Three and a Half Years of Modi: An Economic Assessment

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Abstract

This paper assesses the economic policies and performance of the Modi Government (MG), during its first three and a half years in office from May 2014, under two headings: short-term macroeconomics and long-term structural reform. On the macroeconomic front, the MG experienced a stroke of good luck from the collapse of world oil prices and a stroke of bad luck from the inheritance of a "twin balance sheet problem." Its response to these two eventualities was decent but not particularly impressive. On the structural reform front, the MG's performance was excellent with regard to the continuation or completion of a few major reforms relevant to market functioning, especially the goods and services tax, and corporate bankruptcy arrangements. At the same time, its performance was quite poor in addressing the problems surrounding "deep fiscal adjustment"; land and labor markets; creation of employment and skills; state ownership of public sector enterprises and banks; environmental sustainability; transformation of agriculture; international trade agreements; provision of education and health care; and reform of state institutions.Thus, economic performance under the MG has been good in parts but underwhelming overall.

Keywords: Modi, growth, macroeconomic stability, fiscal adjustment, investment, markets, labor, infrastructure, agriculture

Resumen

Este documento evalúa las políticas económicas y el desempeño del gobierno de Modi (MG), durante sus primeros tres años en el poder desde mayo de 2014, bajo dos títulos: macroeconomía a corto plazo y reforma estructural a largo plazo. En el frente macroeconómico, el MG tuvo un golpe de buena suerte después del

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desplome de los precios mundiales del petróleo; y un golpe de mala suerte en forma de un 'problema de balances generales gemelos' heredados. Su respuesta a estos dos eventos fue decente pero no particularmente impresionante. En el frente de la reforma estructural, la respuesta del MG fue excelente en relación con la continuación o finalización de algunas reformas importantes que son relevantes para el funcionamiento del mercado, especialmente el impuesto de bienes y servicios y los arreglos para la bancarrota corporativa. Al mismo tiempo, su desempeño fue muy deficiente en su respuesta a los problemas que rodean el 'profundo ajuste fiscal'; los mercados laborales y de tierras; la creación de empleo y formación de habilidades; la propiedad estatal de empresas y bancos del sector público; la sustentabilidad ambiental; la transformación de la agricultura; los acuerdos internacionales de comercio; la provisión de educación y salud; y la reforma de las instituciones estatales. En conjunto, el desempeño económico bajo el MG fue bueno en partes, pero no tan impresionante en general.

Palabras Clave: Modi, crecimiento, estabilidad macroeconómica, ajuste fiscal, inversión, mercados, trabajo, infraestructura, agricultura

摘要

本文从短期宏观经济和长期结构性改革这两方面评估了莫迪政府（Modi Government ，MG）自2014年5月执政以来的第一个三年半期间的经济政策和表现。在宏观经济方面，MG从世界油价暴跌中获得了好运；却不幸继承了“双重资产负债表问题”“twin balance sheet problem”。MG对这两件事的回应虽然恰当但却并不十分出色。在结构性改革方面，MG出色地延续和完成了一些关于市场运作的重要改革，尤其是商品和服务税，以及企业破产安排。与此同时，MG在处理诸多问题时的表现却又十分不足，这些问题包括：“深度财政调整”、土地和劳动市场、创造就业和技能、国家对公共部门企业和银行的所有权、环境可持续、农业转变、国际贸易协定、提供教育和医疗，以及国家机构改革。总体而言，MG领导下的经济在某些部分表现不错，但整体欠佳。

关键词:莫迪，发展，宏观经济稳定性，财政调整，投资，市场，劳动，基础设施，农业

I. Introduction

To become a prosperous nation in the next two decades or so, India will need to achieve, over that time span, super-fast, and "high-quality" economic growth. (By "high-quality" growth, I mean growth that is inclusive, i.e. widely shared; stable, i.e. macro-economically stable; and sustainable, i.e. environmentally sustainable.) If its GDP grew at around 8 percent a year from 2018 onward, India would reach by 2040 a level of per capita income, measured at purchasing power parity, that countries at the top of the lowest quartile of high-income countries (such as Greece or Portugal) enjoy today. That would surely be a very satisfactory outcome (provided that the growth was also of high quality). However, such a feat, which would require rapid and continuous productivity improvements over a long period, is something that the vast majority of countries in the world have found to be beyond their capacity. (Obvious exceptions are China, South Korea, and Taiwan.)[1] There can be little doubt that the "partial reform model" that India has followed since 1991 has left it unprepared for such a massive undertaking. Moreover, in the recent past, the momentum of India's advance has shown distinct and disturbing signs of running out of steam. If the country is to make a rapid ascent to prosperity, it needs to undertake another round of sweeping reforms of a deeper variety.

The main responsibility for economic reform rests with the national government, though state governments are also increasingly important. In May 2014, on the crest of a "Modi wave," the BJP won a small majority, and the NDA (i.e. the BJP + allied parties) a sizeable majority, in the Lok Sabha. The NDA was, however, in a minority in the Rajya Sabha, where it controlled only around a third of the seats. Its prime ministerial candidate, Narendra Modi, campaigned on the promise to deliver *vikaas* (economic development) and *achche din* (good days) to come. He was widely regarded as a strong and decisive leader who would reverse the paralysis that in popular perception had overtaken policy-making. Though the government did not have a majority in the Rajya Sabha, the latter cannot hold up money bills. Moreover, quite a lot can be done without new legislation, simply on the basis of "executive action." Lack of a majority in the Rajya Sabha was also not a completely new problem: other governments in the past have faced it quite successfully by using their negotiating skills. It was, therefore, expected by many that the new government would accomplish a program of radical economic reform. As this article goes to press, the Modi Government (MG), as I shall call the NDA government, has been in power for three and a half years. Enough time has elapsed to enable a preliminary assessment of its economic performance. That is the aim of this paper.

Some important caveats are necessary at this point. Firstly, any criticism that I make of the MG should not be interpreted as commendation of the previous Congress-led UPA government. The present condition of the

Indian economy is the result of actions for which both the present and previous governments are responsible; and I do not attempt below a direct comparison between the MG and its predecessor. Secondly, this article covers only the MG's economic performance, not its performance on political or cultural matters. Thirdly, my assessment of the MG's performance, like any assessment, is based on some implicit judgments about ends and means. I assume that the objective of Indian economic policy is to achieve rapid, inclusive, stable, and sustainable growth within a political framework of liberal democracy. As regards the means to attain this objective, at the level of broad strategy, I take it for granted that India should move away from old-fashioned socialism, and its concomitant features, such as extensive state ownership of the means of production and centralized micro-intervention in economic activities, toward a modern social democracy. This implies retaining the socialist emphasis on shared prosperity and the liberal-democratic emphasis on individual freedom and rights, while moving in the direction of greater reliance on the private sector and the market mechanism, but with the state performing competently its core functions. These core functions include macroeconomic stability, effective provision of public services, efficient income redistribution, and smart regulation of markets. This, I believe, *should* be the underlying philosophy of Indian reform; moreover, in a not-always coherent and explicit way, it also *is* the philosophy of Indian reform since 1991, though implementation has been slow, variable, incomplete, or half-hearted. When Modi claimed that his government would pursue "minimum government, maximum governance," he too was quite clearly thinking along these lines.[2] Fourthly, I am aware that compression for reasons of space may give some of my arguments in this article the air of *ex cathedra* pronouncements. Note, however, that the analytic and factual basis of my views on India's economic problems is fully laid out in my recent book.[3] The last chapter of the book assessed the MG's performance in its first 2 years in office. This article brings my assessment up to the present time (end of November 2017).

