UPA's wages of dereliction

By Arun Shourie

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Foreword

Veteran journalist and former Union Minister Shri Arun Shourie wrote a series of articles in the *Indian Express* exposing the reality of UPA government's "dream team" on economy and performance. The hollow and false claims of this government have been nailed not only by politicians but also by a constitutional institution, like the Comptroller and Auditor General of India.

We are publishing this booklet so that the general reader gets a glimpse of what the government had been claiming and what actually it has done.

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The wages of dereliction

— By Arun Shourie

Extraordinary economic circumstances merit extraordinary measures," declares the finance minister in his new Budget, the last one of this government. "Now is the time to take such measures." And then proceeds not to take them at all!

"But it is just an interim budget," apologists suddenly remember. "He has stuck to convention." I must confess that I was not in the least surprised at the readiness with which so many commentators — both from industry and from media — swallowed and regurgitated this rationalisation.

Is there a Constitutional convention — to say nothing of any other kind — that this Government has let stand in the way of what it has wanted done? Is there an agency or office it has hesitated to use as an instrument? The governor's office? The CBI? How come this sudden fidelity to the "convention" of interim budgets? And how come, given that fidelity, the "convention" has not prevented it from budgeting an additional expenditure of Rs. one lakh forty thousand crore? And just see what has happened since the budget was presented: the share market plunged further down; everyone began grumbling — the government has not given the stimulus that was expected and that is absolutely necessary; as a consequence within a week of not including the stimulus package out of respect

for convention, Pranab Mukherjee declares that such a package will be announced if it is needed. Presumably the convention won't come in the way as it did a week ago!

It is not convention that has kept the government from taking the necessary measures. It is knowledge. Even this government, which has all along refused to recognise how serious is the crisis in which its mismanagement has pushed the country's economy, has now been awakened — by job losses across the country, by plummeting production indices, by mounting defaults and the consequential pressure on banks — that the economy has been brought to an abyss. As a result, stern measures are now unavoidable. And for these, this non-government hasn't got the gumption. That knowledge is the reason for its doing nothing, plus the fact, as we shall soon see, that its financial profligacy has left little headroom for the kind of fiscal measures that are required. Not any sudden devotion to convention.

The following sentences show up another trait — using the international economic crisis to cover up the results of its own mismanagement. "Our government decided to relax the FRBM targets, in order to provide much needed demand boost to counter the situation created by the global financial meltdown."

Really? Is that the reason? Recall budgets of the preceding two years. In his budget speech for 2007-08, Chidambaram was all for the targets that had been fixed under the fiscal responsibility legislation. He told Parliament, "Thanks to the fiscal responsibility legislations, the Central government and the state governments have regained lost fiscal ground... So far as the Central government is concerned, the fiscal consolidation is proceeding according to the FRBM Act.

Based on the revised estimates, I am happy to report that the revenue deficit for the current year will be 2.0 per cent (against a BE of 2.1 per cent) and the fiscal deficit will be 3.7 per cent (against a BE of 3.8 per cent)."

In his Budget Speech for 2008-09, delivered in February 2008, Chidambaram declared that the government was pushing back the date by which the fiscal targets under the FRBM legislation would be met. What reason did he give? The "international economic meltdown"? On the contrary, the government had shut its eyes completely to what had commenced. It was insisting, "Our fundamentals are strong... The Indian economy is effectively decoupled" — refrains that were echoed by several in the media and industry. The reason that Chidambram gave was entirely homegrown. "It is widely acknowledged that the fiscal position of the country has improved tremendously," he said to cheers from the treasury benches. "I am happy to report that the revenue deficit for the current year will be 1.4 per cent (against a BE of 1.5 per cent) and the fiscal deficit will be 3.1 per cent (against a BE of 3.3 per cent). Further progress will be made in 2008-09" — I will come to this progress in a moment, and we shall see how the projected progress was based on cooked up figures. For the moment I am on the requirements of FRBM Act. "honourable members will note that not only will I achieve the target for fiscal deficit under the FRBM Act, I have also left myself some headroom. In the case of revenue deficit, I will meet the target of annual reduction of 0.5 per cent," Chidambaram said. "However, because of the conscious shift in expenditure in favour of health, education and the social sector, we may need one more year to eliminate the revenue deficit. In my view, this is an entirely acceptable deferment."

