who wants to fight with mithaiwallahs, I thought, and so the tax was withdrawn.

I learnt an important lesson though: indirect taxes needed cleaning up, and that became one of the major achievements of my time at the finance ministry. Chidambaram had already done a great deal of cleaning up of direct taxes in his 1997 budget, by simplifying it to three rates – 10, 20 and 30 per cent – and those rates have survived, albeit with minor tinkering.

Unlike direct taxes, however, in central excise there were a dozen rates, ranging from 3 per cent to 36 per cent. The mithaiwallah episode prompted me to start thinking of rationalizing the indirect tax rates. There was no justification for 5 per cent, 8 per cent, 10 per cent, 12 per cent, and so on. But raising a rate is always difficult; reducing it is not. If you raise taxes, there is always a terrible backlash: parliamentarians get upset and say, what nonsense, remove this, don't raise that, etc.

So I started discussion with my officials on how to rationalize the various rates. We agreed that we should have three rates – a mean rate, a merit rate and a demerit rate. The officials suggested a rate of 16 per cent as the mean rate, 8 per cent as the merit rate and 24 per cent as the demerit rate. This would cover almost all goods. We could not do it in one go, so we did it gradually: the 3 per cent slab joined the 5 per cent slab, and at the next stage that combined slab would join the 8 per cent slab. Similarly with the top slab, it would be brought down to 32 per cent, and lowered gradually.

By 2002, the last budget I presented, we brought in central value added tax (CENVAT) which laid the foundation of GST. It replaced modified VAT (MODVAT) that V.P. Singh had introduced. CENVAT was based on the three rates mentioned above, and the mean rate of 16 per cent accounted for over 90 per cent of the revenue collected. The goal was to ultimately bring all products under one rate of 16 per cent, so that there would be a single rate of central VAT. Services had one rate and we decided that any service going into the production of these items would be eligible for a tax refund. The foundation of one goods and services tax was thus firmly put in place.

When the UPA came to power it implemented a state VAT in 2005. Then Chidambaram in his 2007–08 budget speech asked the empowered committee of state finance ministers to prepare the roadmap for introducing GST by April 2010. But they kept confabulating on it, and after the 2008 Mumbai attack Chidambaram was shifted to the home ministry. Pranab Mukherjee came in his place, and in March 2011 he finally tabled a constitutional amendment bill in Parliament: this was necessary since we were changing the powers of the state and Centre to tax, which were separately provisioned in the Constitution.

This was a four-stage process. The first was to amend the Constitution. The constitutional amendment had to be ratified by two-thirds of the states, as it impinged on states' rights. Two, after the amendment you had to enact the laws both at the Centre and at the state level to operationalize the constitutional amendment. Three, the President of India approves all these. Four, the government prepares rules for every act because many things are not covered by legislation. Then the law is ready for implementation.

When Pranab Mukherjee tabled the constitutional amendment bill, it was referred to the Parliamentary Standing Committee on Finance, of which I was

the chairman. I wanted to take it up immediately, but finance ministry officials approached me saying they wanted the standing committee to first take up and examine two other pieces of legislation: the Benami Transactions (Prohibitions) Bill, 2011, and the Companies Bill, 2011. They said it was urgent, and after we returned these we could look at the GST bill.

We agreed to their request and took up the consideration of the two bills first. Now, the standing committee is not a department of the Government of India that holds daily office. The maximum I could do was suggest to the members that we meet twice a week instead of once a week or once a fortnight, as generally happened. We worked hard to quickly finish with the two bills. Then we took up the GST bill – just the constitutional amendment and not the detailed legislation which was to follow. The rates were not part of the constitutional amendment bill and therefore outside the scope of our work.

But in the meantime, Pranab Mukherjee resigned to become a candidate for the post of President of India. Prime Minister Manmohan Singh took charge of the finance ministry but, because he was the prime minister with a lot of other responsibilities, the ministry went into limbo for four months. We had lots of queries, but the finance secretary told me that they could send the replies only when a full-time finance minister took charge of the ministry. Clearly, the government was not in a hurry.

Then Chidambaram returned to the ministry. We got our replies. And we took up the GST amendment bill on a regular basis, and we gave our report in the monsoon session of 2013, in August. Had the government chosen, it could have brought the amendment bill in the winter session. I suppose with the elections looming in 2014, it had lost its appetite for GST. Manmohan Singh also confessed that the GST bill would have to wait for the next government.

The Congress party often blames the standing committee and specially me for delaying it during UPA 2. This is absolutely incorrect. As for the BJP, Modi was not on the scene; and nobody, absolutely nobody, from the party took any interest in pushing the GST then.

On the other hand, the Madhya Pradesh government was opposed to both VAT and GST on principle. Gujarat, as mentioned, opposed it politically. In fact, the then Gujarat finance minister Saurabh Patel came with his officers and made such a convincing case against GST that the entire standing committee

was almost convinced by him. So I privately told Vijay Kelkar, my finance secretary in 1999 who later, as the chairman of the Twelfth Finance Commission, gave the conceptual blueprint for GST, of what Gujarat had done. He had already appeared before the committee, but I asked him to appear again, armed with replies to the points raised by Gujarat. Thus forewarned, he effectively demolished Gujarat's arguments.

That is how I was able to carry the committee with me though some members advised me to give up this thankless job and leave it for the next Lok Sabha. I persuaded the committee to not only consider the report but to adopt it and support the bill.

We made many worthwhile suggestions, and Chidambaram accepted all of them. Modi's government used our recommendations as well.

One of the questions before the committee was on the GST Council, which would include representatives from the states and the Centre, and would make recommendations on matters pertaining to GST. The council's formation was part of the constitutional amendment to enable GST. There was a tricky question of how decisions were to be taken in the GST Council – would it be by majority? By consensus? By two-thirds majority? The worry was that there were so many states and so few representatives of the Government of India that it could have been overruled if two-thirds of the states ganged up. Consensus was the best option, but what if the council could not arrive at a consensus? The committee suggested that if it came to voting, any motion be carried by a three-fourths majority. This is almost impossible, so the council was forced to work on the basis of consensus. Fortunately, consensus has held so far.

I was invited to the midnight session for the launch of GST, and the finance minister made a special mention of the standing committee and its recommendations.

When bringing in GST, Modi's finance minister, Arun Jaitley, should have remembered that by 2002 we had firmly established the three-rate formula, and though my successors in North Block, Jaswant Singh and then Chidambaram, did some tinkering, these rates by and large remained. So launching GST with three rates would not have been a big deal; Jaitley should have asserted his leadership in the finance ministers' meeting and said that it is logical that there be a mean rate, a merit rate and a demerit rate. All items under CENVAT were

already slotted into one of these three rate brackets. Only a handful of revenue-earners like alcohol, cement, cigarettes, etc., were not in the list because they generally had specific rates (a non-percentage rate, that is levied by volume or weight) or were large revenue earners like petroleum products.

Modi and Jaitley did not have to start from scratch. And the highest rate of CENVAT was 24 per cent, so what was the need to go to 28 per cent? The subsequent revisions have shown how much off the mark their calculation of revenue-neutral rates was.

They ought to have said that they would follow the international practice by moving to a single rate. Now Modi, on the first anniversary of GST on 1 July 2018, told a website that it is not possible to tax a Mercedes-Benz car and milk at the same rate. He is wrong on this, because the world over, indirect taxes are not the instrument for social justice; direct taxes are. If you try to use indirect taxes for social justice, you will run into all sorts of trouble: multiple rates with attendant problems. Even Modi's one-time acting finance minister Piyush Goyal called the idea of a single rate 'ridiculous', but my point is that the government should immediately reintroduce the three-rate formula and declare that it intends to move to a single rate.

Instead, Modi and Jaitley came out with a GST of five rates. Then they levied a number of cesses. Then they gave us an interstate integrated GST (IGST). So the GST isn't one tax but three taxes (IGST, central GST and state GST) with multiple rates. And the procedure was made so complex that ten months later it had already moved 357 amendments to GST.

Indeed, on the first day of implementation itself, the GST Council met and reduced the rate on tractor parts from 28 per cent to 18 per cent, and on fertilizer from 12 per cent to 5 per cent. One wonders why things like tractor parts and fertilizer were taxed so highly in the first place. It shows the absolute absence of application of mind. Another bone-headed move was putting GST on langar (charity kitchen). There was GST on a variety of agricultural items too.

Furthermore, taxation is based on the principle that raw materials and intermediates should be taxed at a lower rate than the final product, so that cost of production is kept as low as possible. But discrepancies often creep into indirect taxes, so that by mistake you tax a raw material at a rate higher than the end product. One goes on correcting these things, but it is a persistent problem.

GST had lots of such anomalies: shoes were taxed less than the leather they were made from.

The GST's IT network, GSTN, was not ready, and had lots of glitches; the software producer lamented it had not had enough time for beta testing. Then Modi's government had a cut-off that those with an annual turnover of less than Rs 20 lakh would not have to pay. But what is
Rs 20 lakh? It is approximately Rs 6000 a day. That is not very much for a business; it's likely a family business that doesn't keep an employee, not even a sweeper. Someone from the family sits at the business all day. They likely do not have a computer, and the government is forcing them to go to a chartered accountant. There has been evasion that is not intentional but by force of circumstance due to the tangled web of GST.

I often tell people, much to their amusement, 'Bijli ki line nahin hai, keh rahe hai online karo.'