For convenience, I divide the analysis below into three sections. Section II, "Macro-economic Stability," consists of an assessment of the MG's *short-term* macro-management of the economy. Section III, "Structural Reform," is a critique of its policies for rapid and high-quality growth *in the long term*. Section IV contains a summing-up.

II. Macroeconomic Stability: Policies and Performance

Macroeconomic stability is generally taken to comprise five elements: (a) low inflation; (b) external balance, i.e. a moderate current account deficit; (c) fiscal balance, i.e. a sustainable fiscal deficit; (d) actual growth close to potential growth; and (e) financial balance, i.e. a sound asset-liability position in financial institutions. The MG's per-

formance was satisfactory on the first three elements but not on the last two. Much credit goes to good luck in delivering satisfactory outcomes on the first three criteria. Soon after the government came into office in May 2014, global oil prices crashed. This was a huge windfall gain: India's terms of trade improved by about 25 percent over 2 years.

The MG's performance on the five elements of macro-stability can be briefly described and assessed as follows. Table 1 shows the relevant data.

Table 1. Major Macroeconomic Indicators 2003/04–2017/18

Year	Growth % p.a.	Inflation (CPI) % p.a.	Fiscal Deficit (Centre + States) % GDP	CAB % GDP	REER 2004/05 = 100
2003/04–2007/08 (average)	8.7	5.0	6.2 (6.6)	0.3	102.2
2008/09–2013/14 (average)	7.1	10.0	7.8 (8.1)	−3.1	107.9
2014/15	7.2	5.9	6.6	−1.4	111.2
2015/16	7.9	4.8	7.5	−1.1	114.4
2016/17	6.6	3.9	6.5 E	−0.7	116.1
2017/18 Q I	5.6	2.2	n.a.	−2.4	121.0
2017/18 Q II	6.1	3.0	n.a.	n.a.	120.0

Notes: Column 1: year or average of years. Column 2: Growth of real GDP at factor cost, 2004/5 series until 2011/12, and 2011/12 series from 2011/12 onward; Column 3: Annual rise in the CPI (IW) until 2010/11 and CPI (NS) from 2011/12, measured on an average-of-months basis. Column 4: Fiscal balance of consolidated government (i.e. Central and State governments combined), excluding off-budget subsidies, as a proportion of GDP (the figures in brackets include off-budget subsidies, which were discontinued after 2009/10.) Column 5: CAB refers to the current account of the balance of payments as a proportion of GDP. Column 6: REER refers to the level of the real effective exchange rate (36-country index with export-based weights), with base year 2004/5 = 100. E means estimated figure.

Sources: Ministry of Finance, *Economic Survey 2016/17*, and *Public Finance Statistics 2015/16*; Reserve Bank of India, *Handbook of Statistics for the Indian Economy 2016/17*, and *Monthly Bulletin* (various months in 2017); Government of India, Central Statistics Office, *Press Notes on Estimates of National Income*, (various press notes in 2017).

Inflation

The oil-price fall put significant downward pressure on inflation, directly and indirectly. However, the Reserve Bank of India (RBI) also played a useful role by continuing to tighten monetary policy. (Note that the tougher monetary policy pre-dates the MG by a few months. Inflation started to fall from November 2013). In consequence, in the first three and a half years of the MG, inflation averaged around 5 percent a year, a welcome relief from the previous 5 years when it was 10 percent a year. The fall in inflation enabled the RBI to reduce interest rates modestly in 2016 and 2017.

External Balance

The oil price decline also made a direct contribution to reducing the current account deficit via a lower price for imported oil. (India imports well over two-thirds of its oil requirements). In 2014/15, the current account deficit came down to a safe level of around 1 percent of GDP; and in the following 2 years, it went down even further. Satisfaction has to be qualified, however, since exports stagnated (but imports fell even more due to the growth slowdown and the fall in oil prices). Slow growth of world economic activity and trade is doubtless partly responsible for the miserable export performance. But it is notable that the real effective exchange rate has been allowed to appreciate since the MG came to power (in other words, export competitiveness has been allowed to worsen). This is surely unwise. As and when there is a strong recovery, the trade deficit could widen dangerously if exports continue to languish. Moreover, export growth has a crucial role to play in increasing employment and productivity. Inter-country experience indicates that no country has had rapid growth that has not also had rapid growth of exports.

Fiscal Balance

Fiscal policy has been sensible. The MG stepped up public investment in 2015/16 to combat a feared economic slowdown. It also increased slightly the net transfer to the states, following its acceptance of the recommendations of the 14th Finance Commission. It was able to do these things while deviating only slightly from the pre-agreed path of fiscal consolidation because the oil-price windfall made possible both a reduction in fuel subsidies and a hike in excise taxes on fuel products *without* raising consumer prices. Though no hard political decisions were necessary, the technocratic decisions were good, for which the government deserves some credit.

Financial Balance

On financial balance, the MG had the bad luck of inheriting a "twin balance sheet problem." This refers to the build-up of excessive non-performing assets (i.e. bad loans) in public sector banks (PSBs), mirrored by excessive bank debt in the corporate sector. These debts arose from the over-expansionary macroeconomic policy pursued by the previous government in combating the global credit crisis of 2008, combined

with a severe lack of due diligence in lending by the PSBs. However, despite the flashing danger signals, the MG was slow to respond and allowed the problem to fester (see Table 2). As a result, bank credit has dried up and investment has declined sharply as a proportion of GDP (see below). The MG has now taken some decisive steps to clean up the bad loans in banks by ordering them to put large non-performing accounts through a bankruptcy process. The success of this move remains to be seen.