In a word, the deficit targets had already been set aside in the last budget itself. And what was the reason that was given for doing so? "The conscious shift in expenditure in favour of health, education and the social sector." Anything to do with the "international economic meltdown"? And yet, this year's interim budget speech makes out (i) as if fulfillment of the FRBM legislation is being deferred only now, and that (ii) this is being done to counter the effects of the global economic meltdown!

A typical ruse, one to which we shall return. For the moment, let us assess the claims the government makes this time round against the standard that Chidambaram and Manmohan Singh have themselves set repeatedly — outcomes, not allocations.

As the treasury benches applauded his announcements of higher outlays in the 2005-06 budget, Chidambram said, "At the same time, I must caution that outlays do not necessarily mean outcomes. The people of the country are concerned with outcomes. The prime minister has repeatedly emphasised the need to improve the quality of implementation and enhance the efficiency and accountability of the delivery system."

To ensure this, Chidambaram said, "During the course of the year, together with the planning commission, we shall put in place a mechanism to measure the development outcomes of all major programmes. We shall also ensure that programmes and schemes are not allowed to continue indefinitely from one plan period to the next without an independent and in-depth evaluation."

Two years later, nothing had improved. Chidambaram again returned to the theme: in the 2007-08 budget, he told Parliament, "There is no dearth of schemes, there is no dearth of funds. What needs to be done is to deliver the intended outcomes" — cheerleaders applauded as if, as the minister had said this, the intended outcomes had already been delivered!

Manmohan Singh declared the resolve time and again. "The single biggest concern of our government," he declared, is to ensure "tangible outcomes." We have laid "the architecture for inclusive growth," its "basic elements" are now fully in place, he told the planning commission members as they met for approving the 11th plan. "This is a matter of satisfaction and indeed of pride. For the next few years, the emphasis must be on ensuring that these programmers deliver what they promise."

Let us start, therefore, with the item in regard to which last year's budget proclaimed, "action completed". The prime minister had announced a "special package" for making Mumbai into an international financial centre. For two years, Congressmen in Maharashtra went to town about this. In the document, implementation of budget announcements, 2007-2008, that Chidambaram gave out with his budget last year "to," as he said in his foreword, "promote transparency and accountability," for this item, Chidambaram declared, "action completed". As Mumbai was, and remains as far from or as near becoming an international financial centre as it has ever been, how had "action" been "completed"? The report of the expert committee on this subject has been released, he said. It has also been placed on the ministry's website. Furthermore, a Powerpoint presentation has been made to the prime minister. And so, "action" on the plan to make Mumbai an international financial centre has been "completed"!

He did not say that, of the Rs. 1,000 crore that the prime minister had pledged for this purpose, till July 2007, only Rs. 16 crore and 16 lakh had been released. Since then, my colleague, Kirit Somaya's inquiries reveal, not one more paisa has been released. The item no longer figures in this year's budget documents. And why should it? After all, action had already been completed in the preceding document!

We see exactly the same sequence in regard to the promise that was made in the aftermath of the devastating flood that engulfed Mumbai on 26 July 2005. Both Manmohan Singh and Sonia Gandhi announced with much fanfare a "special package" of Rs. 1260 crore to "rejuvenate" the Mithi river. Since then, the Maharashtra government has been told that it must do what it can on its own; the Centre is not going to give a single paisa.

An even larger "special package" was announced to reconstruct the Dharavi slum. This too was trumpeted up and down Mumbai and at every conference on urban infrastructure. The slum is exactly as it was in 2004 — not one single shed of the promised reconstruction and development has gone up. Seeing that absolutely nothing is forthcoming, the Maharashtra government has stopped making even the usual announcements, "We shall start as soon as the plans are approved." Like the government, those who bid to execute the project just make excuses these days for not even commencing work.

