Waiting for reforms

The stimulus incentives hold promise, but structural reforms are nowhere on the horizon

People who have been yearning for major economic reforms from the Narendra Modi government, it seems, will have to wait to have their dreams come true. Finance Minister Nirmala Sitharaman on Saturday presented the third round of stimulus measures to resuscitate the struggling economy, but once again these have largely failed to live up to the initial hype around them. The previous two rounds of the stimulus plan, presented at press conferences held by the Minister over the last few weeks, focused primarily on reviving the automobile sector, boosting the confidence of foreign investors who were spooked by the Budget announcements in July, and improving the health of dangerously fragile state-owned banks by doing everything short of privatising them. This time around the focus has been on helping out the underperforming export and real estate sectors through piecemeal fiscal reforms. Among other things, Ms. Sitharaman announced a new tax refund scheme and greater priority sector lending for the export sector to incentivise exports. It is expected that the new tax breaks to the exports sector will cause a dent of up to ₹50,000 crore to the government's revenue. Further, external commercial borrowing norms have been eased to make it easier for Indian real estate companies to tap funds from abroad, and funds worth ₹10,000 crore have also been allocated to aid the completion of affordable housing projects. With lack of demand and major supply-side bottlenecks being the primary issues facing exports and real estate, it is doubtful whether the present measures will be enough to revive these flailing sectors.

Overall, cutting across all three stimulus rounds announced till date, the government has been relying almost entirely on providing fiscal relief, in the form of tax cuts coupled with a tiny amount of government spending, to wade through what seems like a structural crisis in the economy. The hope seems to be that these measures combined with a looser monetary policy stance adopted by the RBI will boost spending and revive growth. This is, however, a far cry from what many expected from a government that promised radical structural reforms when it rose to power in 2014. Without enacting any major supply-side reforms like land and labour reforms that can raise potential growth, it is also hard to see how greater spending can raise growth for very long. The government may believe that the present slowdown, marked by five consecutive quarters of dropping growth, is merely a cyclical one. But given the size of its victory in two consecutive elections, the government should aim higher by trying to push through long-pending structural reforms that can raise India's growth trajectory to the next level.

Effort worth emulation

Rajasthan's Jan Soochna portal is a step in the right direction for transparency in governance

Fourteen years since the implementation of the groundbreaking Right to Information (RTI) Act, which has helped shed light on government works and administration, the launch of the "Jan Soochna Portal" (public information portal) by the Rajasthan government on Friday marks a milestone in increasing transparency and accountability in governance. The portal details various schemes run by 13 government departments – the employment guarantee programme, sanitation, the public distribution system among others, by not only explaining the schemes but also providing real time information on beneficiaries, authorities in charge, progress, etc. The information provided is in-depth, covering the whole gamut from the districts, blocks and panchayats, allowing access to details of schemes implemented at these levels. This is a laudable effort by the State government which is worthy of emulation by other States. The RTI Act had dealt with the citizen's right to know about public information and required public authorities to expeditiously provide information on request from the citizenry. This aspect of the Act brought a sea change in accountability and has led to the possibility of a well-informed citizenry on the workings of the government.

While RTI filings have increased exponentially and RTI-activism has become part and parcel of civil society, there have been dilutions in the Act pertaining to the appointments of information commissioners, therefore impinging on their autonomy. Besides, the response rate to RTI requests has also slowed down compared to the flurry in the immediate aftermath of the Act's implementation. These problems with the RTI law apart, it is important to note that Section 4(2) of the Act, which specifically enjoins upon public authorities to publish information pro-actively, has not been implemented holistically so far. While government departments have successfully taken to e-governance and there has been a rapid release of public information on various government-run websites, this information has often been parcelled, dispersed and difficult to parse. Some of the better maintained central websites have also tended to deploy "dashboard" information, which is meant more to showcase data and records rather than release structured information for extensive study and for the knowledge of the citizenry. As a one-shot portal for public information on government programmes, the JSP, therefore, can advance the objective of transparency. The challenge would be to ensure that the information flow remains unhampered over time. Besides this, it is important to educate the citizenry about the use of data on the portal. While digital connectivity and literacy have increased over time, these have not adequately translated into digital knowledge of public affairs.

Why India's growth figures are off the mark

The over-reliance on the organised sector for official GDP data is causing a gross miscalculation

ARUN KUMAR

During the global financial crisis, it was said that the experts were behind the curve. The International Monetary Fund (IMF) and financial sector experts continued to predict till October 2008 that the global economy would grow rather than shrink. They were way off the mark since the global economy was rapidly slipping into a great recession.

Explaining the markdown

Is India facing a similar situation at present? The economic growth rate (quarterly) has been sliding for the last five quarters from 8% to 7% to 6.6% to 5.8% and now to 5%. Yet, experts have been talking of a 7% annual rate of growth; every quarter when the rate of growth has been announced, they have argued that things have bottomed out and that the rate would rise henceforth.