Table 2. Stressed Advances of Banks

(% Total Advances)

	March 2008	March 2014	March 2017
Public Sector Banks	3.5	11.6	15.6
Private Sector Banks	4.2	4.2	4.6
Foreign Banks	3.0	4.0	4.5
All Banks	3.5	9.8	12.1

Source: Reserve Bank of India

Growth

Growth of national income was below potential growth (though the latter also fell to an unknown extent below its level in the previous decade). The average growth rate during the MG's first 3 years was 7.2 percent a year, which appears fairly satisfactory, but there are three qualifications. Firstly, around 1.5 percentage points of the growth rate during the first 2 years was the direct result of the boost given to disposable incomes by the oil-price crash. Secondly, many economists justifiably take the view that the new national accounts methodology has led to an overestimate of the true growth rate, especially in 2015/16. Thirdly, even on the new basis of accounting, growth declined continuously for five quarters from 8.7 percent a year in the last quarter of 2015/16 to 5.6 percent a year in the first quarter of 2017/18. (But there has been a small rise to 6.1 percent in the second quarter of 2017/18.) In the light of this, the MG's growth rate forecast for the full year 2017/18 of 6.7 percent is likely to prove an overestimate.

Several factors underlie the recent slowdown. Firstly, the boost to growth from the oil-price crash has ended. Secondly, the collapse of investment (almost wholly attributed to pri-

vate, not public, investment) has taken its toll. Fixed investment fell under the UPA government from 34 percent of GDP in 2011/12 to 32 percent in 2013/14. The fall continued under the MG at an even faster pace to 27 percent of GDP in 2016/17; and there are no indications of any rise in 2017/18. While the legacy of the "twin balance sheet problem" certainly played a part in this decline, the MG's procrastination in dealing with the issue was also unhelpful. Thirdly, growth has received no help from exports. Exports have been rising very slowly (Indeed, they fell sharply in absolute dollar value in 2015/16). A stagnant world economy was partly to blame, aided and abetted by an unwise exchange rate policy. Fourthly, growth was damaged by demonetization. This flagship policy of the MG dislocated economic activity for several months after its introduction by causing a severe shortage of cash.[4] (Moreover, the GDP figures are likely to be an overestimate because they do not pick up the effect of demonetization in the unorganized sector.) Fifthly, the goods and services tax (GST), a desirable reform in itself, caused short-term disruption since it was introduced without ironing out various glitches. Sixthly, there was doubtless a longer-term element in the slowdown resulting from diminishing returns to the "partial reform model" of 1991. The MG has undertaken a few useful reforms, but their positive effects on growth will take some time to fructify.

III. Structural Reform: Policies and Performance

Rapid, inclusive, and sustainable growth in India on a durable basis will require radical structural reform. This section is an appraisal of the MG's performance in the main areas that fall under this rubric.

III.1 Long-term Framework for Macro-Stability

Section II was concerned mainly with the MG's short-term macro-management of the economy. But it is widely acknowledged that rapid and inclusive growth can take place only in a stable macro-economic environment, which in turn requires an appropriate long-term policy framework. On monetary policy, one of the Modi government's sound moves was the adoption of "flexible inflation targeting."[5] The ground had already been prepared by the previous government, but the MG can take some credit for going ahead. In February 2015, there was an agreement between the Finance Ministry and the RBI, which gave the latter the operational authority to achieve an agreed inflation target of 4 percent a year. A monetary policy committee, chaired by the RBI governor, was appointed in September 2016 and has been operating since then. (This involved an amendment of the RBI Act to give inflation targeting a statutory basis.) While inflation targeting is a step forward in macro-management, its efficacy could be considerably improved by reforms in the transmission mechanism of monetary policy, which remains rather poor.[6] For external bal-

ance, the MG has rightly continued with the regime of managed floating of the exchange rate, along with sterilized intervention in foreign exchange rate markets and some focused capital controls on "hot money."[7]

As regards the fiscal policy framework, the frequent chopping, changing, and amending of fiscal rules and targets, as seen in the past decade or more, is surely bad for the government's credibility. India needs a new and revamped Fiscal Responsibility Act that establishes a time-path for deficit reduction that it adheres to strictly but which also makes due allowance for both the cyclical condition of the economy and the need to bring down the government debt ratio to safe levels. A committee set up by the Modi Government to advise on this issue has produced a good report.[8] One of the committee's excellent recommendations is to set up an independent fiscal council, as is the practice in several other countries, to provide scrutiny, assessment, and counsel on fiscal policy and performance. The MG has not acted on the report so far.

III.2 Investment Climate

India is notorious for putting numerous, onerous, and bureaucratic obstacles in the way of investment. These obstacles are a major constraint on the growth of firms, not least medium and small firms, whose expansion is critical for speeding up the growth of national income and employment via expansion of "good jobs" in the organized sector. Of course, there have to be some regulations on justifiable grounds. But they must be administered speedily and fairly, and they should not be so restrictive as to stifle the incentive to invest.

Improving the climate for investment by simplifying, rationalizing, and relaxing business regulations was one of the declared aims of the MG. Indeed, as a signal of intent, it announced a target of raising India's rank among 185 or so countries in the World Bank's Ease of Doing Business index from 134 to 50 within 5 years. There was hardly any improvement for 2 years, but the rank improved sharply to 100 in 2017. Despite the well-known deficiencies of the index (for example, the underlying data come only from Delhi and Mumbai), this counts as an achievement. There has certainly been a major effort to cut red tape by opening "single windows" to streamline the large number of permissions needed to start and operate a business. While there are varying views about how much improvement has occurred on the ground, movement is undoubtedly pointed in the right direction. At the same time, the government's emphasis on "ease of doing business" should not obscure an obvious point: improving the business climate will also depend on making a success of other aspects of the reform process, such as rectifying infrastructure deficits and making factor markets function more smoothly.

A more immediate problem, as noted above, is that an investment revival is being hampered by the debt overhang in large parts of the corporate sector and the impaired financial position of the public sector banks (PSBs) that accompanies it. The former blunts

the demand for investment and credit; the latter restricts the supply of credit. At last, in 2017, the government took some decisive measures to address the problem. It started with an ordinance empowering the RBI to direct PSBs to refer company accounts that have been in persistent default for time-bound restructuring or liquidation under the newly enacted bankruptcy code (on the latter, see below). The RBI has proceeded to do this. The "haircuts" involved are expected to leave the banks with a severe inadequacy of capital. Therefore, a couple of months later, the MG announced a substantial recapitalization of PSBs, partly by direct infusions from the budget and capital raised from the market (with some dilution of the government's equity stake), but mainly by issuing "recapitalization bonds" to the banks. The whole process is fraught with difficulties, but with luck it will work to relax the current constraints on bank credit and revive private investment. Of course, recapitalization by itself does nothing about the long-term problem of bad governance in PSBs. For that, different steps would be required (see below).