Again, as part of its commitment to improve our crumbling urban infrastructure, the government put it out that it will finance the Metro project of Mumbai as it has done, say, in Delhi. Work was commenced on this understanding. Since then, it has told the Maharashtra government that it will not give a single paisa, that the Maharashtra government must do what it can on its own by roping in private partners. As a result, the first phase has already slowed down. Bids were invited for the second phase in November 2008. The final date had to be extended thrice. Not one bid has been received.

And this outcome is typical across a range of projects. The record of the Railways is much hyped because of the personal showmanship of Lalu Yadav. In fact, the Freight Corridor project, which was discussed during Atal Behari Vajpayee's visit to Japan several years ago, has become in Japan, as I learnt to my discomfiture two weeks ago, a symbol of the inability of India to move swiftly on projects. There was to be a joint venture for producing electric and diesel locomotives. The bid documents have been hurtling to and fro between offices for two and a half years.

Outcomes? Is that what the prime minister and Chidambaram said were important?

National Highways: The project completion rate, The Indian Express reports, fell from 81 per cent in 2004-05 to 56 per cent in 2007-08. It has fallen even lower since. The rate at which projects are being awarded under this flagship programme fell from 70 per cent in 2005-06 to an abysmal 17 per cent in 2007-08. The miracle is that, on the other side, throughout this period the National Highways Authority has been successfully spending almost the entire amount given to it! The solution to such delays has been typical: another committee was set up to monitor implementation of infrastructure projects. It is headed by the prime minister himself. The net result is evident from another review — this one done by the planning commission — the NHAI is now taking 20 months to award a contract as against the 5 months that have been

specified.

Surely the global meltdown is not to blame for this stretching out. The causes are the talk of government corridors. The UPA government announced that the minimum tenure of an officer appointed as the chairman of NHAI shall be two years. The current chairman is the fifth chairman in the last two years!

There have been other changes also, they tell the tale just as well. To ensure expeditious implementation, the NDA government had decided that, while government shall decide the programme that is to be implemented, contracts will be awarded by the NHAI. To further ensure both — adequate scrutiny as well as expeditious decisions — the NHAI board was elevated to secretary-level officers. The UPA government has changed this: no, it has decided, contracts shall be given out by the "government", and not the NHAI.

The net result has been predictable. Sixty packages of highway stretches were offered recently for bids. For 43 of these, no bid at all was received. Of the 17 for which bids were received, in six there was only one bidder — as a result, none of these six contracts can now be finalised without the approval of the cabinet. In each of the remaining 11, bidders have sought higher grants — up to 35 per cent higher than had been provided. Such is the credibility of the process by now.

Half-truths and whole lies

Power: A week does not pass without us being reminded by some governmental declaration or the other — as if "load-shedding" were not enough of a reminder — of how we are lagging behind in power generation. The government's answer has been what Professor John Kenneth Galbraith had long ago identified as the forte of Indian planning: therapeutic targetry! There is a big gap? Announce an even bigger target! Accordingly, the 11th plan posits a target of adding 90,700 megawatts — to keep the target from looking too obviously unrealistic, the figure that is usually mentioned is 78,700 megawatts; this is done by excluding the 12,000 megawatts that are supposed to be generated as captive capacity by users. Seven quarters of the 11th plan have already gone. We have added 10,887 megawatts: again, you see the hand of the subterfugists: this figure is inflated to 13,687 megawatts by including 2,800 megawatts that were in fact completed in the last year of the 10th plan and were included in accounts of that year's achievements! At this rate, experts forecast that we shall add only 40,000 megawatts by the end of the 11th plan: a study prepared for the planning commission itself has forecast that, the way things are going, the gap between demand and supply of power will be larger at the end of the 11th plan than it was at its commencement. On top of all

this, the T&D losses — the theft and dacoity losses rather than the transmission and distribution losses they are called — continue at 40 per cent.

Yet half-truths continue to be used to claim achievements. In its Common Minimum Programme, the UPA Government had pledged that it would provide electricity to all by 2009. And, if you read the glowing accounts of achievement under the Rajiv Gandhi Gramin Vidyutikaran Yojana, you would think that the country is well on its way to providing electricity to every household. The facts are to the contrary; indeed they remind us how little we should believe governmental statements.