The underlying problem here was that the finance minister or the prime minister did not spend as much time on a momentous thing like GST as they should have; as a result, bureaucrats, who have no idea what is happening on the ground (that is the politician's job) or about the principles of taxation, had a field day.

Around GST's first anniversary, the government claimed that revenue collection had crossed Rs 1 lakh crore in October 2018.

But the British brokerage HSBC said in a June 2018 report that GST had not delivered on its promise to the economy; indeed, its glitches – such as delays in tax refunds, the network's teething issues, and higher tax rates – had increased the demand for cash. (Its long-term view was more optimistic.) Formalization, in fact, had returned to pre-demonetization levels.

The IMF in its annual country report in August 2018 said that India, which was like 'an elephant starting to run', needed to simplify its GST structure. Perhaps that's why, around the same time the report came out, Goyal announced a reduction of GST rates on fifty items, at the recommendation of the GST Council.

The GST concept is good because it is simple and will lead to lower prices because there won't be any tax on tax; there'll be tax set-offs at every stage; and it will widen the tax net for transactions. It is a better tax, but Modi–Jaitley

botched it up at its very beginning. That GST has been tweaked 200 times already and over 400 notifications and 100 circulars and FAQs have been issued since its launch is standing testimony to the folly of the Modi–Jaitley team.

The other point I might mention here is the Direct Taxes Code (DTC), on which the Modi government has done another flip-flop: after four years of Jaitley and Goyal muttering about no need for a DTC, Modi himself has changed his mind and called for it.

Chidambaram had prepared a DTC and put it on the Internet for suggestions. Then Pranab Mukherjee came and introduced a bill in the Lok Sabha on 30 August 2010, which came to us in the standing committee on finance. We gave our report. Basically, the Income Tax Act was passed in 1961, and when you pull it out there are a lot of amendments stuck on it. It needed a cleaning up. Yet the UPA did not bring the bill again to Parliament.

When Modi came to power, I strongly felt that the DTC bill ought to be revived. Jaitley went around saying it was not necessary, that whatever small improvements were needed would be done through the finance bill. I insisted in my writings on a DTC bill. I said that once GST comes (not this botched-up GST but the streamlined GST) and if DTC is introduced, then part 2 of the budget speech, which gives a long list of tax proposals every year, will be confined merely to customs duties and some tweaking. It will lose its great aura because all taxes except customs duties will become almost permanent. Jaitley was not convinced, apparently.

But then, in September 2017, during the conference of tax administrators, Modi observed that the Income Tax Act was more than fifty years old and needed to be redrafted. The next month, the finance ministry announced that a task force would review the act and draft a new direct tax law. Immediately after, Jaitley and Goyal suddenly saw the light and began singing the same tune. Now time has run out, and after GST Modi has missed a great opportunity to clean up the direct taxes in India.

9
Banking – Clogging the Nation's Arteries

In a nation's body economic, banking is like the blood which flows through its veins. But banking is the sector that has been worst hit during the Modi government's economic bungling. At the end of March 2018, the NPAs of all of our banks totalled Rs 10.25 lakh crore. (An NPA is a loan or advance whose principal or interest payment is overdue for more than a certain period.) As a result, banks did not substantially lend to industries during the Modi government's years. If industries were not borrowing, they were not growing, or creating jobs. Obviously, this was a problem that needed to be tackled at the very outset, and a capable finance minister would no doubt have done so.

It is true, as the prime minister repeats whenever he sees a group of bankers or industrialists, that he inherited the NPAs from the UPA government, during whose time state-run banks were indiscreet in doling out large loans. However, the UPA government left behind an NPA problem of Rs 2.05 lakh crore. This ought to have put solving the NPA problem on the top of the list of priorities for economic management. The finance minister proved unequal to the task.

The government woke up to the problem when the then RBI governor, Raghuram Rajan, identified the problem, as the outgoing chief economic adviser, Arvind Subramanian, told Parliament's Estimates Committee in July 2018. Subramanian not only complimented Rajan for trying to tackle the crisis, he said, without elaborating, that many 'big-ticket' loans by public sector banks (PSBs) were 'influenced'. In August, in fact, the Estimates Committee wrote to Rajan – who was denied the routine extension of service after his first stint of three years, perhaps because he advised against suddenly demonetizing high-value currency which the government undertook anyway after he departed – and asked him to depose on the NPA problem.

But let us look at the government's reaction to the problem. In August 2015 the government had held a three-day brainstorming with the banks in Pune and even Modi dropped in for a day. It resulted in a seven-pronged plan to reform PSBs. It was called Indradhanush and was announced as usual with a lot of fanfare and a burst of activity. One of the startling things that emerged is that due to the action on NPAs, a lot of bad loans by PSBs were uncovered, and by December 2017 the NPAs had jumped to Rs 8.41 lakh crore.

But three years later, most of Indradhanush's objectives have remained

unachieved. The gross NPAs stood at 11.8 per cent of the banks' total advances by 31 March 2018. Banking fraud more than doubled in the last five years. One way in which the government responded was to pressure PSBs to write off Rs 2.41 lakh crore of loans between April 2014 and September 2017, the minister of state for finance, Shiv Pratap Singh, told Parliament in April 2018.

The government enacted a bankruptcy law in 2016 called the Insolvency and Bankruptcy Code (IBC). The new law replaced several older laws that dealt with insolvency and bankruptcy. Under the new legislation, once the process is triggered, within 180 days (extendable by another ninety days) it has to be decided whether the company will be liquidated or whether it will be revived and sold to a new owner. While this is a noteworthy and welcome step, the practice on the ground hasn't been as encouraging. In June 2017 the RBI had initiated IBC proceedings against twelve of the highest corporate defaulters who collectively owed banks Rs 2.8 lakh crore. But as of October 2018, only two of the twelve cases have been resolved. The biggest of these is the Bhushan Steel case which was resolved in May 2018, when Tata Steel acquired 76 per cent in the company for about Rs 36,000 crore. (Let's not forget that the banks had to take a haircut of more than 37 per cent.) The government is hopeful of resolving the rest of these cases by the end of this fiscal year, but one is sceptical of its boundless optimism.

The government announced a recapitalization plan for PSBs in 2017. According to Moody's, the government recapitalization programme will not be sufficient to support credit growth and will only take care of the provisioning requirements for bad loans. Jaitley announced an infusion of Rs 2.11 lakh crore in PSBs till September 2019. Of this, Rs 1.35 lakh crore was to come through recapitalization bonds while the government was to infuse Rs 65,000 crore in 2017–18 and another
Rs 90,000 crore in 2018–19. Moody's said that the capacity of the twenty-one PSBs to generate internal capital has deteriorated because of their weak financial performance and a sharp increase in government bond yields which hurt their investment in government securities.

As a follow-up to the IBC, the RBI on 12 February 2018 issued a notification that sent the government and banks into a panic: one, it withdrew all existing restructuring mechanisms for bad loans and, two, it introduced the one-day rule

for default. Under the new rule, even if a debtor missed a loan repayment schedule by one day the loan would be classified as 'stressed' and the bank would have to start looking into the matter. If even after ninety days the payment was not made then the loan would be classed as an NPA and the bank would have to make appropriate capital provisions for it. The IBC mechanism would be triggered by the 180th day. Until this notification, a loan was classified as stressed only after ninety days of default.

In fact, this notification led to private banks disclosing a 450 per cent rise in NPAs – from Rs 19,800 crore in 2013–14 to Rs 1 lakh crore by end March 2018. Topping this list was ICICI Bank, whose managing director and chief executive officer, Chanda Kochhar, was facing charges of conflict of interest for sanctioning loans to a private group that had invested in a company her husband was a part of. It had Rs 54,063 crore of NPAs by the end of 2017–18. Axis Bank was next at Rs 34,249 crore of NPAs.

At least only profits were hit in the private sector banks. The PSBs were worse off, with the RBI putting eleven of them under the Prompt Corrective Action (PCA) framework, a mechanism to help prevent banks from going bust. Six more are likely to be included, making it seventeen out of a total of twenty-one PSBs. PCA curbs banking activities: no more bank expansion, no more dividend payment, loan limits, audits and, if required, restructuring.

The strongest protest, however, came from the power sector, which supposedly, under Piyush Goyal, had had a miraculous transformation. The truth was that under the new RBI notification, the power sector would end up with Rs 1.75 lakh crore of NPAs – on top of what the banks were already saddled with.

The power ministry asked for changes to the notification, saying that a capacity of 30,000 MW
would otherwise go into liquidation. It demanded that their projects should not be categorized as NPAs after ninety days of default and that the deadline of 180 days be extended to 270 days to resolve an NPA under the IBC.

The power ministry said its own regulatory and policy work would become futile if the RBI's February notification stood as it was. Power producers complained that the RBI notification would tempt banks to change the ownership of power companies instead of restructuring the loan. One

industrialist whose power project was on the verge of becoming an NPA is Gautam Adani, who is reportedly close to Modi. One wonders what will happen next.

The RBI had, till the writing of this book, stuck to its guns. According to its biannual financial stability report in June 2018, a fourth of Indian bank loans had turned sour and the worst was yet to come. In fact, the government is thinking of bypassing this struggle by starting a 'bad bank', wherein it would ask public sector undertakings like the Oil and Natural Gas Corporation (ONGC) to resolve a bad loan, rather than it go to the IBC, where the promoter could lose the project.

