BUSINESS

Economic crisis: Narendra Modi govt should take people into confidence rather than be defensive

The Narendra Modi government's big problem is intellectual bankruptcy and relying too much on bureaucracy who have no political stake. Unfortunately, even BJP spokespersons fail to take credit for the government's achievements

Jagadish Shettigar | September 28, 2017 12:10:08 IST

State of the economy has become the central theme of debate all of a sudden – both in media as well as informal discussions. The government also seems to have seized the issue going by prime minister Narendra Modi's recent interaction with senior officials followed by constitution of Prime Minister's Economic Advisory Council. How is it that, all of a sudden, a crisis situation arose that made the government feel like going for advice from economists, with hardly 18 months left for the general elections? It has managed three-and-a-half years without them.

Even if the learned economists come out with policy measures would the government, more so the one led by a shrewd political leader like Narendra Modi, consider them worth implementing? No government in the world goes for harsh economic reform measures during the last leg of the term unless it is in a suicide mood.

How is that the government woke up so late while warning signals have been coming at least during the last couple of years – much before demonetisation and GST? The day inflation rate fell below 2 percent, let alone negative inflation, policy advisors in the government should have alerted the prime minister and prompted him to act.

File image of Narendra Modi. PTI

Unfortunately, inflation rate at around marginal level was showcased by the ruling party's spokespersons as well as a few ministers as a great achievement. Coincidentally, too low inflation rate also matched with poor industrial performance, especially, the manufacturing sector. Instead of getting wake-up signals through this trend in terms of falling investment and consumption expenditure, perhaps policy makers in the NITI Ayog and the finance ministry have gone gung-ho with bulging foreign exchange reserves of over $400 billion and the Senses hovering around record 32,000.

Instead of misleading the prime minister, they should have understood that this trend in foreign exchange reserves as well as upswing in stock market until the last year was mainly due to inflow of foreign portfolio investment while domestic investors, being aware of ground reality, were cautious enough to have 'wait and watch' approach. Foreign portfolio investors were looking at the Indian market mainly because their home market was not promising and hence looking for better investment avenue.

Of course, added reason was tremendous trust and expectations from the prime minister who is still considered a trusted business friendly leader. Of course, the prime minister did not disappoint them as he initiated many bold steps. However, with the US Federal Reserve reversing its quantitative easing policy, foreign institutional investors (FIIs) started moving home-ward as expected.

In fact, the government's advisors should have strategised their policy response under the changed scenario. Instead, they tried to impress upon domestic institutional investors (DIIs) to step up their investment in order to prop up the market sentiment. If one looks at the comparative investment data for the last one year, it was DIIs who became the major market players reversing the trend since mid-90s. What the government managers tried was creating an impression as if everything was fine when ground realities were opposite. Was it necessary to create a bubble economy instead of making the people to understand the real situation?

The government would not have had to take the blame for the economic crisis had the people been taken into confidence – that too under a popular leader. Besides, economy has been affected by external factors also which are beyond the control of any government. Apart from slowdown in economy of our major export destinations such as the US and Eurozone, protective approach by the new regime in the US should have given sufficient hints about the likely adverse effect on our economy.

Moreover, softening crude oil price in international market might have brought down our import bill. But at the same time this has brought down importing capability of oil exporting countries. Net effect is continuous fall in exports and widening trade deficit. As the country exports nearly 15 percent of what we produces, naturally, that would adversely affect GDP. That includes some of the employment generating units.

Some of the experts blame disruptive measures such as demonetisation and GST. This is an entirely debateable matter. No doubt, demonetisation has adversely affected consumption demand not only due to cash crunch but also due to cleaning up process. If we are looking for transparent transactions and clean business environment in terms of long-term interests people should be prepared to pay a small price in the short-term.

In fact, people have stood solidly behind the prime minister and bravely faced inconveniences in the overall interests of the country. Goods and services tax (GST) along with Bankruptcy Code are the other disruptive game changers initiated by the government. In the case of GST, had the government stuck to the suggestions made by the Tax Reforms Committee and the Finance Commission, probably, there would not have been any room for confusion. The very idea of GST is to simplify the tax system with one-tax-one-market principle as it is the practice in the countries gone for the tax reform – may be with odd exception like Brazil. Five different rates mean scope for lobbying and manoeuvring while the entire objective behind this is transparency in business and governance.

This government's big problem is intellectual bankruptcy and relying too much on bureaucracy who have no political stake. Unfortunately, even spokespersons in the ruling party fail to take credit for the government's achievements. Whatever may be criticism against demonetisation by the vested interests, attack in terms of the government's failure to detect black money is totally foolish argument. Unfortunately, even critics like former finance minister P Chidambaram, who is otherwise considered intelligent, attacks the government on the ground that 99 percent of the demonetised currency notes have come back into the banking system and they foolishly argue that that there is no black money.

On the other hand, the government should be congratulated for this fantastic success in getting black money trapped within the banking system. Now, it is for the income tax officials to identify black money within the declared income – once they start probing source of income.

In retrospect, the government need not feel guilty as hardships in the economy is mainly due to external factors. With regard to domestic factors such as demonetisation and GST, these are the bold steps causing short-term pain for the long-term gains in terms of transparent business environment and governance. But the government has to take general public into confidence by admitting the crisis instead of trying to cover up under technical glitch.

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