When this government assumed office, the planning commission had estimated that at least 7.8 crore households had no electricity at all. It had put the figure of "unelectrified or de-electrified" villages at 2,35,000.

And now see how targets are achieved! By a sleight of words, the Rajiv Gandhi Gramin Vidyutikaran Yojana rewrote the target down: the objective was not to be to provide "electricity to all" by 2009; it was to be to provide "access to electricity to all". Second, 7.8 crore households that were without electricity and were to be provided electricity were replaced in documents by 2.43 crore BPL households — in both electrified and unelectrified villages! Next, the number of villages that were unelectrified or which had lapsed to a "de-electrified" state — someone should really give our planners some recognition for their linguistic contributions — was now estimated to be only 1,17,000.

Even so, as against the rewritten targets of providing electricity to 1,25,000 unelectrified and de-electrified villages and 2.43 crore BPL households, the Implementation of Budget Announcements, 2008-2009 document indicates that only 54,000 of those villages and only 43 lakh BPL households have been provided electricity connections. The panchayats have not certified these claims in full. And about what kind of power is actually being supplied, little need be said.

Drinking water: Another scheme named after Rajiv Gandhi, the Rajiv Gandhi Water Mission, presents the same sort of picture. The CAG has put out a performance audit report on it, in particular on the ARWSP, the Accelerated Rural Water Supply Programme. It talks of the "alarming level of slippage" — between April 2000 and April 2007, the CAG records, about 1.54 lakh "fully covered" habitations have slipped back into a "partially covered" or a "not covered" status. Even this data is unreliable. Projects have been commenced and even "completed" at places and in a manner that makes them "unsustainable". While the programme requires that laboratories must be set up to test the quality of the water which is being supplied, the labs have not been set up. In instance after instance, where they have been set up, qualified persons have not been appointed. Where the persons have been appointed, the mandatory tests are not being carried out. Water being supplied is of such quality that, the CAG records, it "may pose a threat to public health."

All this in the name of Rajiv Gandhi. I can't understand why these sycophants are so determined to tarnish the names of their kul devtas.

Employment: The CAG's performance audit report on NREGA, the programme to implement the National Rural Employment Guarantee Act illustrates another feature. One aspect, of course, is that of the 3.81 crore rural households that registered under the scheme and requested work, only 22 lakh households — that is, a mere six per cent — got the 100 days of legally guaranteed employment. But I am talking about

another feature — the CAG drew the ministry's attention to the flagrant violations of its own guidelines, the flagrant discrepancies in the data, the flagrant malpractices that came into view, the blatant shortfalls in fulfilling targets. The ministry's response has been typical, and is, therefore, most instructive. Implementation is the responsibility of the states, the ministry told the CAG! We have nothing to say in regard to these deviations!

In a word, when credit is to be claimed, as in the Budget and annual reports of the rural development ministry, the rural employment programme is one of the great achievements of this government, one of its "flagship programmes". When black holes come into view, why, that is the responsibility of the states!

"The NREGA is a central legislation," the CAG is compelled to remind the government, "and the ministry, as the nodal agency for NREGA, bears ultimate overall responsibility for coordinating and monitoring the implementation and administration of NREGA and ensuring that funds provided by GoI are economically, efficiently and effectively utilised by the implementing agencies."

And the guidelines that have been so casually disregarded are the guidelines that you have prescribed, the CAG told the ministry. Suddenly, the ministry had a new view about its guidelines, the very guidelines for formulating which the ministry has been claiming so much credit — "We have tightened them so much that misuse is just impossible," I was told by a high-up in the ministry: the ministry told the CAG that its guidelines have been "merely suggestive". The CAG pricks this evasion. The guidelines had been drawn up and prescribed, the CAG reminds the ministry, because the ministry itself had come to the conclusion that adhering to them was necessary to ensure effective and efficient implementation of and ensuring the fulfillment of NREGA. If the ministry has come to the opposite conclusion, namely that they are being disregarded for good reason, "It is the ministry's responsibility to ensure that adequate and effective alternative controls have been put in place for the same purpose."