Worse, in August 2017, the government introduced the Financial Resolution and Deposit Insurance Bill to help banks make up their losses by allowing them to charge depositors. It naturally scared the daylights out of the common citizen, to whom it became clear that the Modi government was not bothered about the general interest, or even the national interest. The government had to backtrack and the bill was withdrawn a year after its introduction.

I had tried to warn the government, in an article I wrote for a Hindi daily in January 2016, of the deteriorating health of the banking sector, and I had made some suggestions:

One, we should squarely face the situation and stop evergreening of loans (keeping them going). There ought to be an honest assessment.

Two, defaulters ought to be divided into the following categories:

(i) Those who were compelled to default for no fault of their own, including promoters who did not get clearances like forest and environment or failed to acquire land in time or did not get rail, road or electricity connections. They should be helped to get their projects going.

(ii) Defaulters who did not deserve yet managed to get loans, for example those who did not have a proper appraisal or lacked the necessary skills and ability to undertake the project. Such projects should be handed over to another promoter through a transparent process.

(iii) Wilful defaulters. They are criminals and should face the full force of law without any kindness or consideration. This category involves defaults of about Rs 1 lakh crore, but I suspect the figure may be larger. These defaulters should not be allowed to leave the country.

Three, asset reconstruction companies should be strengthened so that they can tackle the more difficult NPAs and focus on the core businesses of liquidating NPAs.

Four, an independent expert body should study the banks' appraisal systems so that loans are advanced only to worthy projects and promoters and at the right time.

In the final analysis, however, the ultimate remedy for banking sector distress lies in an improvement in the economy in general. NPAs are the product of a failing economy; if the economy is booming, NPAs will be minimal. This is why Modi's loud claims of making India the fastest growing large economy is suspect.

Instead, we have policy paralysis, which has led to stalled projects of nearly Rs 20 lakh crore, which have led to NPAs. I gave an example in chapter 6 of how a genuinely stalled project will lead to an NPA. There I had quoted the 2017–18 annual report of the MoSPI: 38 per cent of the projects in progress were of road transport and highways; then railways at 28 per cent; power at 9.82 per cent; and so on.

The need is to quickly identify those projects and clear them even faster to tame the NPA problem. Otherwise people abandon their projects; this happened in my constituency where the Hazaribagh–Barhi national highway was to be expanded to four lanes by the contractor. The group that won the contract got caught in the coal scam and some of its top people went to jail, resulting in the project getting abandoned. Once a project is abandoned, it is difficult to revive it: you have to check how much work was done, how much material was delivered, how many bills are pending that have to be settled, how many assets are left on the site, value them, etc., and then if the matter goes to court you can forget the project. Even if everything is sorted out satisfactorily, you have to issue fresh tenders for completing the remaining work. All this is a process that takes years, and as a result the loan sours.

My suggestion therefore is that the bank(s) release the first tranche of the loan only after the clearances are through and the work is about to begin. Banks can assure the promoter that they'll give the loan without actually releasing the money. Our system currently is that banks first release the money, then material is purchased, but the work may not start and the project may even get stalled.

The Modi government has the advantage of a majority in the Lok Sabha. It

has a strong mandate to govern. Also, crude oil prices had crashed in the international market after it came to power. It had all the variables in its favour when it started, and it could have tackled this problem and saved the country lakhs of crores of rupees. But it didn't.

Some analysts have said that the NPA mess has peaked and that a declining trend would begin in 2018. However, the June 2018 financial stability report mentioned earlier said that bad loans of Indian banks, especially PSBs, would increase in 2018. Banks would not be able to set aside adequate money to cover potential losses and will become more vulnerable to shocks. It added that the ratio of bad debt might go up to 17.3 per cent for PSBs by March 2019. It is very bad news for our economy.

That is not all. The main losers among PSBs in 2017–18 were Punjab National Bank (PNB) at Rs 12,283 crore of losses and IDBI Bank at Rs 8238 crore of losses. The government had embarked on a plan to rescue IDBI: at the end of June 2018, the Insurance Regulatory and Development Authority of India (IRDAI) allowed LIC to buy out 51 per cent stake in IDBI, which the government hoped to accomplish by October 2018. Passing the burden to LIC is a dangerous and risky move. (There was even talk of having LIC pick up a stake in Air India and come to the rescue of IL&FS.) LIC has become a cash cow for the government.

Worse, in January 2018, ironically just one month after the RBI gave a certificate of stability to India's financial system in its biannual report, all hell broke loose when the great Indian bank robbery was discovered: that Nirav Modi–Mehul Choksi had defrauded PNB to the tune of Rs 12,600 crore.

This scam exposed the weaknesses of India's banking system. It also soiled the prime minister's image of incorruptibility. The prime minister is well acquainted with both Nirav Modi, who owned several companies and used to sell high-end diamond jewellery under his eponymous brand, and his uncle Mehul Choksi, who ran Gitanjali Gems, as their photos and videos together attest. Nirav Modi was for a while referred to as #Chhota Modi on social media.

The BJP, however, claimed that the scam began in 2011 and that it has uncovered corruption that originated in the UPA era. The Congress says the main scam took place in 2017. Modi and Jaitley remained silent when matters became public.

Nirav Modi's scam involved faking letters of understanding (LoUs) from PNB for fraudulent transactions abroad. (An LoU is a bank guarantee issued by an Indian bank to a customer. The customer can furnish the LoU at the foreign branch on an Indian bank to take a short-term loan.) It first totalled Rs 11,380 crore, which was double the money the government had recently infused into the bank to cover its NPA hole. It was also more than eight times the profit that the bank had shown in 2016–17. PNB filed an FIR in January 2018, but both Nirav Modi and Choksi had already fled the country.

The BJP dismissed it initially as the handiwork of low-level bank officials, while at the same time blaming the UPA government as well as Rahul Gandhi. True, the Nirav Modi scam and others like it are the result of systemic failure. People figure out the system's weak links and exploit them for their corrupt ends. A finance minister cannot personally supervise the daily functioning of each and every institution under his control, but in our constitutional democracy the buck stops with him.

In the past, whenever a scam has come to light, the finance minister has been charged as responsible. In the 1992 Harshad Mehta scam, Dr Manmohan Singh was held responsible; in the Ketan Parikh scam, I was. Both of us had to face an inquiry by a Joint Parliamentary Committee, and we both appeared personally to explain our role. No such inquiry into this scam is on the horizon.

Nonetheless, that does not stop us from questioning Modi and Jaitley. Their government knows things about the Nirav Modi–Mehul Choksi scam that it is not telling us. So let me ask the government to enlighten us on the following points:

If the scam began in 2011, how many LoUs were issued year-wise; particularly before 2014 and after.

- The amount in each LoU.
- The validity of each LoU.
- The amount withdrawn from other banks' foreign branches.
- The LoUs not honoured.
- The fact that it escaped the attention of the RBI.
- The fact that 200 shell companies set up by Nirav Modi conducted these transactions – even though demonetization supposedly closed shell companies.

Unfortunately, I am not on the edge of my seat waiting for these clarifications. Even otherwise, some officials of the 1992 scam have only been punished in 2018 – this is the speed of justice in such matters. In any case, an Interpol 'red corner' notice was issued in June 2018 against Nirav Modi, who for a while appeared to be two steps ahead of Indian investigators. Two months later, he was tracked down in the United Kingdom and India asked for his extradition. Incidentally, India is still waiting for the former cricket administrator Lalit Modi and the former spirits baron Vijay Mallya to be extradited from the United Kingdom.

Choksi left India in January 2018 and became a citizen of Antigua on 15 January. India has no extradition treaty with Antigua, and Narendra Modi did not seem to have brought up the matter with his Antiguan counterpart, Gaston Browne, when the two met in April 2018.

Of course, one could say that the biggest banking scam in the country was the November 2016 demonetization of high-value currency that served no purpose. Out of the Rs 15.41 lakh crore that was pulled out of circulation, 99.3 per cent was returned to the RBI (Rs 15.31 lakh crore). On top of that, there were suspiciously healthy amounts of money deposited at the Ahmedabad District Central Cooperative Bank, of which BJP president Amit Shah was reportedly a director. In five days, there were deposits of Rs 745 crore, which is physically impossible, given the bank timings and bank culture in India. The strangest thing was that as soon as this money was deposited the facility to change old notes for new was withdrawn from the district central cooperative (DCC) banks. The monies deposited with several DCC banks have not yet been accepted by the RBI on the ground that they might not have been clean. This is a matter that is unlikely to be inquired into by Modi.

These are the large-scale bank robberies, but smaller ones have also been on the rise. As the RBI replied to an RTI application, mid-level executive frauds at banks – up to Rs 25 lakh – had risen 177 per cent, from Rs 8649 crore in 2013 to Rs 23,984 crore in 2017–18. Most of these frauds are in consumer loans and personal loans, and identity theft continues to bedevil Indian banking.

As I said in the beginning of the chapter, banking is the lifeblood of the economy, and people who defraud banks are parasitic vampires on our national economy.

In sum, the economy will grow only if banks lend money to promoters for making fresh investments for genuine projects, especially in the private sector. Productive activities in the economy will shrink if banks are reluctant. On the other hand, if promoters who take loans are victims of circumstances, or if they cheat, then it will adversely affect banking health. It is a two-way street: a healthy banking sector is possible only in a healthy economy and the banking sector will become its first victim if the economy's health deteriorates. This is what has happened in India under Modi.