III.3 Deep Fiscal Adjustment

It has long been recognized that the pattern of government expenditure in India is dysfunctional. Far too much is spent on subsidies, explicit and hidden, to support price controls on various key commodities, with the putative aim of helping the poor. Examples include food (especially cereals), oil-related fuels (kerosene, cooking gas), fertilizers, electricity, water, and rail services. These controls misallocate resources and severely damage economic efficiency. Since prices are kept below costs of production, investment to expand the supply of the controlled commodities is excessively curtailed, while demand is excessively stimulated. At the same time, the subsidies, explicit and hidden, that accompany the price controls are a fiscal burden. What is worse, the incidence of the subsidies is highly regressive. The benefits go mostly to the well-off, not to the poor. This is not surprising since a fixed price subsidy per unit consumed obviously gives a larger benefit to those who consume more.

It is high time the dysfunctional explicit and implicit subsidies were wound up, in line with the basic economic principle that prices should reflect costs (unless there are demonstrable "external effects"). The fear that removal of subsidies would harm the poor is misplaced. The fiscal savings from the elimination of the food subsidy and all "non-merit subsidies" would be around 6 percent of GDP,[9] more than enough for any adverse effects on the poorer sections of society to be more than generously compensated by direct cash transfers via Aadhar-seeded bank accounts. If identification of the poor were thought to be impossibly difficult, it is worth noting that even a *universal* cash transfer supplement, set at a level equal to the difference between the official (Tendulkar) poverty line and the average income of the poor at present, would cost no more than 3.5 percent of GDP. In fact, the extra fiscal potential could be much greater than 6 percent of GDP, indeed as much as 10 percent of

GDP, if some revenue-raising measures, which have no economic downsides, were adopted, in addition to subsidy-elimination. Examples are agricultural income taxation above a threshold income, withdrawal of unnecessary tax exemptions, privatization of loss-making state enterprises, and abolition of a few welfare schemes that are known to be very badly targeted (while preserving those that are reasonably effective, such as the National Rural Employment Guarantee Scheme). Such a program would create enough fiscal space to finance not just the said universal basic income supplement but also to increase public investment and government spending on health and education, with something left over to reduce the fiscal deficit. Given, in addition, the resource-allocation gain from having cost-reflective prices, the whole program could increase inclusive growth on several counts.

The MG has made only a few small advances in the direction of "deep fiscal adjustment" of the above variety. These, as already noted, have taken the form of using the oil-price windfall to deregulate diesel prices and thus abolish the subsidy on diesel (gasoline had already been deregulated in 2010). The subsidy on cooking gas remains though the level has been reduced somewhat.[10] The kerosene subsidy (amazingly, around 50 percent of it goes to the well-off) continues unaltered.[11] For meaningful "deep fiscal adjustment," the government would have to go much further, and take steps that are politically more challenging, such as elimination of the multitude of "non-merit subsidies," explicit and implicit.[12] So far, the MG's approach to this kind of radical program can only be described as very timid, despite various hints and advocacy in its Economic Surveys. The result is that large potential gains for inclusive growth are being sacrificed.

III.4 Markets, Ownership, and Regulation

Productivity growth, which is the critical requirement for rapid growth of output, has faltered during the current decade. It is essential to speed it up to exploit the huge potential for catching up with the advanced countries. Catch-up is partly about adopting best-practice technologies. But it is also about producing more output from available resources by ironing out the manifold distortions and inefficiencies that pervade the Indian economy. This would, *inter alia*, involve market and ownership reforms. The Modi government was expected to do a great deal in this area. But achievement has fallen well short of expectation.[13]

Markets for Goods and Services

In the markets for goods and services, the main challenge, apart from getting rid of dysfunctional subsidies (see above), was to reform India's hugely tangled and inefficient system of indirect taxation by bringing to fruition the long-standing project of introducing a GST. The measure finally came into force in 2017. Unfortunately, the form of GST leaves a lot to be desired (quite apart from the initial teething troubles caused by over-complex filing requirements that have hit exporters and small

producers particularly hard). Ideally, it would have been a uniform tax, with a wide coverage. It has turned out to have five different tax rates, a few additional cesses, and several exemptions. As things stand, it is overly complicated, and leaves much scope for tax arbitrage. These deficiencies will have to be corrected over time. Even so, the GST, as adopted, with all its failings, is an excellent start in the direction of an efficient indirect tax system and a nationwide, integrated common market.

Another reform imperative in the markets for goods and services was to strengthen domestic competition by curbing monopolistic behavior (e.g. in the marketing of agricultural produce) and to increase international competition by furthering trade liberalization. On these fronts, there has been little progress (see below).

Markets for Factors of Production and Finance

The markets for factors of production and finance in India have been even more distorted than output markets. On capital market reform, there has now been a major advance. Productivity growth depends as much on the exit of inefficient companies as on free entry. India's erstwhile bankruptcy arrangements encouraged huge waste of resources by keeping moribund companies alive for years on end. A modern bankruptcy act, which had been in the works under the previous government, was enacted in 2016. It will at last enable insolvent companies to be smoothly restructured or liquidated via a newly established National Company Law Tribunal. The act is currently receiving its first major test in dealing with the corporate accounts in default that banks have been ordered by the RBI to resolve within a tight time-frame (see above).

There is also good news on some aspects of financial sector reform. The RBI has energetically pursued measures for increasing financial inclusion and bank competition. Following a strong impetus from the MG, it has led a successful campaign (the *Jan Dhan Yojana*) to increase rapidly the number of people with bank accounts (300 million accounts have been opened, though half of them are only minimally active). It has also licensed 2 new universal banks, 11 "payments banks," and 12 "small finance banks." These reforms will, in due course, contribute to inclusive growth by improving the access of the unorganized sector to the financial system, enabling direct benefit transfers, increasing bank competition, and reducing the cost of credit for small firms and self-employed people. But the MG has been much less bold in dealing with the problem of poor governance in public sector banks (see below).

It was expected that the MG would amend land and labor laws. It issued three successive time-bound presidential ordinances to weaken the "consent" and "social impact" clauses in the Land Acquisition Act of 2013 but then gave up in the face of opposition in the Rajya Sabha. The matter has now been left to individual states, with the implicit understanding that if they amend the law as the government wishes, presidential assent will be forthcoming. So

far, only a couple of states have shown any interest in doing so. As things stand, the laws governing land acquisition remain in a very unsatisfactory state both as regards the mandated high prices for acquired land and the length of time taken to complete transactions. This is clearly undesirable for a country that wishes to industrialize rapidly. The MG also gave up on any major reform at the national level of India's highly inflexible labor laws, despite various nods and winks early on in its tenure. Again, the states have been left to do their own thing. Four states (Rajasthan, Haryana, Madhya Pradesh, and Gujarat) have tweaked labor laws to make them a bit more flexible. None of this adds up to a step-change. India's labor laws remain profoundly anti-labor. They protect the interests of organized sector workers at the expense of the vast majority of the country's labor force. The way forward is for the Union Government to negotiate a package with trade unions to weaken extreme *job security*, and strengthen *income security* at the same time, by increasing severance benefits to a generous level, putting in place a reliable safety net for all, and undertaking more effective schemes of job-search and training. The MG has failed to do anything along these lines.