Not a hair of the ministry has turned as a result of any of this. Each time the question comes up, the government points to the money it has spent, and flaunts the allocations as achievement. Contrast this with what Manmohan Singh and Chidambram had declared, "Outcomes not allocations... Accountability... A mechanism to measure the outcome of all major programmes."

Telecom: Reform after reform that had been instituted both to ensure rapid growth as well as to clean up the sector has been reversed — from inviting and processing tenders of BSNL and MTNL, to the introduction of a universal license, to allocation of spectrum, to methods of auctioning. Steps that were solemnly promised have been buried out of sight.

There had been grave misgivings over the total incidence of taxes and levies on the sector. There were also problems of the opposite sort — the persistent reports about manipulations in booking revenue liabilities on activities. Accordingly, in the 2007/08, Chidambaram announced that a committee would be constituted to review the levies and related matters. Two Budgets have gone by. There is now not even the reference to that promised review and rationalisation.

The Universal Service Obligation fund was constituted in April 2002 to partially finance extension of Telecom services to rural areas. Each operator was

to pay 5 per cent of its adjusted gross revenue to this fund. The fund is non-lapsable — unused balances remain in the fund. Even by March 2008, Rs. 20,404 crore had accumulated in the fund — since then the fund has grown even larger. Out of it, mere Rs. 6,370 crore have been spent for bridging the "rural-urban divide" about which everyone is so voluble. The actual, physical progress is much worse than this expenditure figure indicates. In one instance, while the obligation was to set up 7,800 towers, less than 20 per cent have been installed. And not even a question is asked.

There has been severe criticism of this in Parliament. The government has adopted a creative remedy! It has just cooked the accounts and, in accounts presented to Parliament, no less, just shown the balance in the fund as "nil"!! The CAG points out that it asked the government to correct this mis-statement. As it records, in the new report, the government has done nothing.

The scandalous things that happened when licenses were being given and spectrum allocated for 2G services — the way cut-off dates were changed, and that too with retrospective effect; the scuffles that took place at Sanchar Bhavan — have made headlines in the media. The CVC has been compelled to seek explanations. TRAI has been compelled to record that its recommendations were not just disregarded, they were misrepresented in a sworn affidavit by government in court.

Almost the only concerns of government have been 3G and broadband wireless access services. TRAI was asked for recommendations in April 2006. It furnished them in September 2006. The government issued guidelines in November 2007. Since then, the government has been lurching from one foot to the other, issuing amendments to the guidelines, amendments to the 3G policy — its tilt coinciding with heavy persuasion by one side or its rival.

The same goes for a step that would intensify competition and trigger improvements in the quality of service — number portability. TRAI gave its recommendations on this in 2005. The government took two years to announce its acceptance. But that was that. Nothing has been done on the matter. Existing operators have an easy time, as the user remains locked-in to each of them.

Similarly, to unchain internet telephony, TRAI submitted its recommendations in August 2008. The technology is in use the world over. It will spur competition — existing operators will be pushed to improve service and match lower rates. The recommendations were widely hailed in India. The matter remains "under examination" by the government! And two sections continue to reap a windfall — those who operate the "grey market" as the black market in telecom services is known, and Internet companies that operate from abroad. Is all this just innocent laziness?

Paper promises and alibis

More on the government's economic ineptitude Subsidies need to be sharply targeted, Chidambaram said — a euphemism for saying that they were not reaching the intended beneficiaries. Hence, he took a decisive step: he announced another study of them 'A relook...'; 'it may be difficult to indicate firm time for implementation...'; 'so that decisions for implementation could be taken at least in the next financial year'. As pathetic as it is typical.