Of late, Finance Minister Jaitley has been saying something rather interesting. While NPAs were pegged at Rs 2.05 lakh crore in March 2014 as per the Economic Survey that was presented by Jaitley to Parliament, he is now saying that NPAs were actually Rs 8.5 lakh crore. So then did the finance minister lie to Parliament in 2014? Or is this just a desperate attempt to whitewash the Modi government's ineptitude?

10
Fiscal Deficit Disorder

If India's economy had macro-stability during the Modi government's first four years, it wasn't because of political or economic management, but because of just one thing: low international crude oil prices.

Because of cheap crude, India managed to keep its twin deficits – the fiscal deficit and the current account deficit – under control. Prices also generally remained under control. The exchange rate, too, behaved well. The GDP growth rate, as we've already discussed, was nothing to be proud of, even if it was the highest among large economies. Cheap crude enabled many things, and it shielded the Modi government from facing any crisis during its first four years: it did not face the equivalent of the 1997 East Asian crisis or the sanctions following the nuclear tests of 1998 or the 2001 tech crash crisis that Vajpayee's government had to deal with or the 2008 global economic crisis that Manmohan Singh's government dealt with.

Now that the crude oil bonanza is over, prices have been rising in 2018. In July 2018 the oil import bill was 57 per cent higher from a year earlier – the real test of the government's management skills is happening now.

With the oil import bill rising, India's trade deficit, already in a precarious position, worsened. In July 2018 it was Rs 1.26 lakh crore. This is bad news for India's CAD, which includes the trade deficit plus financial and income transfers. The CAD is a key vulnerability for the economy. The higher it goes, the likelihood of inflation and even capital flight increases. Japanese financial services firm Nomura predicted that India's CAD would widen to 2.8 per cent of GDP in 2018–19. To see what this means, consider an RBI paper on CAD from 2012, which said that 2.8 per cent was the outer limit of a sustainable CAD, provided the country grew at a rate of 6 to 8 per cent. The Modi government has taken the country to the knife's edge.

The trade deficit is caused by a large merchandise trade deficit, the rising price of crude oil, and the falling value of the rupee. The large merchandise trade deficit means that our exports are not competitive, and our government has not done enough to diversify markets for our exports – even though the prime minister is pretty much a salesman for crony capitalism. We imported USD 459.7 billion worth of goods in 2017–18 (despite 'Make in India'), which was 19.5 per cent higher than the previous year, and which exceeded exports by USD

156.9 billion. Given that the monthly deficit widened to USD 18.7 billion, the 2018–19 gap is expected to widen to USD 180 billion.

The solution to a growing CAD is to frame economic policies that improve our manufacturing sector so that their exports may grow. But we have already seen that the Modi government's main manufacturing thrust, 'Make in India', was just a lot of lip service without the matching heavy effort. Of course, to boost manufacturing we in the Vajpayee government relied upon improving our infrastructure – power, ports, highways – relaxing our labour laws, lowering transaction costs and facilitating quick clearances of projects. As we have seen, the Modi government's record on this has been poor except in the road sector, where Nitin Gadkari pretty much disregards the prime minister and works on his own.

It is clear that the Modi government did not put the crude oil bonanza it was blessed with to the best use. The day he assumed office, 25 May 2014, crude was at around USD 110 a barrel. That was down from USD 132 a barrel in 2008, the year of the world global crisis, and it would come crashing down after Modi took over to USD 29 a barrel in January 2016. It stayed under USD 30 for many months.

However, when crude prices came crashing down, the government mopped up the entire surplus for itself. It raised excise on petroleum products twelve times between May 2014 and September 2017. During this period, it hiked the excise duty on petrol by 54 per cent, VAT by 46 per cent and dealer commission by 73 per cent; excise on diesel increased by 154 per cent, VAT by 48 per cent and dealer commission by 73 per cent. Consumers did not get any benefit from the crash of crude oil prices.

The government's revenue on excise duty on petroleum products went up from Rs 1.52 lakh crore in 2013–14 to Rs 3.3 lakh crore in 2016–17, and stood at Rs 2.84 lakh crore in 2017–18. In four years, analysts had estimated that the Modi government and the state governments had mopped up Rs 16.57 lakh crore as tax revenue from petroleum product sales. It made for a record tax collection. Some money went to the states as per the recommendation of the Fifteenth Finance Commission, and some went to pay the Seventh Pay Commission wages for government employees.

Combine that tax windfall with the reduction of subsidies – in its first year,

the Modi government brought its subsidy bill down by nearly Rs 1 lakh crore – and although in its final year Modi's eye is fixed on the parliamentary elections and so he is allowing a subsidy surge, in four years the subsidy would have saved his government Rs 4 lakh crore.

So the bonanza was even bigger. The achhe din that Modi promised was actually only for his government, because he did not pass a single paisa to the consumer. And when international prices rose, then the Indian prices, which never came down, started to climb to new heights again. And the government tried to fool the consumer by changing the price revision from fortnightly basis to daily basis; this way the increases seem minimal, say 30 paise in a day instead of two rupees over ten days.

The Indian consumers' dose of taxation is so heavy that even Bangladesh, Sri Lanka and Pakistan shine in comparison to India. The Modi government is milking this cash cow like no other because his government lacks the imagination to control the fiscal deficit in any other way. Naturally, they have controlled it to the target of 3 per cent, though in 2018–19 they raised the target to 3.2 per cent. But now with the rise in oil prices and the drop in the value of the rupee they will find it difficult to control both the fiscal deficit and the CAD.

The future for the price of oil seems bleak, particularly due to fears of what will happen when the United States pulls out of the 2015 nuclear deal with Iran and will track its sanction on Iran oil from November 2018. India is the world's third largest importer of oil, and Iran is a supplier. With crude prices increasing, every USD 10 a barrel (over USD 60 a barrel) raises inflation by half a percentage point. It also raises the CAD by 0.6 per cent (60 basis points), which is contributing to the rupee meltdown.

Clearly, the management of the oil economy in India during Modi's four years is a tale of fiscal mismanagement. The department of economic affairs says the burden of rising oil prices will only be USD 50 billion, that it is due to 'external factors' and that those external factors would not lead to a 'storm' in the coming days.

But if the trade deficit rises then we are looking at a higher CAD; and if the government tries to reduce the fiscal deficit by cutting taxes, then the subsidy bill will go up (which it already has in kerosene and LPG). Inflation will go up, even

though the RBI is trying to head it off by raising interest rates. And gold imports, which had come down in 2018 after record imports the year before, will go up again – which will make our CAD go up. It is a complicated, intertwined spiral that we are looking down into. The multiplier effect of crude prices is extensive on our economy.

As for the falling rupee, in August 2018, near our seventy-second Independence Day, it reached 70 to the US dollar. In October 2018 it reached a historic low of
Rs 74.34. If you remember, Modi in 2013 used to constantly criticize Dr Manmohan Singh because the rupee had reached 60 per dollar, saying a weak rupee reflected a weak government. Ironic. Today the rupee is at an all-time low. And new depths are plumbed every day. Another record for this government.

The assertion that a weak rupee benefits us through greater exports is now a discredited theory, and not because the world has become more protectionist after Donald Trump became US President. But because a weaker rupee contributes to inflation and the importer also becomes wise and does not allow the exporter to walk away with windfall gains.

All imports become more expensive. The depreciation of the rupee against the dollar makes oil that much costlier. The depreciation is happening for the simple reason that the players in the exchange market notice that the demand for dollars is going up – oil companies, for one, would be demanding more dollars – and that adds pressure to the exchange rate. Government policy has always been not to peg the rupee to any particular exchange rate or the market to any particular level. The responsibility of preventing volatility is with SEBI and the RBI.

I have, however, been noticing the past few years that there is a high degree of volatility in the exchange market. People by and large notice volatility in the stock market – if it drops 500 points or so in a day – but in the exchange market, if the rupee per dollar rises or drops 30 paise in a day or if the pound moves 40–50 paise in a day, there is not a lot of noise. What this means, however, is that someone is making a lot of money in the exchange market, and that is going unnoticed.

The RBI is there to prevent volatility, sometimes by using its reserves in the market, and sometimes, especially with oil companies, by facilitating off-market

purchases of hundreds of millions of dollars. The RBI uses brokers to play the market, and sitting on USD 400 billion of reserves, it's not a difficult task. The only fear is that the RBI (or those brokers) should not let the market know if it is wedded to a currency rate; otherwise the market will put a lot of George Soros–type pressure and the currency will collapse – which has fortunately not happened in India.

Yet still, I hope that the government one day looks into this mysterious volatility in the exchange market.

Another problem with an out-of-control CAD is that it leads to capital flight. Some may argue that capital flight is already happening, and they give a few indicators. One is that since 2014, 23,000 millionaires have left India; about 7000 left in 2017 alone. Another is that in the imports that have shot up, the Directorate General of Foreign Trade is reported to suspect over-invoicing of imports for capital flight (scrutiny is in progress; for instance, in 2017–18 there was a 40 per cent spike in imports of gems and jewellery though exports were flat). The foreign portfolio investors have started withdrawing from the stock market. Even public sector companies are not immune to what the Directorate of Revenue Intelligence calls 'trade-based money laundering', for instance, in the artificial inflation of coal imports.

