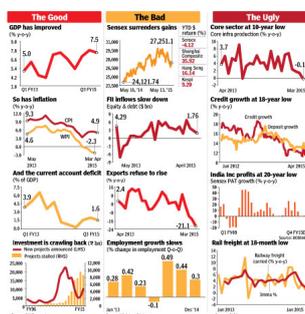


A lot has been done, a lot has been frittered, the tragedy is Modi's reforms are yet to start adding up

JAM. JanDhan-Aadhaar-Mobile. The Economic Survey's pithy characterisation summed up the Modi government strategy and its consequences. Instead of spending upwards of R3 lakh crore a year on various welfare schemes, where 50% leakages are the norm, the government would transfer money directly to the bank accounts of 30 crore poor. This would eliminate waste but, more important, also make it viable for banks to give the poor R5,000 of overdraft facilities. Insurance would be used to help the poor meet medical exigencies and life insurance would be the norm. Though it was not quite spelled out, the money for this would probably be paid by government. With the possibility of the government using more futures and options in place of physical FCI stocks, as per the recommendation of a high-level committee, the government looked as if it was abandoning old-style physical targeting in favour of a more modern finance-driven system.



The implications of this on policy were staggering. In the case of agriculture, for instance, moving to cash transfers would not just allow FCI to get rid of R1 lakh crore of excess buffer stocks, moving the focus away from wheat and rice would allow per-acre subsidies which would incentivise farmers to grow other crops and move cropping to eastern India.

In parallel, Modi spoke of cooperative federalism which essentially meant easing the central government stranglehold on states, which meant no longer telling them just which schemes to run and how. Not surprisingly, when the 14th Finance Commission recommended more untied funds to states, Modi accepted this with alacrity. Cooperative federalism was practiced not just

in terms of more untied funds for states, it was encouraged by allowing states like Rajasthan to change their labour laws, something that the Centre frowned on earlier.

While serious work was begun on trying to find ways to improve India's doing-business rankings including trying to put as many permissions online as possible, prodded by the Supreme Court, the government freed up auctioning for coal and other minerals—while commercial coal mining was anathema to the BJP earlier, Modi said he would allow this; it seemed commercial mining licenses were just a few months away. Defence imports were smartly linked to a Make-in-India programme and, with easier FDI norms, looked like a big growth area for India Inc.

Given the need to stimulate growth and India Inc's balance sheet problems, particularly in the infrastructure sector, the government smartly said it would finance projects more directly till the PPP problem was sorted out—most PPP projects, across the board, are in all manner of trouble, ranging from lack of clearances to lack of funds with the promoter. While the union budget talked of strategic sales of PSUs after 10 years of the UPA's 'disinvestment', the Railway budget—and the recommendations of various committees after that—took this to a new level while talking of a lot more investment in the actual running of trains and even an empowered and independent regulator to ensure this happened.

Why is it, then, that FII's are moving out of India in droves or that most micro indicators are at multi-year lows (see *The Good, The Bad, The Ugly* on page 1)? To some extent, FII's are moving out because, while India Inc continues to deliver poor results, the market was overbought based on the expectations investors had of Modi. Given the manner in which investment had been brought to its knees by the UPA, the expectations were always unrealistic since the necessary balance-sheet repair—of both banks and corporates—typically takes 2-3 years.

But there is little doubt the government also frittered several opportunities. The MAT fiasco, including the finance minister defending the impost as legitimate, is well-known. But there have been similar goof-ups on tax cases like Cairn and little progress has been made on fixing other high-handed transfer pricing cases—hopefully, the AP Shah committee set up on MAT will look at some of them, though the foreign black money Bill gives the taxman more harassment powers. GST is a big step forward but, apart from getting caught up in Congress politics, is a deeply flawed Bill—with the land Bill having united the Opposition, Modi's best bet would be to let the Bill go, to encourage states like Rajasthan to come up with their own progressive Bills instead. Inaction in the oil ministry has put back investments in gas exploration a year at least and, for a government that wants to end past disputes quickly, its attempts to delay arbitration

cases are frightening. Policies in telecom, another big investment area, continue to remain puzzling and are stifling investment in a big way.

The good news, however, is that with many of the prime minister's intentions known, and spelled out in detail by various committees set up by him, correcting these problems and creating a more investment-friendly environment isn't that difficult should the PM feel the need to change the narrative. Apart from the government's imperiousness that has taken a bit of a knock in recent months, the prime minister has to realise that he cannot be pro-poor without creating conditions for growth first.