Public Sector Enterprises

India's public sector enterprises (PSEs) do not perform efficiently. One-third of the central government's 244 non-financial PSEs made losses in 2015/16. The losses of central and state PSEs together have amounted to 1 percent of GDP for several years running. There are better ways of using national resources than tying them up in loss-making and low-profit PSEs. A vigorous privatization program is essential to boost productivity growth, especially in tradable sectors where domestic and external competition exists or can easily be introduced.

Unfortunately, The MG has continued, with minor exceptions, to cling to the fetish of 51 percent state ownership, so its privatization efforts are just a continuation of the previous government's policy of "disinvestment," i.e. selling small slices of state-owned companies. (In 2017, however, the MG announced its intention to privatize Air India. We shall see if that comes to pass.) "Disinvestment" can raise some revenue but without any of the efficiency advantages of a change of ownership and management. Even the revenue gain is modest since buyers are unlikely to pay high prices if the enterprises being sold are to remain under government control. In any case, the volume of disinvestment has also been meagre.[14] For example, in 2015/16, it was only a quarter of a small budgeted figure. And the excuse of poor market conditions does not explain why the figure was just as low in the previous year when the stock market was booming. The need to have continuous sales throughout the year has been talked about but nothing has been done.

On public sector banks (PSBs), the government has preferred so far to bury its head in the sand. Its so-called Indradhanush initiative did not get to grips with the severe governance prob-

lem that underlies their manifestly unsatisfactory performance with regard to non-performing assets and overall profitability. It has been known for years that the root of the problem is political manipulation that has in effect disempowered bank boards.[15] In India's political culture, this can only be fixed by making the boards totally independent of government control. One way to do so is privatization. Another, much more difficult way, is to create the required distance between bank boards and the government by genuine organizational re-engineering. The MG has not made any moves on these fronts so far. If this problem is left unaddressed, it will recur in the future.[16]

Infrastructure

Poor infrastructure is widely recognized as a major constraint on India's growth. There has been a considerable amount of energy and forward movement in this area from the MG, for example in accelerating the highway building program and starting work on industrial and freight corridors. This is all well and good (though progress is well behind target; even the well-publicized Delhi–Mumbai industrial corridor has still not got beyond the land-acquisition stage). At the time of writing, the MG has announced another major infrastructure push on road construction.

Two outstanding problems are still unresolved: the parlous condition of the state electricity distribution companies ("discoms"); and the difficulties experienced with managing public–private partnerships (PPPs). On the former, the government initiated a scheme called UDAY, which purports to provide a "permanent solution" to the discoms problem but is in truth just another bailout, similar to others in the past. There is little in the scheme to make or enable discoms to address the underlying causes of their problems, namely electricity prices that do not reflect costs, and operational issues such as electricity theft. The UDAY "solution" thus amounts to little more than kicking the can down the road.[17] A permanent clean-up of the discoms mess will surely require not just a write-off of their liabilities but also cost-reflective prices, targeted privatization, increased competition, and improved regulatory supervision.

The second major issue in the infrastructure space is how to make public–private partnerships (PPPs) function better. India's huge infrastructure requirements cannot be fulfilled without recourse to PPPs, but the latter have disappointed so far because of various problems in designing and monitoring contracts. A committee set up by the Modi government produced an excellent report toward the end of 2015, with many useful recommendations on improving risk-allocation between public and private partners, setting up better dispute resolution mechanisms, and building capacity and expertise within government.[18] But the recommendations remain unimplemented.

Agriculture

No radical reforms in the agricultural sector have been initiated by the MG, with the significant exception of a crop

insurance scheme (*Pradhan Mantri Fasal Bima Yojana*). The latter is an excellent idea. When it starts working properly, which has not happened so far, it will help to shield farmers against major production risks like droughts. The MG has also tried to implement a scheme (*Pradhan Mantri Krishi Sinchayi Yojana*) to increase the availability of water and efficiency of water use. This is important but no different from what governments have tried in the past. There are two critical and unaddressed problems in agriculture. Firstly, there is still no rational scheme of agricultural pricing that is not hostage to consumer interests and flip-flops on trade restrictions. Secondly, the dysfunctional combination of large subsidies and low public investment in agriculture has not been attacked. If the subsidies were wound up and replaced by cash transfers to poor farmers, a lot of money would be saved, which could be deployed for rural irrigation, rural roads, research into new seeds, and other investments to enhance productivity. The MG has announced a target of doubling farmers' real incomes in 7 years from 2015/16 (with an implied 10 percent annual growth rate of real farm income). With the current policies and implementation, this target is absurdly optimistic.

Industry, Services, and Employment

The MG's flagship program in the area of industry and services is called "Make in India," with 25 sectors in industry and services designated as "focus sectors" for specific policies and initiatives. This is a re-vamped version of the previous government's "National Manufacturing Policy." Various associated objectives and targets have also been announced such as "Transform India into a global design and manufacturing hub," "Make India an important international investment destination," "Enhance the share of manufacturing in GDP to 25 percent [from 16 percent] within a decade," "Create 100 million additional jobs by 2022," "Raise India's share of world exports from 2 per cent to 5 per cent by 2020," and a host of others. The only part of "Make in India" that has had some success is the effort to increase foreign direct investment. The reason is quite simple. Pushing industry and services through specific measures is not going to work without progress in areas such as pricing of key inputs; land and labor laws; bureaucratic rigmaroles that impede the ease of doing business; availability of infrastructure services of high quality; training and skills of the labor force; trade liberalization etc., in other words, radical reforms across a broad spectrum.

A connected issue is the lack of progress in ameliorating the critical position on employment. India has a backlog of millions of underemployed persons in low-productivity occupations. In addition, the labor force is expected to grow by around 10 million a year for the next two decades or more. Without rapid growth of high productivity jobs, especially in the organized sector, the "demographic bonus" promises to become a disaster. The MG came in with many promises to create "good jobs" but these have been belied.

Available evidence, official and informal, suggests that employment growth has stagnated. Part of the reason is the current slowdown in the growth of investment and output.[19] But it is also the case that the MG has not come forward with any coherent policies to increase either the demand for low-skilled labor or the supply of skilled labor. On the latter, its Skill India Programme has not delivered. It is supposed to train 300 million workers by 2022. Only about 3 million people had received some training by July 2017, of whom only around 300,000 have received job offers. The programme lacks a viable model of harnessing private sector participation in providing training and apprenticeships. As regards low-skilled labor, the government has not gone ahead with labor market reform, nor has it implemented any new imaginative schemes, such as improved coastal economic zones where genuine-free trade conditions obtain.