The Modi government has also resorted to 'tax terrorism', which was defined by T.V. Mohandas Pai, generally a supporter of the regime, as when the political establishment sets unrealistic targets leading to high-pitched assessments and a long time to settle appeals. In my mind, the demonetization of November 2016 – which was not dissimilar to Mohammed bin Tughlak in the sixteenth century shifting the capital from Delhi to Daulatabad – was a form of tax terrorism by the government. Over 18 lakh people were identified whose cash transactions were not in line with their tax profile. It is again part of the Modi government's smoke-and-mirrors ploy: to say that the tax net has widened and that revenue collection has improved when there is little difference from the natural growth of the tax base and revenue collected in a growing economy.

Another way in which the government has tried juggling the books is by making an allocation in the budget, but the expenditure does not take place.

If you look at the revenue expenditure of the government, it is actually a maintenance expenditure plus interest payments: necessary expenses for keeping

things going on a day-to-day basis by giving salaries
and keeping the machinery of governance running.
This is one reason the various welfare schemes that are forever announced in the prime minister's name by
Modi himself are flops: there is hardly any money to fund them.

We have discussed many sectors in the course of this book, but one which shows the government's absolute lack of imagination in expenditure, as well as showing the failure of 'Make in India', is defence. This is ironic given that the prime minister likes to project himself and his supporters as the most patriotic in the nation. The treatment of India's defence requirements shows this government as pseudo-patriotic.

Worse, the sector has been subject to one of the biggest displays of crony capitalism in India's history, proving how Modi has run a 'suit-boot ki sarkar', as alleged by Rahul Gandhi, one that favours private interest over the general interest or national interest.

In the 2018–19 budget, one sees that defence was allocated Rs 2.95 lakh crore. Of this under Rs 1 lakh crore has been allocated for capital outlays: for purchasing new weapons, aircraft, warships, military hardware, etc., for the three forces. The rest is revenue expenditure: payment of salaries, maintenance of establishments, etc. In fact, the ex-servicemen's pension bill (which is separate from the defence budget) is itself more than the Rs 1 lakh crore capital outlay budget! In comparison, China spent four times as India on its defence budget.

As reported by defence correspondent Sandeep Unnithan, the army vice-chief Lt General Sarath Chand told the Parliamentary Standing Committee on Defence that 65 per cent of the arsenal was obsolete, and that the force lacked the artillery, the missiles and helicopters required for a two-front war that his chief, General Bipin Rawat, had said India was ready for. He pointed out that after the September 2016 'surgical strike' on the Pakistani side of the Line of Control, the military made fast-track purchases of nineteen contracts for Rs 11,739 crore. The government did not make an additional sanction for this: it was deducted from the military budget.

The main point, however, is that capital expenditure is coming down. Capital expenditure in defence is crucial since that is indicative of our long-term planning. In 2010–11, capital expenditure was 26 per cent of the defence budget,

but in 2018–19 it had come down to 18 per cent. Laxman Behera of the Institute of Defence Studies and Analysis (IDSA) says it could come down to 10 per cent in the coming years.

The forces are feeling the fiscal freeze, complaining that announcements are plenty but contracts signed are few (as we know to be characteristic of the Modi government); money is not being released even for recently initialled contracts. Last year the defence forces asked for Rs 28 lakh crore for modernization during the Thirteenth Five Year Plan (2017–22), but it looks unlikely, according to Unnithan, in whose opinion the army is 'broke'.

Obviously, capital expenditure is getting squeezed by revenue expenditure, that is, day-to-day costs. Manpower costs are 56 per cent of the 2018–19 budget and then there is the pension burden.

Granted that the government has a tough time finding money for all this and for the brief period when Jaitley stopped being the defence minister the government had to sort out the perennial one-rank-one-pension demand by ex-servicemen. It wouldn't be so tough if the economy was growing on a healthy basis, which it is not, or if the government was not trying to be all things for all people, with its myriad schemes and programmes, but ending up not pleasing anybody at all due to lack of funds and its financial jugglery.

Finally one can mention the government's ineptitude and false hope over disinvestment of the public sector, which was supposed to add to the coffers and possibly helped in increased capital expenditure. The most prestigious privatization programme remains Air India, and it has not taken off. The government will merely pump in more money – it cannot close it down. They made a big song and dance about finally disinvesting the airline, but on 31 May 2018 the government admitted it could not find a buyer.

Air India could not find a buyer, mainly because of the huge accumulated losses (Rs 50,000 crore in 2017) and its debt (Rs 55,000 crore, 2017). The government had offered 76 per cent of its stake each in Air India and its low-cost Air India Express, and a 50 per cent stake in its ground handling service. Whoever took it would also have to take Rs 33,000 crore of the debt. Other conditions, regarding the future of employees and the conditions of who could be a foreign investor, were tough.

Modi constituted an Air India Specific Alternate Mechanism (AISAM)

comprising Arun Jaitley, Nitin Gadkari, Piyush Goyal and Suresh Prabhu to advise him on the next course of action, but again one need not sit on the edge of one's seat.

When the Vajpayee government considered disinvesting Air India, an alliance of Singapore Airlines with the Tata group had an interesting proposal. But there were differences within the government. The civil aviation minister was Sharad Yadav, who was philosophically opposed to disinvestment. After him, Shahnawaz Hussain was the minister, but he had little clue. Ananth Kumar was the minister at the outset of the Vajpayee government, and he was vehemently opposed to it, as was L.K. Advani. So while Vajpayee was in support of disinvesting Air India, the minister in charge was not; it was a decision on which Vajpayee chose not to expend political capital, and so it was forever postponed.

Air India (along with erstwhile Indian Airlines) once ruled the skies; now it has only a 13 per cent market share of civil aviation in India. Yet Modi could not disinvest it. He failed for several reasons – for one, he is the decision-maker, not the line minister. The fact that Modi waited for three years showed his lack of seriousness as well as the finance minister's lack of focus on disinvestment, even though he himself held the disinvestment portfolio. The unattractive terms of the sale showed that it was basically managed by bureaucrats, and that political direction was missing.

Air India's failed disinvestment is an example of the government's fiscal mismanagement. It mismanaged our oil economy; it mismanaged our cash flow with demonetization; it mismanaged our capital expenses. A brilliant opportunity lent by low crude oil prices for reform was squandered by ad hoc, fly-by-night decision-making. The only place where Modi did not waste time was in helping his friends, proving that his is truly a suit-boot ki sarkar.

In Modi's four years there was hardly any private investment. Some FDI has come, but what is sustaining our economy is government expenditure. There is fresh burden on the states, where the fiscal situation has worsened. The worst I found was Maharashtra, where the fiscal deficit is at unsustainable levels. The fiscal situation of the states has been deteriorating but the Central government has been able to hold on to its fiscal deficit largely because of the gain from the low crude prices. Modi will face a challenge in his final year.

An important trend to look at is the government's revenue expenditure and its

ratio to capital expenditure. If that ratio has deteriorated, then expenditure management has been poor; we have spent less on investment expenditure and more on maintenance. The defence minister is on record to say that most of the money is going to pensions, a revenue expenditure. This expenditure is unproductive; it is a maintenance expenditure. Capital expenditure is the investment expenditure.

Over a period of time the government's capital expenditure has declined, which means government expenditure has not supported new economic activity. That has been supported by private sector expenditure; but because of the banks, the private sector's capital expenditure has also been niggardly. That is a major flaw of the past five years.

11
Broken Promises

During the 2014 election campaign Modi informed an audience that if all the black money stashed abroad were to be brought back to India, it could put Rs 15 lakh in each Indian's bank account. Around the same time, the then party president Rajnath Singh, taking a cue from Modi, promised that a BJP government, if voted to power, would bring back black money in 100 days. This announcement got conflated into the promise that Modi would be a tough prime minister who would bring back black money in almost no time and put Rs 15 lakh in each citizen's account. Of course that never happened. Rajnath Singh's successor, Amit Shah, after being pestered about this promise had to finally confess that it was nothing but a 'chunavi jumla' (a fake promise made during elections). In the end this has become Modi's worst-sounding broken promise.

This figure of Rs 15 lakh is in itself dubious. It originates from S. Gurumurthy, a chartered accountant based in Chennai who is influential in the RSS and who has had a feverish obsession with black money for decades. There can be no doubt that any right-minded Indian would prefer to see the end of the black economy and would want any illegally earned or tax-evaded money that is stashed abroad to be brought back to the Government of India for nation-building. However, when Advani was in charge Gurumurthy influenced him to set up a committee, under his chairmanship, to calculate the amount of black money. Surprisingly, I was neither consulted about the setting up of this committee nor was I included in it. With a few fellow travellers Gurumurthy came up with a figure that sounded mind-boggling but had no foundation in hard, scientific fact. When Modi's star began to rise, Gurumurthy, like Jaitley and several others, was quick to jettison Advani and hitch his bandwagon to Modi, eventually becoming his adviser. Modi adopted Gurumurthy's crazy fantasies and used them to weaponize his political campaign. (Gurumurthy has, in Modi's fifth year, been appointed a director in the RBI.)

Black money has two aspects: it is stashed abroad and it exists here at home. Modi tried to attack black money at home through his November 2016 demonetization of high-value currency. He failed completely and miserably. Practically all the currency that was demonetized was returned to the banks – Modi and Gurumurthy had calculated that black money would get left out and would not be returned to the RBI through the banking system, and that the

government would get a bonanza when the RBI paid it a dividend on the unreturned money.