Public distribution System:

From its very first Budget, this government has repeatedly stressed the urgent need to overhaul the public distribution system — the poor and the lower middle class depends on it; leakages are phenomenal. At first Chidambaram declared that government would fly one sort of pilot — distributing food stamps rather than food. His way of dealing with the fact that nothing had been done was to declare in a subsequent Budget that government would fly another sort of pilot — distributing food with the aid of smart cards. In this, the final and sixth Budget of this government, we are told that an allocation has been made for this pilot — Rs. 1.1 crore to Chandigarh, Rs. 25 crore to Haryana, and Rs. 1 crore to the NIC to see how the pilot will fare. And this allocation, the Budget documents tell us, was made only on 26 December 2008! In the meanwhile, the leakages continue unabated and unchecked. That pattern holds for the black hole of subsidies as a whole.

Subsidies:

In his first Budget for this government, that for 2004-05, Chidambaram reminded Parliament, “Seven years ago, I placed before Parliament the first paper on subsidies.” They need to be sharply targeted, he said — a euphemism for saying that they were not reaching the intended beneficiaries. Hence, he took a decisive step: he announced another study of them! Next year, in the Budget for 2005-06, Chidambaram reported the great progress he had made — the study had been placed in Parliament, he said. Subsidies are necessary, he said, “However, we must now take up the task of restructuring the subsidy regime,” he told Parliament, adding immediately the caveat that would constitute the anticipatory alibi for nothing being done — “we must now take up the task of restructuring the subsidy regime in a cautious manner and after thorough discussion.” Sure enough, the alibi came in handy. In the Budget for 2007-08, Chidambaram was able to acknowledge, “The issue of subsidies is proving to be a divisive one, but,” and this showed to those who had been expecting decisive steps from this “dream team” of reformers that he hadn’t given up, “I would urge the honourable members that it is imperative that we make progress on this front if we are serious about targeting subsidies at the poor and the truly needy.” But it wasn’t that he; his ministry and the government had been doing nothing. “My ministry has held extensive discussions with stakeholders on three major subsidies, namely, food, fertilizer and petroleum. We have also sought the views of the general public. Working groups/committees have gone into the question of fertilizer and petroleum subsidies. I would urge

members to help government evolve a consensus on the issue of subsidies. ”Manmohan Singh himself intoned platitudes to the same effect at meeting after meeting. Last year, Bibek Debroy recorded his having made declarations on the subject twenty two times. (Indian Express, June 12 2008). The 2008-09 Budget did not mention the subject at all! During the year, the near-fatal consequence of not having done anything on the matter became evident as oil and fertilizer prices shot up and the government, having moved back to the administered price mechanism, dithered and failed to pass the risen prices on to consumers. By the beginning of October 2008, the chairman of the government’s own oil company was compelled to say in public that, if urgent steps were not taken within three weeks, the company would have no resources to import oil.

But in an oblique way one subsidy was, in fact, mentioned in one of the documents that accompanied the 2008-09 Budget. This is the subsidy on fertilizers. The government had emphasized the need to distribute the fertilizer subsidy in some alternative way. In the 2007-08 Budget, the government had expressed its firm resolve to take the decisive step as follows: “The fertilizer industry has agreed to work with the department of fertilizers to conduct a study and find a solution.” And what would happen once the study was completed? “Based on the report, government intends to implement a pilot programme in at least one district in each state in 2007-08.” So, what happened? Reporting the progress that the government had made in executing that decisive step, the document that Chidambaram submitted with his Budget for 2008- 09, namely, Implementation of Budget 2007-2008, let it be known: “The modalities for providing an alternative method of delivering the fertilizer subsidy directly to the farmer are being worked out. The proposal was examined by a Group of Ministers and the report is being finalized." All that had happened was that under a new name and basis, the subsidy was increased by a fifth. This was called the nutrient-based subsidy regime. What now? The document that accompanies this year's Budget proposes, another study! Implementation of Budget 2008-2009, declares, "As regards nutrient-based subsidy regime, in the light of unsustainable levels of subsidy, it is proposed to have a relook on various delivery mechanisms taking on board the experience of government subventions to the targeted population which would have been successfully introduced. Since this entails a wide review of various delivery mechanisms, it may be difficult to indicate firm time for implementation. Department of Fertilizers proposes to have alternative strategies firmed up within the current financial year so that decisions for implementation could be taken at least in the next financial year." "A relook", "it may be difficult to indicate firm time for implementation..."; "so that decisions for implementation could be taken at least in the next financial year." As pathetic as it is typical.