The Environment

On the environment too, there is nothing much to write home about. While the MG's environment ministers have used their discretionary powers to speed up project clearances on an *ad hoc* basis, nothing has been done to put in place an expeditious and fair system of environmental licensing, despite the well-founded recommendations of an excellent report (which the MG has shelved) from the TSR Subramanian committee.[20] No major new initiatives have been undertaken to control environmental pollution (such as the horrendous problem of poor air quality across much of North India), and the degradation of natural capital (for example, the cleaning of the Ganga, a much-touted MG project, has made little progress). There is, however, one positive fact to report. The government has mounted an ambitious program for increasing the capacity to produce solar energy (though it is running behind schedule).

III.5 External Economic Engagement

India has opened up substantially to external competition in the last three decades by reducing import tariffs and controls, and restrictions on foreign investment (other than, justifiably, on inflows of "hot money"). In consequence, trade has risen three-fold as a proportion of GDP, and inward and outward foreign investment have grown substantially. Overall, the effects on India of India's globalization have been very favorable. External liberalization has made a major contribution to productivity growth.

The MG moved significantly on further liberalization of foreign direct investment (FDI) early on in its tenure, and again toward the end of 2015 across a wide range of sectors. Ownership limits have been made more generous. "Automatic" approval of investment proposals is rapidly becoming the norm, and domestic-sourcing benchmarks have become much more flexible. The big exception is multibrand retail. In this sector, though 51 percent ownership is formally allowed, states retain the freedom to set tighter limits or even to ban entry. The MG has made

it clear informally that it would not look favorably on the entry of supermarkets even though they would bring about modernization of agricultural supply chains. (Currently, at least a third of the vegetables produced in India rot before they reach urban markets.) The reason for the MG's attitude is that retail traders are part of its support base. Overall, Prime Minister Modi has, on his numerous foreign tours, made a very effective sales pitch for India as an investment destination. As a result, there have been many expressions of investment intent. While such intentions do not always materialize, inflows of FDI have certainly been strong. One of the determining factors in the future growth of FDI will be India's success in improving the investment climate on the ground by tackling the usual suspects, such as ease of doing business, land and labor laws, intellectual property protection, and trade facilitation. Retrospective taxation is another important issue. The MG came in with a promise to end it, but did not quite live up to its word. Though it has forsworn such actions in the future, past cases such as the tax disputes with Vodafone and Cairn still remain in play, and irritations continue.[21]

On the whole, the MG's unilateral actions on foreign investment have been very constructive. The same cannot be said about its policies on foreign trade, and trade and investment agreements. There has been no unilateral trade liberalization by India in recent years, indeed quite the contrary. As for multilateral liberalization, its death-knell was sounded by the WTO's Nairobi conference at the end of 2015, underlining thereby the importance of moving expeditiously on trade liberalization via mega-regional agreements. Unfortunately, the MG has done very little to this end. Early on in its tenure, it petulantly broke off negotiations on the India-EU trade and investment agreement. It is, however, carrying on with the talks initiated under the UPA government to conclude a trade deal among the members of the Regional Comprehensive Economic Partnership (RCEP).[22] A successful conclusion to these meetings would be of great value, but India has managed to create the perception of dragging its feet under pressure from industrial lobbies. The underlying problem is that the MG lacks a strategic vision on international trade. The old-India mentality of wanting something for nothing in trade talks is still much in evidence.[23]

III.6 Social Protection and Enablement

Rapid growth is pointless unless it is inclusive and widely shared. Social protection schemes that provide a minimum income to citizens, regardless of earning capacity, are institutions that all social democracies should aim for. The MG has continued to rely on a complex network of hit-and-miss price subsidies to provide social protection.[24] As argued above in the section on "deep fiscal adjustment," these subsidies would ideally be substituted by a universal cash transfer set at a level that would abolish extreme poverty. The MG has put real energy behind the extension of the Aadhar card and Aadhar-linked bank accounts. But it seems in no hur-

ry to take the politically more difficult steps to provide a universal safety-net by using the delivery mechanisms that Aadhar has made possible.

While social protection is an essential feature of a good society, rising living standards for poor people depend, in the long run, more on expansion of employment (discussed above), and provision of education and health care, than on redistributive transfers. Education and health care contribute to raising the growth rate by augmenting human capital. They are also of crucial importance in spreading the fruits of growth widely and enabling individuals to achieve their full potential. In both these sectors, there is a strong case for some state intervention on equity and market-failure grounds. The critical question is: what should be the form and extent of state intervention?

It is evident that the old model of providing education and health care is broken.[25] With business-as-usual policies on education, the country is virtually certain to run into a human capital constraint that will block its economic ambitions. Unfortunately, business-as-usual is all that has been on offer from the Modi government so far at all levels of education, primary, secondary, and tertiary. There is no sign that it is facing up to the profound problems of low quality in state-provided primary and secondary education, which stem mainly from the near-complete lack of accountability of teachers in government schools. The only way to improve the performance of government schools would be to introduce *either* a competitive education-voucher system *or* a massive systemic reform from within. The government is still in the process of formulating a New Education Policy. I would not bet on it addressing the core issues, but I hope I am proved wrong. In the higher education sector, little has happened to change the prevailing license-raj mentality, though the government has talked of setting up a few "special universities" that are free from governmental micro-regulation. For vocational training, there is a target of training 300 million workers by 2022 but no credible plan to attain it.

The Modi government came forward with a National Health Policy in March 2017.[26] The policy document announced a target of increasing government expenditure on health from 1 percent to 2.5 per cent of GDP. Two-thirds of the increase is supposed to go toward state delivery of primary care. This prioritization is highly questionable. I would argue that the first priority for increased government expenditure should be "traditional public health" (i.e. immunization, child nutrition, sanitation etc., which cannot be provided by the private sector) where the social returns are enormous. Expanding state-provided primary care on the current basis would be unwise without a clear idea of why its quality is currently so atrocious. Research indicates that absenteeism and lack of job-commitment in primary care are rife, and people are voting with their feet and migrating toward private providers. Arguably, the state should accept this reality, get out of delivering primary

care, and bend its efforts toward providing training courses for private providers while making certificates of training a condition of being allowed to practice. Even if this is considered to be "a bridge too far," business-as-usual expansion of primary care has little to be said for it without tackling the problems of incentives and accountability in government provision.[27] In secondary care, the MG's national health policy has no clear plan for building on the foundation of the Rashtriya Swasthya Bima Yojana (RSBY), initiated by the UPA government, which was beginning to stabilize after some teething troubles. The RSBY involves the state paying the insurance premiums of poor people who are then given the freedom to go to a public or private hospital and claim benefits up to a maximum annual limit. There needs to be an effort to extend the coverage of RSBY to the whole of the poor population. For the moment, the scheme appears still to be running but with a cloudy future. Rationalization of the patchwork of various existing schemes has not begun. Overall, confusion reigns.