Then they launched 18 lakh income tax cases on people who allegedly had deposited more demonetized notes than was proportional to their tax profile. But what happened to these cases? As Modi began his fifth year, the finance ministry instructed its officers not to harass people as elections drew near. In July 2018, after Piyush Goyal took over as finance minister from an ailing Jaitley, the finance ministry withdrew litigation in disputes that came to 41 per cent of the direct tax cases and 18 per cent of indirect tax cases. The charge of tax terrorism had stung them. In fact, the Economic Survey 2018 noted that while the tax department files appeals in 80 per cent of the cases it loses, it only succeeds in 30 per cent of the appeals.

Even if litigation is justified in that it is against persons depositing more than Rs 5 lakh in their account during demonetization, when Rs 2.5 lakh was the announced limit beyond which the government would begin inquiries, the point is that anyone who deposited money at that time did so consciously, knowing full well that it would be recorded and could occasion an inquiry. So that person would have had a ready defence.

Tax litigation is itself an arduous and long-drawn-out affair. It starts with the income tax assessment officer, then goes up to the commissioner, then goes higher to the appellate commissioner, then upwards to the tribunal, and then of course there is the high court and after that the Supreme Court. It is a long procedure. As of March 2017, tax disputes worth Rs 7.6 lakh crore were stuck at various stages in various forums. How much of this is likely to be recovered and how much is not cannot yet be determined, and won't be for many years.

Modi has failed completely to make any impact on black money in India. It is everywhere; there are periodic reports on how black money in new notes has been seized. In the end demonetization was a case of much ado about nothing, and that too at great pain to the nation during the months after it came into effect. In fact, according to a recent report, on 11 November 2016, Rs 15.26 lakh crore of currency was in circulation. This amount increased to Rs 18.76 lakh crore on 12 October 2018. But roughly only 40 per cent of this was in circulation in the market. What's more, according to Transparency International, bribery itself increased by 11 per cent just between 2017 and 2018.

As for the black money stashed abroad, particularly in Swiss banks, we've heard of three revelations: the list of one lakh clients of HSBC Bank from a whistle-blower in 2008, who handed the list to the French authorities, which reached India during the UPA regime; the 'Panama papers' exposé, where over one crore papers involving two lakh offshore entities connected to a Panamanian law firm were leaked in 2015; and the 'Paradise papers', which again brought into the public domain over one crore documents relating to offshore investments that were leaked to German journalists in 2017.

None of these revelations were the result of any effort by the Government of India. Fortunately, they landed in our laps. The HSBC list of 740 Indian names was with the UPA for its last two years in power, and has been with the Modi government for the last four years. Yet in six years or so, there has been no attempt to recover any of the money nor was anyone sent to jail for stashing black money abroad.

While nothing has happened in India in the wake of the Panama papers leak, next door in Pakistan there was a serious political fallout: Nawaz Sharif lost his prime ministership, was prevented from contesting elections, had to pay a hefty fine and was thrown in jail. The same is true for the Paradise papers. It appears the Indian government is reluctant to act on probing offshore accounts. Ram Jethmalani, a former BJP member and another black money crusader, has written about how this government has stalled his efforts on recovering black money.

To add salt to our national wounds, banking channels have been used to raise black money, as seen in chapter 9.

So much for a government that promised to get tough on black money.

To look at Modi's other broken promises in detail, one only needs to go through the BJP manifesto for the 2014 parliamentary election. (The Rs 15 lakh in each account was above and beyond its stated aims.) The document was prepared by a drafting committee headed by former party president Murli Manohar Joshi, and Jaswant Singh and I were its members.

After a while, Jaswant Singh went off to contest elections in Barmer, Rajasthan, despite not being nominated by his party, so the BJP gave him the boot.

I left for Hazaribagh, Jharkhand, to manage my son Jayant's election

campaign. While I was there, Joshi got a draft of the manifesto prepared and emailed it to me.

Despite my busy schedule in Hazaribagh I sat down one day and read the manifesto in its entirety and found much of it uninteresting. I was keen on a gram sinchai yojana (village irrigation scheme) along the lines of the Gram Sadak Yojana during Vajpayee's tenure, but it had not been included despite my insisting on it during initial discussions. So I called Joshi and he asked me to add a paragraph about it in the manifesto, which I did and which was included in his final draft.

I mention this because during the 2014 campaign, wherever Modi went, he would bring up the topic of irrigation. In a speech he gave in Hazaribagh, he said we would take water to every field. 'Har haath ko kaam, har khet ko paani', these were slogans coined during the days of the Jan Sangh, to which the BJP traces its roots.

When Modi was announced as the prime ministerial candidate he took charge of the manifesto and constituted a team to go through it. They were instructed on what to include, etc. and his imprint is all over the manifesto. So today he cannot claim it was Joshi's manifesto of which he had no idea, because he 'Modi'-fied and recast it in his own mould.

Modi was no novice at governance. He had been Gujarat's chief minister for twelve years. He had headed committees of chief ministers constituted by the Planning Commission or by the National Development Council (NDC). Twelve years of experience as a chief minister is a long and useful experience in governance. Therefore, he cannot say that he was a greenhorn and he made promises without knowing how the system functioned. While making promises he knew which ones could or could not be implemented in the time frame promised. Modi deliberately misled the people of India.

For instance, in the 2014 election manifesto he made nine promises with regard to agriculture, including to 'take steps to enhance profitability in agriculture by ensuring a minimum of 50 per cent profit over the cost of production' and to 'put in place welfare measures for farmers above 60 years in age, small and marginal farmers and farm labour'.

When one looks at the implementation of these promises four years down the line, one can understand the frustration of farmers, and one feels sad and

ashamed. Regarding the first and most important promise of ensuring 50 per cent profit over the cost of production, it has taken the Modi government four years to wake up and act feebly and ineffectually on it. This has been detailed in chapter 4.

As for the welfare measure for farmers over sixty years of age, there's no sign of any pension for them as promised.

In the manifesto, Modi had promised action on price rise by:

- putting in place strict measures and special courts to stop hoarding and black marketeering
- setting up a price stabilization fund
- unbundling FCI
- using technology to disseminate real-time data, especially for farmers
- evolving a national agricultural market
- promoting and supporting area-specific crops and vegetables linked to people's food habits

This is laughable. Where are the special courts to stop hoarding and black marketing? Where is this price stabilization fund? While party veteran Shanta Kumar was appointed to head a committee on unbundling FCI and it submitted a report with recommendations, these have not been acted upon yet.

There is no real-time data for farmers. They have launched the national agricultural market, but as mentioned in chapter 4, it has advanced at a glacial pace. Neither has anything much happened in the matter of area-specific crops.

Similarly, on employment, Modi made big promises. But, again, as we have seen earlier in this book, his reign has been marred not by jobless growth but by job destruction thanks to demonetization and other policies. MNREGA, for instance, which Modi said was a monument to the failures of the Congress, has not only been strengthened financially by his government but the demand for menial jobs under the scheme has gone up thanks to job destruction.

On corruption, Modi made lots of promises, but the fact that Vijay Mallya, Nirav Modi and Mehul Choksi, the last two known to him personally, got away, speaks of his sincerity in tackling corruption. In fact in September 2018 the former RBI governor Raghuram Rajan told Parliament's Estimates Committee that he sent the PMO 'a list of high profile fraud cases of non-performing assets

. . . for coordinated investigation'. But in spite of the sounding of the alarm bells by the RBI governor and his desire to 'bring at least one or two to book', nothing was done. This list was sent to Modi as early as eight months into his tenure because cases of serious fraud had been increasing. Then, of course, the crooked Rafale fighter jet deal is the pinnacle of Modi's corruption in promoting crony capitalism.

On the issue of poor delivery of government services, Modi promised much better governance and specifically he said he would 'build institutions for today and tomorrow'.

The promise of 'minimum government, maximum governance' has remained the usual manifesto rhetoric. But as far as building the institutions of tomorrow are concerned one cannot forget how the Modi government favoured Mukesh Ambani by giving the Institution of Eminence status to the Reliance Foundation's proposed Jio Institute, which is still only a plan on paper. This certification would facilitate it to emerge as a top global institution; the Jio Institute would have the autonomy to fix its own fees and courses. This status was given to ten public and ten private institutions, and there are several others that are running well, or are at the greenfield stage like the Jio Institute, that missed out. But more than that let's not forget how the Modi government is taking a wrecking ball to the most important institutions of our democracy: the Supreme Court, the Election Commission, the RBI and the CBI.

In the case of the CBI, the agency's director Alok Verma and special director Rakesh Asthana had been locked in a public feud, each accusing the other of corruption. The subtext of their conflict, as reported by Scroll.in, was: 'The top-level battle itself was reported to have erupted because of the Centre's attempt to use Asthana, who is known to be close to Modi, to carry out more blatantly political investigations in an agency that already has a reputation for politically motivated action.' To quell the rebellion, the government in a covert midnight manoeuvre sent Verma on leave. The most damning statement on this sordid drama came soon after. Verma, in his petition to the Supreme Court, asked it to set aside the compulsory leave order: 'Not all influence that is exerted by the political government would be found explicitly or in writing. More often than not, it is tacit, and requires considerable courage to withstand.' Verma's statement lays bare the inner workings of the Modi government's destruction of

institutions.