Compare this sequence with what the UPA government had pledged in its Common Minimum Programme: "All subsidies will be targeted sharply at the poor and the truly needy like small and marginal farmers, farm labour and the urban poor. A detailed roadmap for accomplishing this will be unveiled in Parliament within 90 days." Some way to manage finances.

Actually, the sentence preceding that pledge about subsidies and the roadmap had made another important commitment: "The UPA government

commits itself to eliminating the revenue deficit of the Centre by 2009, so as to release more resources for investments in social and physical infrastructure." And five years later, in the Budget for 2009-10, what are we being told? That the government is not adhering to that pledge so as to make available more resources for investments in social and physical infrastructure! The alarming levels to which deficits reached in the late 1980s contributed to the breakdown in 1991. As Mridul Sagar and Amit Kumar of Kotak Equities' research arm have recalled recently, between 1986 and 1991 the gross fiscal deficit was on the average 7.7 per cent of GDP. For 2008/09, the gross fiscal deficit of the Centre alone is 6.4 per cent of the GDP; once the off-budget items are included, it becomes 8.1 per cent; and when that of the states is included, it becomes over 10.7 per cent of the GDP. Even the revenue deficit of the Centre alone is liable to exceed 5 per cent of the GDP. By now the Centre's primary balance was to have been a surplus — amounting to 1.1 per cent of the GDP. In fact, the primary deficit is liable to exceed 3 per cent of the GDP.

Bubble, bubble, toil and trouble

With irresponsible spending and fantastical accounting, the government's word now means nothing At 182 per cent, 132 per cent, 125 per cent, 85 per cent, the figures for subsidies, pensions, total revenue non-plan expenditure, defence expenditure respectively — bear no relation to what the Parliament approved. The CAG has been compelled to make severe strictures on the gross irresponsibility that has resulted in these deficits, and charge the government with heaping burdens on future generations. Several points about this government's deficit figures are to be borne in mind.

First, notice how far the government has departed from the limits that had been prescribed in the FRBM act, limits that were acknowledged all round to be necessary both as prudence and to maintain our credibility for investors and creditors abroad. That the gross fiscal deficit had climbed to an average of 7.7 per cent of the GDP in the late 1980s had raised alarm all round. Accordingly, under the FRBM legislation it was decided that this ratio must be brought down from 6.2 per cent in 2001-02 to 3 percent in 2007-08; and that the revenue deficit must be eliminated by March 2008 and a healthy surplus must be built up in the following years. The GDF/GDP ratio will be more than double the target; the revenue account, instead of being a

surplus will be in deficit — a deficit close to 5 per cent of GDP. Economists apart, the CAG has been compelled to make severe strictures on the gross irresponsibility that has resulted in these deficits, and charge the government with heaping burdens on future generations. Do you think that will make any difference to these know-it alls?

Second, the government certainly cannot claim any surprise at deficits having climbed so high. Several commentators outside Parliament; persons like Jaswant Singh, Yashwant Sinha and me, inside Parliament repeatedly showed how the Budgets — in particular the last Budget — were grossly under funded, and that the country would be saddled with the costs of such subterfuge. To no avail.

Third, the deficits have absolutely nothing to do with any planned Keynesian stimulus to the economy. They have arisen wholly from the profligate mismanagement of the preceding three years — in particular, of the last year, 2008-09. In turn, there were two aspects to this dereliction. To begin with, the items on which governmental funds were expended have left next to no capital assets in their wake — they were just populist heads. Furthermore, the resources that were needed to fulfill these populist commitments were grossly understated. They were understated deliberately and for a purpose: so that the government could claim that it was adhering to its obligations under the FRBM Act. The subsidies on fertilizers and petroleum, the amounts that would be required for the debt waiver, the incidence of the pay commission — items that figured in the Budget itself, items that were well known — were just left out of account. It is on the basis of such concealments that the government claimed, as Chidambaram did in his Budget speech of