Nonetheless, on one health-related initiative, the MG can be commended unequivocally. It has put a lot of energy, via the Swachh Bharat (Clean India) programme, into building latrines and curbing open defecation. Success would pay enormous health dividends. But progress has been very slow due to the formidable problems of ensuring water supply, and refuse clearance, and changing public attitudes on purity and pollution.

III.7 Reform of the State

Two issues concerning reform of state institutions are especially germane for economic development: weakness of state capacity, and corruption in state-business, and state-citizen relations. The UPA government, in its dying days, was perceived to be afflicted by administrative paralysis. The MG has shaken off this perception at least so far. The lines of authority are clearer. The government has an absolute majority in the Lok Sabha, and is not beholden to coalition partners. The writ of the prime minister is unquestioned and his office is in full control in making appointments of top civil servants, and in deciding strategic policy issues. Indeed, the danger in the Union Government is one of *de facto* over-centralization, not one of too many centers of power.

However, the MG has made no major moves toward improving state capacity for the long run. There have been no measures of administrative reform at the higher levels of government on matters such as professional lateral entry to improve the quality of personnel to perform complex tasks. There is no evidence of any thought being given to measures for improving the delivery of public services on the ground by state functionaries (e.g. by teachers in primary schools, nurses and doctors in primary health care) apart from the welcome attempts to simplify procedures for "ease of doing business." The large deficits in administrative, regulatory, and judicial capacity, both quantitative and qualitative, continue to be neglect-

ed.[28] Note, in this context, that the move toward decentralization of governmental responsibilities, recently boosted by the award of the 14th Finance Commission, is decidedly double-edged. On the one hand, moving decision-making closer to the people has much to be said for it for obvious reasons. On the other hand, it exposes even more the weakness of state capacity at the level of state and local governments.

On corruption, the MG's flagship policy for combating black money and corruption was the sudden and unexpected demonetization of Rs. 500 and Rs. 1,000 notes. As already noted above, the policy was of no direct use for the stated purpose. However, there has been some diminution of visible mega-scams at the national level. (This may be related in part to the collapse in the prices of minerals, whose extraction and use were a prime locus of corruption during the UPA regime.) It is said that ministers and civil servants are scared of the prime minister. Perhaps, that helps to keep them mostly on the straight and narrow. The question is whether all of this is anything more than a temporary phenomenon and that too only at the top level of government. There are some grounds for hope. Auctioning as a method of allocating resources seems to gaining traction. Banks, with the support of the Reserve Bank, are getting tougher on promoters who default strategically and milk the system. At the "small-ticket" level, corruption is being deterred to some extent by technological devices such as transfers of benefits directly into bank accounts.

At the same time, large-scale institutional change is lacking.[29] Firstly, a lot of corruption takes place at the level of the states and municipalities, where deals have less visibility, but the aggregate sums involved in contracts and licenses are enormous. There are no signs of any material change in the prevalence of corrupt practices in these locations. Secondly, election funding provides a large part of the fuel for running the wheels of corruption. About 75 percent of the income of major political parties comes from undocumented sources. The MG's contribution to tackling this problem has been to reduce the threshold for no-questions-asked individual donations from 20,000 rupees to 2,000 rupees. This only means that such donations will be divided into slices of 2,000 rupees. And in one major respect, the Budget of 2017/18 has encouraged greater non-transparency by abolishing the donation limit for corporates (earlier, it was 7.5 percent of average net profit for the previous 3 years). Indeed, corporate donations can henceforth be made without revealing the name of the recipient political party, and even without the approval of the company's board. What is needed to make political parties more accountable is compelling them to have audited accounts, and increasing the powers of the Election Commission to monitor them and their finances. There have been no moves in that direction.

IV. The Modi Government: Overall Assessment, Three and a half Years On

The Modi government's economic performance has been mixed at best. On the macroeconomic front, it has successfully stabilized the economy and moved firmly in the direction of inflation targeting. But it has not been able to re-ignite private investment in the face of the inherited debt overhang, and thereby, to return the economy to rapid growth. It has, thus, failed to capitalize on the good fortune of a crash in global oil prices.

Of course, recovery will come sooner or later. This leads naturally to the question: has the Modi government done enough to promote rapid, sustainable, and inclusive growth *in the long-term*? To answer this question, one has to look through the MG's many slogans, its plethora of "missions" with eye-catching acronyms, and its multitude of targets and time-lines. (Quite a few of these missions and projects are continuations of previous schemes, but they have been repackaged and re-introduced with new names and more fanfare.) Indeed, the general difficulty with the MG's approach has been too much focus on specific projects and too little on broad policy reform, without which the projects are likely to be under-achieved or to fail. (The lack of progress in job-creation and the "Make in India" scheme are clear illustrations of this general difficulty.)

On broad policy reform, the record, in summary, is as follows. The MG has made a creditable effort to make it easier to do business. It has also energetically pursued the project of persuading individuals to obtain biometric identification cards, and the scheme for extending the coverage of bank accounts across the population. However, apart from the reduction in fuel subsidies, made possible by the fall in global oil prices, it has made no concerted effort to exploit the huge potential that lies dormant in changing the pattern of government expenditure and undertaking "deep fiscal adjustment." It has not reformed land and labor laws. The much-awaited GST is finally in the bag but in a defective form. However, there has been a major reform of "exit policy" via a modern bankruptcy code. There has been very little action on privatization, even of public sector enterprises that make huge losses each year. There have been encouraging steps in creating new banks that will advance financial inclusion but none in materially changing the appalling governance structures of established public sector banks. The MG has increased public investment in infrastructure and tried to get stalled projects moving, with some success. But there has been no fundamental reform of the crucial electricity sector, only another bailout of SEBs; and the modalities of managing public–private partnerships remain unchanged. In the agricultural sector, there has been no reform of agricultural marketing or of the perverse combination of high subsidies and low public investment. There has, however, been an encouraging recent introduction of a crop insurance scheme. Very little has been done to

reduce environmental pollution of air and water. There has been significant liberalization of restrictions on inward foreign investment but no advance toward greater engagement in international or regional trade. In the social sectors, the MG has gone approximately nowhere. There is no sign that it is facing up to the profound incentive and accountability problems in state delivery of education and health care. There is also little movement on institutional change to increase state capacity or to curb corruption via reform of election funding.

I would therefore sum up the Modi Government's performance in its first three and a half years in office as: (i) decent but not especially impressive on short-term and long-term macroeconomic stability; (ii) excellent with regard to the continuation or completion of a few major reforms relevant to market functioning and inclusive development, such as the goods and services tax; corporate bankruptcy arrangements; biometric identification cards; and the spread of banking (note, however, that all these reforms were initiated by the previous government); and (iii) quite poor, or worse, in addressing the problems surrounding "deep fiscal adjustment"; land and labor markets; creation of employment and skills; state ownership of public sector enterprises and banks; environmental sustainability; transformation of agriculture; international trade agreements; provision of education and health care; and reform of state institutions.