In the case of the RBI, the government has been trying for a while to chip away at its autonomy little by little. That the RBI is now fighting back is in itself interesting as governor Urjit Patel was initially thought to be close to the government, especially after he vigorously defended the demonetization decision in its early days. The Modi government has been pressuring the RBI to relax its norms of declaring loans as stressed even if there is a single day's delay in the loan repayment schedule; it has been pushing for a different set of norms to apply to power companies; it has been pressing for the Prompt Corrective Action framework to prevent banks from going bust to be relaxed; and lately it has even been asking for a whopping Rs 3.6 lakh crore of the RBI's reserves to be transferred to the government! What's more the spectre of Section 7 of the RBI Act is being raised. The government can invoke Section 7 to force the RBI to take a particular decision 'in the public interest'. At the time of going to press we were still not sure whether Section 7 has indeed been invoked or not. But what is clear is that the Modi government is on the warpath with the central bank. This was made amply clear from a warning that was delivered by its deputy governor Viral Acharya in a speech he made in October 2018. He said, 'Governments that do not respect central bank independence will sooner or later incur the wrath of financial markets, ignite economic fire, and come to rue the day they undermined an important regulatory institution.'

Similarly, the Supreme Court has been at the receiving end of the Modi government's bullying of institutions. This is amply demonstrated through BJP president Amit Shah's statement about the court's verdict allowing women of all ages entry into the Sabarimala temple. Shah said the court shouldn't pass orders that cannot be implemented while at the same time the BJP has been orchestrating vigorous protests to block the implementation of the order. In the Ayodhya land dispute, even though the case is before the Supreme Court, Amit Shah said that construction of the temple will begin before the 2019 polls. Is this the respect the government of the day shows towards the apex court?

Modi in his election manifesto promised to make India a 'knowledge powerhouse' by undertaking 'skill mapping', 'a national multi-skill mission', 'massive vocational training', etc. But even the government realized that progress on this front had been poor, because it fired Rajiv Pratap Rudy, the minister of

state for skill development and entrepreneurship, less than three years after he was given the job. He was supposed to provide a key input into 'Make in India'. His portfolio was given in September 2017 to Dharmendra Pradhan, a man already burdened with the petroleum ministry as well as important party work. Obviously, the ministry lies neglected.

Economic revival was at the top of India's priorities, and ironically Modi's manifesto claims that the UPA delivered a GDP growth rate of only 4.8 per cent in its final year, which Modi's own rejigging of growth figures later turned into 6.5 per cent (and even higher for previous years). Modi promised stable and balanced growth, but other than a jugglery of figures, nothing has happened – no private investment, a squeezed capital expenditure, and a total reliance on low crude prices which, in Modi's final year, has slipped out of his grasp.

In the manifesto, Modi promised banking reforms and a tackling of NPAs, and well, we know what shape the banks are now in. From NPAs of Rs 2.05 lakh crore in 2014 we now have NPAs of 10.25 lakh crore and rising. He promised to make the Foreign Investment Promotion Board more efficient and investor-friendly, but instead he has abolished it.

There is no progress in the promise made to produce and consume low-water irrigation techniques and optimum utilization of water resources. There has been no introduction of rotation farming, as promised. The farm insurance scheme has, as seen earlier, been more of a benefit to insurance companies than to farmers, as the companies have collected Rs 10,000 crore but have dispersed insurance of less than a third of that – and that too, not in time for sowing seeds, etc. There is no progress in the promise to strengthen and expand rural credit facilities. Storage facilities: zilch. And we've already seen the lop-sided progress of the Pradhan Mantri Sinchai Yojana. At the time of this book going to press, several states, including Maharashtra, Karnataka, Odisha, Andhra Pradesh, Bihar and Jharkhand, had declared drought. On land acquisition, the manifesto promised to adopt a national land use policy. What the Modi government actually did was make four attempts to bring an ordinance so as to nullify the historic 2013 Land Acquisition Act, which was one of the few concessions farmers had wrested after more than seventy years of independence. It gave farmers four times the market rate for their land. Obviously, big industry wanted the 2013 act to be diluted, and in a naked display of crony capitalism the Modi

government tried four times to do so. It is only the strong opposition protest that prevented him from doing so. It is clear to everyone that Modi's is a 'suit boot ki sarkar' as alleged by Rahul Gandhi.

This is not to say that Modi and his crony capitalists have lost completely: the government effectively bypassed the law in land acquisitions made by the National Highways Authority of India, and it has on occasion allowed states to nullify provisions of this central law that benefited landowners.

The promises made regarding the energy sector are equally dismal. We have already mentioned the efforts to keep projects from being declared as NPAs (and slipping out of friendly hands). The manifesto had promised a national energy policy, but where is it? The new power minister says there is a coal shortage, and we have started importing coal, even though the coal minister says there is no coal shortage. It is ironic that the right hand is unacquainted with the left.

We must ask, however, why India which was chronically a power-deficit country has suddenly become a power-surplus country. Take Odisha: it was to get power projects but it has stopped them saying it already has surplus power. The Planning Commission had done a study in which it found that demand was projected on the basis of economic growth. If there is growth, agriculture needs power and industry needs power. If without reaching the target for power generation we become power surplus it only means one thing: a slowdown in economic growth.

These are just some of the things Modi promised in the manifesto. But enough of the manifesto, let us return to some of the campaign trail promises Modi made in 2014. He said that criminal politicians would be behind bars within a year of his assuming power. But in the last four years, how many politicians have gone to jail? It is true that Lalu Prasad Yadav was put behind bars, but that has happened as a result of court orders in older cases and not because of any special effort by Modi. Twenty-eight per cent of parliamentarians have criminal records – how many have gone to jail? The government is desperately gunning for many politicians, mainly from the Opposition, in order to involve them in corruption cases, but even that has not resulted in any of them going to jail. It is clear that Modi has had little impact on the decriminalization of politics and has been unable to stop the ascent of criminals in politics. Whatever has been done is because of the courts, not this government.

Let's go back to the promise of 'maximum governance, minimum government'. This also proved to be a jumla. His first council of ministers consisted of only forty-four people. Now there are seventy-nine, whereas eighty-one is supposed to be the limit. It is a jumbo Cabinet of yes-men (and yes-women).

The performance of the NDA government under Modi will not be judged against the performance of the UPA government, or what Nehru or Indira Gandhi did or did not do, or by saying that the bank scams began under the UPA. That will not wash with the voters. Modi made specific promises, both during his campaign and in his party manifesto, and he is the one voters will hold accountable. No one else.

In fact, if you scroll down the prime minister's Twitter timeline to the years 2013 and 2014, you will see some of what he promised Indians. He said, 'When we got freedom, Re 1 was equal to $1. Today see the prices . . . the rupee is falling' and 'Rupee is crumbling against the Dollar. Rupee is in the ICU due to Congress'. But the economy is arguably in worse health today than what it was when Modi assumed charge. Forget the rupee, the entire economy is in the ICU. These are just some of the charges that the prime minister must provide answers to.

Epilogue
India's Lost Half-Decade

Apart from the increase in 2018 of international crude oil prices and the trade wars that US President Donald Trump has initiated, Modi faced no economic crisis during his first four years in power. The global environment was generally benign, the US economy continued to grow, and India had everything going for it. So why wasn't the Modi government able to deliver on its promises? And why couldn't we get rid of the legacy issues?

Up to 2014, in Parliament and outside, the BJP members with some knowledge of economic issues were Dr Murli Manohar Joshi, Jaswant Singh and me. Later, as party president Nitin Gadkari started taking an interest, Prakash Javadekar was given the responsibility to prepare the party's economic resolutions for the national executive meetings. And our Parliamentary Standing Committee on Finance included Piyush Goyal, Ravi Shankar Prasad, Anurag Thakur and, for some time, S.S. Ahluwalia.

Jaitley was the Rajya Sabha leader of the Opposition and, when the need arose, he intervened in debates on economic issues. But since I chaired the standing committee, which dealt with all current issues like GST and the Direct Taxes Code Bill and other legislation, I carried on with my job independently. Nobody from the party interfered, but no one even inquired what was happening with various important pieces of legislation.

When Narendra Modi arrived on the scene, he came with either a fresh mind or a biased mind. He had no institutional memory of the party's stand on various economic issues between 2004 and 2014. He was in the national executive and other important BJP fora but I'm not aware of any occasion where he took an interest in economic issues or inquired about them.

I already mentioned that on GST the Madhya Pradesh government was consistently opposed – it was also opposed to the state VAT – and Gujarat, under Modi's chief ministership, also joined its ranks.

When Modi became prime minister, he abruptly changed the party line of not only ten years but of sixteen years, starting with Vajpayee. For instance, the Insurance Laws (Amendment) Bill, which sought to liberalize FDI in the insurance sector from 26 to 49 per cent, was not supported by the multiparty Parliamentary Standing Committee on Finance. The BJP was opposed to it from 2004 to 2014, and the amendment was not passed. Modi came and passed

the amendment bill through the ordinance route. As an ordinance it came before both houses of Parliament, and because it was originally the Congress party's legislation it could not oppose it. It was passed in the Rajya Sabha as well.

There were areas apart from 49 per cent FDI that called for deeper consideration. But neither Modi nor Arun Jaitley had any institutional memory of what had transpired earlier; so they ignored the earlier party line and moved the bills. The same thing happened with GST; and with Aadhaar, which was introduced as a money bill to bypass the jurisdiction of the Rajya Sabha to oppose it. Sadly, even the Supreme Court did not pull up the government on this gross violation.