The Economic Survey in July talked of a growth rate of 7% for the current year. The Reserve Bank of India (RBI), in its August policy statement, talked of a slowdown to 6.9%, from the 7% predicted in June and 7.2% predicted before that. The Asian Development Bank cut its growth forecast from 7.2% to 7% in April 2019. Similar is the case with the IMF which cut its forecast for the year from 7.3% to 7%. So, they all talked of a 7% rate of growth when a year earlier it had fallen below that.

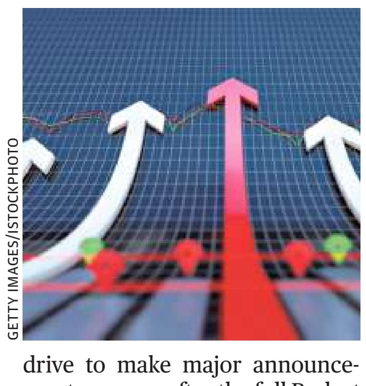
How could these agencies be so far off with their estimates? The reason is that they are not independent data gathering agencies and depend on official data. So, if official data is erroneous, their projections would also turn out to be incorrect. Clearly, the government is interested in projecting a good image and so discounts bad news and ramps up data.

The question to ask is, if the economy is growing at 5 or 6%, which is historically a good rate of growth, why is investment rate not rising and consumption in the economy stagnant? Where is growth dissipating? The alternative explanation is that the rate of growth is much less than 5%; that is why investment rate and consumption are stagnating or declining.

The investment rate has hovered at around 30% for the last several years because the capacity utilisation in the economy has been around 75%. Unless this rises, fresh investment will mean even lower capacity utilisation and lower profitability since capital will be underutilised. In June, the stock market was at a record high and yet the investment rate did not rise. Data from the Monitoring Indian Economy Pvt. Ltd. shows that investment proposals are at a 14-year low. In the last year, the RBI has cut interest rates four times and by a total of more than 1%; but the investment rate has not budged.

Impact of announcements

The government has been in denial but now experts in the Economic Advisory Council to the Prime Minister, in NITI Aayog and the RBI have admitted that there is a slowdown. The Ministry of Finance has now gone into hyper drive to make major announcements so soon after the full Budget was presented in July. This is an admission of there being a slowdown in the economy.



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Unfortunately, none of these announcements will lead to a recovery since they do not address the source of the problem. An hour before the latest data on economy showing slowdown was to be announced, the government announced the big bank merger. Was this to divert attention from the data to be released? Be that as it may, bank mergers will have little impact on the immediate problem of the slowing economy. It may only further disturb a major chunk of the banking system in the coming year – and that would not be good for a slowing economy.

The package for the automobile sector or making banks pass on interest rate cuts to businesses, announced a little earlier will also have little impact since the problem did not originate there.

The announcement of a transfer of ₹1.76 lakh crore from the RBI to the government will only cover the shortfall expected in revenue (which is a result of an unduly high projection of revenue growth). It will allow the government to maintain the fiscal deficit target at 3.3%. But, this will not provide the needed stimulus. For that the fiscal deficit would have to be enlarged or there has to be an increase in expenditures on the basis of mobilisation of additional revenues. The fiscal deficit today is at about 9% if the States and the public sector units are taken into account. And how much can the government raise is a political decision that has not yet been taken.

The source

So, where does the problem originate from? It is from the unorganised sector which has been in decline since demonetisation. It was further hit by the Goods and Services Tax though it is either exempt from it or there is a simplified provision for this sector. This sector producing 45% of the output and employing 94% of the workforce, has been in decline, which is pulling down the rate of growth of the economy. But, why does it not show up in the growth data?

In simple terms, the reason is that the data for this sector is collected once in five years (called reference years) since the sector has tens of millions of units for which data cannot be collected monthly, quarterly or even annually. In between the reference years, the data is only projected on various assumptions.

The government document on estimating advance annual estimates and quarterly estimates makes this clear. For estimating quarterly growth it uses, "latest estimates of Agricultural Production, Index of Industrial Production (IIP) and performance of key sectors like, Railways, Transport other than Railways, Communication, Banking, Insurance and Government Revenue Expenditure". Except for agriculture, these belong to the organised sector of the economy.

Even for the annual estimates, basically data for the organised sector are used – like in the case of mining, banking, hotels and restaurants, and transport. For construction, steel, glass, etc are used which are also derived from the organised sector production. Thus, the implicit assumption is that the organised sector can be a proxy for the unorganised sector. But with the economy suffering three shocks in quick succession over the last three years which adversely impacted the unorganised sector, this assumption does not hold true. Most of the experts have implicitly accepted the government's fallacious argument and have thus fallen behind the curve.