Thus, economic progress under the Modi Government has been good in parts but underwhelming overall. India is not, as yet, firmly on the road to prosperity.

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Endnotes

1 China is an authoritarian country, and South Korea and Taiwan were authoritarian countries during their periods of super-fast growth. Will a democratic India do a China or a South Korea? That's the overwhelming question.

2 Of course, politicians, often for good political reasons, choose not to articulate ends and means explicitly. Moreover, the broad strategy, as defined above, has many rough edges, which allow plenty of scope for disagreement.

3 Vijay Joshi, *India's Long Road—The Search for Prosperity* (New York: Oxford University Press, 2017).

4 On 8 November, 2016, the MG announced that Rs. 500 and Rs. 1,000 notes were to be deprived of their legal tender status forthwith. These notes constituted 86 percent of the currency supply and 11.3 percent of GDP. Holders of the notes were given 50 days (later extended) to return them to banks. Initial announcements by government spokespersons indicated that around 40 percent of the notes would not return, thereby striking a blow against "black money" and corruption, and conferring a large windfall gain on the government. Of course, it was economic illiteracy to think of "black money" as a stock of notes rather than a continuous flow of undeclared income. In any case, 99 percent of the notes came back by the middle of June 2017, so the windfall proved to be illusory. The government has said that it will pursue people who deposited more old notes into banks than they can account for. This raises various issues such as the capacity of the tax authorities, the possibility of tax harassment, and the likelihood of legal challenges. The government's rhetoric later changed to extolling demonetization as a device to make India move toward a less-cash economy. It is too early to say whether there has been a permanent change in this direction. What is clear is that there was considerable disruption of normal activity due to an acute shortage of cash for a few months, while old notes had been decommissioned, but new notes were not being introduced fast enough. Some of the resulting negative effects on production are picked up in GDP figures but not all. The unorganized sector was hit disproportionately hard; and this is not captured in the GDP numbers.

5 See Joshi, *India's Long Road*, Chapter 8.

6 For example, only around half of the interest rate reductions that the RBI has undertaken have been passed on by the banks to their customers.

7 However, as noted above, the actual operation of the managed floating regime has been rather unsatisfactory. The right way to run the regime in order to achieve rapid growth of employment and exports is to keep the real exchange rate fairly stable around a competitive level. To this end, the government and the RBI should lean less toward liberalization of capital flows and more toward a competitive exchange rate than they have been doing of late. For discussion of this point, see Joshi, "India's Economic Reforms."

8 See Government of India, *FRBM Review Committee*.

9 See Mundle and Sikdar, "Budget Subsidies of the Central Government and 14 Indian States." These authors have shown that central and state "non-merit subsidies" *plus* the food subsidy totalled 6.7 percent of GDP in 2011. My calculations show that this total has now come down to 6 percent of GDP. The subject matter of this section is discussed in much greater detail in Chapter 10 of Joshi, *India's Long Road*, and in Joshi, "Universal Basic Income Supplement." Note that Pranab Bardhan was the first person to set out a basic income scheme for India: see Bardhan, "Minimum Social Democracy."

10 Consumers have been limited in the number of subsidized gas cylinders they can buy. And they have to buy them at market prices, while the subsidy is paid directly into their bank accounts, thereby eliminating ghost beneficiaries and reducing the diversion of gas to commercial uses.

11 See Chapter 6 of Ministry of Finance, *Economic Survey 2015/16*.

12 Dysfunctional subsidies could be reduced by a small predetermined amount every month (as was done with the diesel subsidy from 2013 onwards), accompanied by a gradual rise in a 'basic income supplement' paid in cash.

13 The issues flagged in Sections III.3 and III.4 are discussed in more depth and detail in Chapters 6, 7, and 10 of Joshi, *India's Long Road*.

14 Moreover, disinvestment has sometimes involved just the transfer of an asset from one arm of the government to another. For example, the MG sold 10 percent of Indian Oil Corporation, but 90 percent of the shares sold were bought by the state-owned Life Insurance Corporation of India.

15 See Reserve Bank of India, *Report of the Committee to Review Governance*.

16 For further discussion, see Joshi, "India's Economic Reforms."

17 According to the UDAY scheme, willing state governments are to take over 75 percent of the debt of the discoms and give the lending banks state government bonds in exchange. The rest of the debt is to be converted in the market by the lending banks into state-guaranteed bonds. The interest rate on the government bonds would be lower than the banks obtained previously, so the latter would take a "haircut." The rise in the fiscal deficits of the state governments would not be counted in assessing their performance in meeting fiscal targets. The state governments are also supposed to cover up to 50 percent of the future losses of discoms on a graded basis. Will state governments put pressure on discoms to improve their future performance? And would such pressure be effective in the absence of pricing and other reforms? I am not optimistic. For a critique of the scheme, see Govinda Rao, "UDAY lacks brightness."

18 See Ministry of Finance, *Report of the Committee on Public Private Partnerships*.

19 Incidentally, the MG's cultural agenda in bovine matters has also had markedly adverse effects on employment, exports, and output in the labor-intensive meat, dairy, and leather industries.

20 See Ministry of Environment, Forests, and Climate Change, *Report of the High-Level Committee*.

21 For example, early in the MG's term of office, the tax authorities made a large demand on foreign institutional investors for payment of the "minimum alternate tax" for the previous 6 years, going back on an understanding that they were exempt from this tax. Though the government relented in due course, the episode left a sour taste. It would be wise to bury the practice of retrospective taxation once and for all.

22 The RCEP comprises 10 ASEAN countries (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam) *plus* 6 others (Australia, China, India, Japan, South Korea, and New Zealand).

23 See Chapter 12 of Joshi, *India's Long Road.*

24 India does have one other item of substantial government expenditure for social protection, besides price subsidies, namely the National Rural Employment Guarantee Scheme (NREGS). This was started by the UPA government in 2006. Despite various shortcomings, it has proved to be extremely useful as a safety-net for poor people, and one that has the great advantage of being self-selecting. When the MG came into power, they pooh-poohed the value of the scheme but then wisely kept it going. In my judgment, the NREGS should be maintained even if the country moves toward a universal basic income.

25 The problems with India's education and healthcare provision are discussed in Chapter 9 of Joshi, *India's Long Road*. On primary education, see also Muralidharan, "Priorities for Primary Education."

26 See Ministry of Health and Family Welfare, *National Health Policy*.

27 See Chapter 9 of Joshi, *India's Long Road.*

28 For example, the judiciary has a huge backlog of cases: 32 million were pending in 2015. On state capacity, see Kapur et al., *Rethinking Public Institutions*, and Chapter 11 of Joshi, *India's Long Road*.

29 On corruption in India, see Chapter 11 of Joshi, *India's Long Road*; and Sukhtankar and Vaishnav, "Corruption in India."