Modi's U-turns included non-economic issues as well. Vajpayee had opposed the India–US nuclear deal, and its related civil liability law was made stringent because of the BJP's intervention. When Modi came to power he not only accepted the nuclear deal, but also played with the civil liability law, which has gone largely unnoticed because the media has become completely subservient to Modi. In view of the 1984 Bhopal gas leak, we insisted that there should be no limit on compensation for nuclear disasters; the nuclear reactor's supplier would be liable if it was discovered or established that it was his mistake. There is an international convention which limits the liability to around Rs 1500 crore and we completely opposed this limit. The UPA also grudgingly accepted that the limit will not be applicable.

But this became an international issue and the suppliers put pressure on the Government of India. The UPA did not have the courage to revise its position. But the Modi government, which included senior members of the Cabinet like Sushma Swaraj, Arun Jaitley and Rajnath Singh, who were privy to these discussions and the BJP's line of thinking, has implicitly limited the civil liability of companies. The government has agreed to impose a cess on the electricity produced by these imported reactors for an insurance fund. If, god forbid, there's a disaster, the supplier of the reactor will only have to shell out a maximum of Rs 1500 crore. The rest will come from the insurance companies – whose premium would have been paid by the people of India thanks to the electricity cess.

This is contrary to law. The aforementioned luminaries in his Cabinet kept quiet and Modi steamrolled his way through. The Congress could hardly oppose it. The left had been mauled so badly in the 2014 polls that it hardly had any

presence in Parliament, and in any case no one pays them any attention. The media was at its fawning best, as usual.

The manifesto had identified problems the government would face, so it should have hit the ground running, tackling those issues. It failed to do so, and now the problems have intensified as we have seen through this book.

When Vajpayee took charge then Columbia University economist Jagdish Bhagwati had said that if anyone in the BJP knew economics then he was a Bharatanatyam dancer. So even though some of us knew the rudiments of economic management, we had to face Bhagwati's criticism. But in Modi's government they were all greenhorns. Not one person had any idea how to manage the economy. Modi, having come from Gujarat, had not faced economic issues at the national level so he must have depended on advice; but the Cabinet being what it was must have made him go to others for advice.

Who are those others? These are nameless, faceless people about whom the country does not know. When I criticized the economic management of this government in a newspaper article in September 2017, they quickly made amendments to GST, and Modi constituted the Economic Advisory Council (EAC) after almost three years of being in office. Modi is a disruptor, and while some disruptions are for the good, his unfortunately have been for the worse.

In any case, the EAC has not apparently come up with any new and revolutionary ideas about improving the economy, so its full-time job is to cook up figures and argue about them in the media to give the impression that everything is fine. In particular there is one financial analyst in the EAC who has bitterly argued in newspapers that demonetization was a great move with no deleterious effect, that massive job growth has been happening and that income inequality has reduced.

If anyone has any doubt that demonetization was a dud, they may read Arun Kumar, India's leading authority on the black economy. His excellent book *Demonetization and the Black Economy* points out that in the people's eyes, it was a political rather than an economic step; and

'. . . the cost of demonetization far outweighs any perceived benefits in the near or distant future. To catch a few, a large number of those who never generated black incomes were inconvenienced while the culprits got off lightly. Does one chop off one's nose to cure a cold?'

With regard to job creation, each time newsmagazines come out with their 'Mood of the Nation' surveys, the percentage of respondents angry about low job creation keeps increasing. In July 2018 it was 30 per cent. The government's own labour bureau, which goes by the reports of corporates on employment generation, has generally been painting a grim picture of employment generation. So the government decided to, yes, shoot the messenger: the labour bureau's statistics collection is in abeyance.

Regarding income inequality, the Central Board of Direct Taxes in August 2018 released distribution data for 50 million income tax filers from 2013 to 2016. It showed that 273 people earned more than Rs 500 crore in 2016, while more than 25 million people earned less than
Rs 3.5 lakh that year. The top 1 per cent earned 45 per cent of the income; the top 5 per cent's income equalled the other 95 per cent's. The EAC might also want to check out *The Billionaire Raj* by James Crabtree, the former India correspondent of the *Financial Times*. He says India has the fourth largest number of billionaires (after the US, Russia and China), who collectively are worth USD 1 trillion (Rs 70 lakh crore). India is more wealthy, but more unequal.

One should also mention that you are not likely to get high investment if incidents of violence give people, particularly foreigners, reason to lose faith in the governance of the country.

In 2013 I was part of a delegation of parliamentarians who went on the invitation of the Konrad Adenauer Stiftung (Foundation) to Germany. Since I knew a bit of economics, I was asked to discuss issues in the Indian economy and make a presentation during a meeting in Berlin. As a rule, we do not indulge in party politics when we go abroad (Modi has broken this rule with impunity), so there was no question of my criticizing the government. I focused on the positives in our economy and tried to convince a German audience that India was still an attractive destination for investment.

When I finished, the first question put to me was about the gruesome Nirbhaya rape case of December 2012. Is India safe for investment, for personnel, they asked, and if it is not safe, why should we look at India? I was shaken by this as it brought home to me that these issues play an important role in defining the image of India abroad.

Communalism, or growth of communalism in our country, mob lynching, rapes, these are the kind of issues which greatly bother foreign investors. The foreign investor is not merely making an investment of his money and resources, he's also likely to depute people who will come here with families and live in India to ensure the running of that project – like the Japanese and Koreans in Gurgaon. This is where the overall image and the deteriorating law and order situation in the country plays an important economic role. (Of course, even if there were no economic or financial ramifications of mob killings and lynchings, they are still a blot on any civilized society, a black mark for any government, a horrible breakdown of rule of law, and a dereliction of an administration's raj dharma.) I'm not surprised that last year, according to the UNCTAD report, FDI declined. The current law and order situation in the country would have played a decisive role.

Then there's Jammu and Kashmir, another barometer of how foreigners see India. The director general of the United Nations Human Rights Commission came out with a report on developments in Jammu and Kashmir between June 2016 and April 2018; the report was released on 14 June 2018. It was a damning document that accused India's security forces of using 'excessive force' during protests, which led to 'unlawful killings' and a 'very high' number of injuries. Not since the early 1990s has India had to face such an adverse report on human rights from the world community.

We should have known that such a report was being prepared and tried to influence it. We did not. The United Nations then endorsed the report. It will no doubt define the overall image of India before the global community.

It has often been said that Modi visited various foreign countries to improve our economic relations with them. So what has been the improvement? We are in a trade war with the United States; India's commerce minister says the WTO is becoming less and less effective and its existence is threatened; and we have betrayed Iran by succumbing to US pressure on sanctions after Trump's withdrawal from the 2015 nuclear deal. China has been making inroads into the Maldives under New Delhi's nose.

Though I support India's stand on China's Belt and Road Initiative (BRI), it is also true that we are isolated. As far as the China–Pakistan Economic Corridor is concerned there is not one country, even from our own

neighbourhood, which has stood with us. We have failed to properly put across to other nations what is in India's best national interest.

In summation, the Modi government is just about event management. He is the best in creating false impressions. In the process, Modi has given India its 'lost half-decade'. Elect him again and by 2024 it will be a lost decade.

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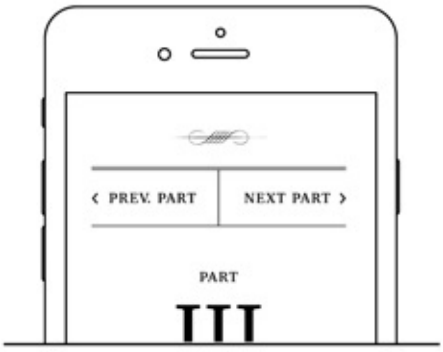

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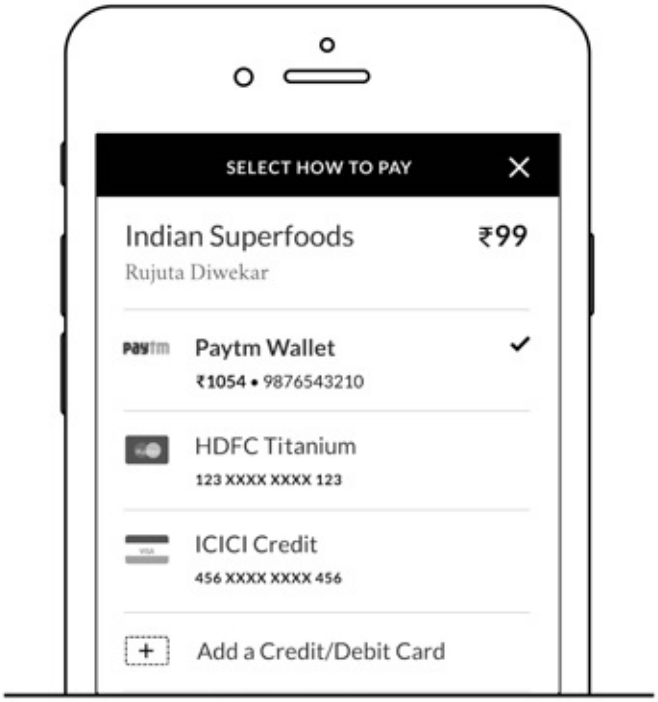

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