In brief, the official data only represents the organised sector. To incorporate the unorganised sector, data from alternative sources need to be used. The decline in the workforce, the rise in the demand for work under the Mahatma Gandhi National Rural Employment Guarantee Act, etc. suggests that the unorganised sector has declined by at least 10%. If this is taken into account, the current rate of growth is much less than 5%. If the government does not accept this, then it must reveal the rate of growth of the unorganised sector that it is using in its estimates and which is not based on using the organised sector as a proxy.

Arun Kumar is Malcolm Adiseshiah Chair Professor, Institute of Social Sciences, and the author of 'Indian Economy since Independence: Persisting Colonial Disruption'

A dilution that falls short of the law

Several loopholes in the process of the substitution of Article 370 make the action problematic

SAKAL BHUSHAN

The manner in which Article 370 was substituted by the Centre to carve up Jammu and Kashmir is fraught with several loopholes and challenges. Technically, Article 370 has not been abrogated. Rather, vide Constitution Order No. 273 dated August 6, 2019, "Declaration under Article 370(3) of the Constitution", the existing Article 370 has been substituted by a new paragraph whereby all provisions of the Constitution of India, as amended from time to time, without any modifications and exceptions, have been made applicable to Jammu and Kashmir. This action of the President which amounts to the virtual abrogation of Article 370 in its essence is a matter of legal and political debate.

Process adopted

As the first step toward achieving its goal, the Centre issued a fresh Constitution (Application to Jammu and Kashmir), Order 2019 one day earlier on August 5, 2019. This superseded the Presidential Order of 1954 purportedly with the "concurrence of the Government of State of Jammu and Kashmir", thus paving the way for the virtual abrogation of Article 370 the following day. The important aspect of this move was to substitute the expression "Constituent Assembly of the State" with the expression "Legislative Assembly of the State" in proviso to Article 370(3). Under the existing Article 370(3), it had been provided that the President could abrogate or amend Article 370 on the recommendation of the Constituent Assembly of the State which had ceased to exist in 1957.

The Centre made this amendment in proviso to Article 370(3) as a part of a well-conceived strategy. The strategy was that after such substitution, the powers of the Legislative Assembly would be used by Parliament during President's Rule. Parliament would then recommend abrogation of Article 370 to the President, which it has done leading to the issuance of C.O. No. 273 dated August 6, 2019, virtually abrogating Article 370.

Now if it is shown that the amendment made in proviso to Article 370(3) is illegal, the consequent action of the President in issuing of C.O. No. 273 would also become illegal.

The order dated August 5, 2019 had been issued by the President purportedly with the "concurrence of the Government of State of Jammu and Kashmir" as required under Article 370(1). The Government of the State had been defined in Article 370(1) itself, read with C.O. No. 44 dated November 15, 1952 as a person recognised by the President "on the recommendation of the Legislative Assembly of the State" as Sadar-i-Riyasat of Jammu and Kashmir acting on the advice of the Council of Ministers. The expression 'Sadar-i-Riyasat' was substituted by 'Governor' in 1965.

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If this was the definition of the "Government of State" in Article 370(1), the order dated August 5, 2019 cannot be said to have been issued with the concurrence of the Government of the State. The simple reason is that the Governor who is said to have given the concurrence as Government of the State was not a person recognised by the President "on the recommendation of the Legislative Assembly of the State" as Governor of Jammu and Kashmir as required under law. Therefore, the order dated August 5, 2019 has not been validly issued.

Otherwise too, the August 5, 2019 order is illegal as it has the effect of amending Article 370 as well which could not have been done. The reason is that while exercising powers under Clause (1) of Article 370, the President is not competent to amend Article 370 itself; and his powers are confined only to amending the "other provisions of the Constitution" in their application to Jammu and Kashmir, meaning thereby provisions other than Articles 1 and 370. This is clear from the conjoint reading of sub-clauses (c) and (d) of Article 370(1). Consequently, the amendment introduced in proviso to Article 370(3) vide the order dated August 5, 2019 whereby the expression "Constituent Assembly of the State" has been substituted by the expression "Legislative Assembly of the State", is bad in law on this basis also.

Since the amendment made in proviso to Article 370(3) is illegal, the consequent action of the President in issuing the C.O. No. 273 virtually abrogating Article 370, based upon a recommendation made by Parliament which in turn became possible due to the said illegal amendment, is also rendered illegal.

Adverse effect

Apart from the issue of the legality or otherwise of the order virtually abrogating Article 370 in its essence, another question which arises is whether it was at all required to be done, weighing its likely adverse effects. The true nature of Article 370 as it existed is best exemplified by the then Home Minister Gulzari Lal Nanda's statement in Parliament on December 4, 1964 just a few months after Nehru's death. Nanda had said, "May I submit that Article 370 is neither a wall nor a mountain, but that it is a tunnel. It is through this tunnel that a good deal of traffic has already passed and more will. There is no wall between Jammu and Kashmir and India. At the most, you can say it is some kind of movable partition. We can move it on our own. There is nothing coming in the way."

And the noted journalist B.G. Verghese had once asked, "If Article 370 vests the people of Kashmir with a certain sense of identity and autonomy within the ambit of federal relations, how is India diminished or endangered in any way?" The virtual abrogation of Article 370 will leave indelible scars on the psyche of the vast population inhabiting the strategically located territory of India; otherwise there had been practically nothing 'special' about Kashmir's 'special status' for all the years that have passed by.

Sakal Bhushan is a Delhi-based practising advocate

LETTERS TO THE EDITOR

Letters emailed to letters@thehindu.co.in must carry the full postal address and the full name or the name with initials.

Statements that divide

With one statement, the Home Minister has divided the country and achieved the opposite of what he professedly intended (Front page, "Only Hindi can work to unite country, asserts Amit Shah", Sept. 15). The Central government represents the entire country. Just because its offices are located in a Hindi-speaking area it does not mean all Indians are for Hindi. There are two myths here that need to be cleared. First, Hindi is not the national language. All the languages listed in the Eighth Schedule of the Constitution are equally important. Indians not speaking Hindi outnumber those speaking the language. Second, English is not a foreign language. It is only a language of foreign origin. It has become our own over the more than 200 years of its use. As it was introduced as a language of administration all over India, it had unified the country. Now, English-language papers and magazines are published and read throughout India, unlike other-language publications that are confined to particular regions. English has conferred immense benefits on our people. It is a doorway to knowledge. It is not for nothing that C. Rajagopalachari called it the "gift of goddess Saraswati".

B.G. Baliga,
Thrissur, Kerala

■ At a time when the country is facing an unprecedented economic slowdown, it is unfortunate that the Home Minister has broached the subject of making Hindi the national language. May be it is a tactic to divert people's attention from the faltering economy due to the policies of his own government. The massive parliamentary majority that the Bharatiya Janata Party enjoys should not make it lose its head and cause it to become arrogant, autocratic and non-amenable to reasoning.

Tharcius S. Fernando,
Chennai

■ No doubt Hindi has a rich literary tradition. It is also much easier to learn compared with many other Indian languages. Further, over the last seven decades, due to a host of factors including the universal reach of Hindi films and TV programmes and the internal migration of people for livelihood and other reasons, more and more people from non-Hindi speaking States today are in a position to communicate in Hindi. That said, any official attempt to push Hindi down the throats of non-Hindi speaking people can only give rise to avoidable problems. The history of countries such as Pakistan and Sri Lanka should teach governments that in a multilingual country, privileging one language at the cost of others would amount to inviting trouble. Fostering unity is a noble objective. But to think that unity can come only out of uniformity is highly fallacious.

G.G. Menon,
Tripunithura, Kerala

■ I love Hindi but imposing it as a national language and creating an unequal advantage to naturalised Hindi speakers is gross discrimination and cannot be a unifier. The government, having no reform or development measures to boast of, is targeting people's sentiments. But this time, it has scored a self-goal that may cost it electorally in the future. The Congress's history in this regard should be instructive.

Bidyut Kumar Chatterjee,
Faridabad, Haryana

Banner culture

If the putting up of a banner on a road divider in Chennai was an unpardonable act, the fact that it caused the tragic death of a young woman is unforgivable (Editorial, "Bane of banners", Sept. 14). This banner culture prevalent in many Indian States simply tells that government officials are more loyal and subservient to political parties and lumpen groups. More often than not, political parties and motley crowds care a hoot for public safety and law and order.
The court's question: "How many more litres of blood do you want to paint on the roads ?" must serve as a rude awakening and a chilling eye-opener to all concerned.

C.G. Kuriakose,
Kothamangalam, Kerala

A hawk departs

Whether John Bolton resigned voluntarily or was asked to resign, his resignation is a welcome development (Editorial, "John Bolton goes," Sept. 13). Once, when asked a "difficult" question by journalist John Pilger, Mr. Bolton had asked the latter whether he was a member of the Communist Party, inferring that anyone as critical of the neoconservative agenda as Mr. Pilger must have been at the other extreme of the spectrum.
Had he been the leader of a foreign country striving towards independent development and sitting on vast oil reserves, Mr. Bolton would have been the West's arch-enemy and a favourite for the U.S. corporate media to lampoon. But as he has spent a career furthering U.S. interests in the world, Mr. Bolton automatically gains a certain degree of respectability amongst the West's cultural gatekeepers whose partiality stems from the erroneous idea of American exceptionalism.

Louis Shawcross,
Hillsborough, Northern Ireland

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