February 2008, "Honourable members will note that not only will I achieve the target for fiscal deficit under the FRBM Act, I have also left for myself some headroom. In the case of revenue deficit, I will meet the target of annual reduction of 0.5 per cent." Far indeed from being a stimulus, the deficits have by now foreclosed options: they have left little room for the stimuli that are needed. The prime minister's own economic advisory council says as much. "The pre-existing high levels of debt and fiscal stress also limit the available headroom for a counter-cyclical thrust of fiscal policy," it states in its Review of the Economy, 2008-09. "In the prevailing situation re-prioritization of government expenditure and speedy implementation of already funded projects at the Central and state levels are critical for the fast revival of the economy." Any evidence of "re-prioritization of government expenditure"? Any evidence of steps to ensure "speedy implementation of already funded projects"? In fact, the enormous quantum of borrowing that the fiscal profligacy of the last three years has made unavoidable for the coming year — estimated to be well over Rs. 3,60,000 crore — squeeze the options further. Not only will the government have little money to fund ambitious infrastructure projects, this level of borrowing will leave little for borrowing by the private sector on whom the government is depending more and more for financing as well as executing these projects. With overseas sources having dried up, large Corporates are turning to our banks. And so the only consequence will not just be that there will be less for infrastructure projects, the small and medium enterprises will find it that much more difficult to finance their operations. They would have been pre-empted at the banks by the large Corporates.

Indeed, precious time was wasted all along: recall the endless discussions on whether some part of mounting foreign exchange reserves should be used for leveraging an infrastructure fund; recall the tardy, not to say stately pace at which schemes such as that to fund "viability gaps" of projects were handled; recall how nothing but nothing was done either to build up the much-talked about shelf of projects, nor to institute incentives for rapid execution of projects that had been approved.

Fourth, alarming as these deficit figures are, they are almost certainly underestimates even now, and doubly so. As has been pointed out, on the one hand the growth of nominal GDP is liable to be less than the Budget assumes, and, on the other, so are the revenue proceeds. Even that is not the end of the story. The deliberate understatement for 2008-09 and the deliberate underestimation for the coming year continue. To cite just one instance, the Business Standard (February 20, 2009) has nailed how the fertilizer subsidy has been understated. The subsidy payable for 2008-09 is Rs. 102,000 crore. It has been shown to be Rs. 75,847crore. Wonder of wonders, for the coming year, it has been shown to fall to Rs. 50,000 crore! As the paper has pointed out, not only is some of the subsidy due this year liable to spill over into next year, even if prices of fertilizers fall, the fall is liable to be offset by the depreciation of the rupee.

Fifth, such gross departures from what Parliament has mandated raise the question, "What exactly is Parliament approving when it approves the Budget?" For 2008-09, the revised estimate for the gross fiscal deficit is two and a half times the Budget estimate; that for the revenue deficit is nearly four and a half times the Budget estimate. Net borrowing by the government is liable to be two and a half times the budgeted figure. Indeed, as has been pointed out by observers, it is Rs. 40,000 crore more than the borrowing figure that was announced just a week before the Budget. At 182 per cent, 132 per cent, 125 per cent, 85 per cent, the figures for subsidies, pensions, total revenue non plan expenditure, defence expenditure respectively — to take just a few examples from among the bulkier heads — bear no relation to what the Parliament approved.

Transparency:

The CAG's report, which was tabled in Parliament on February 20 2009, documents at length what it calls "opaqueness in government accounts." There are "significant deficiencies" in the accuracy, completeness and transparency of the accounts, it states. Eight "important statements" which four years ago the twelfth finance commission had said must be included in the Union finance accounts, are still not included. The inclusion has been "accepted in principle," the government tells the CAG. "The process of consultation is on," it tells him. The actual inclusion "would be a time consuming exercise." We get a glimpse of what is happening in the meanwhile. In 2007-08, the Centre transferred Rs. 51,260 crore directly to "autonomous bodies, societies and non governmental organizations" ostensibly for implementing centrally sponsored schemes. What happened to these fifty one thousand two hundred and sixty crore rupees? "The aggregate amount of the unspent balances in the accounts of the implementing agencies kept outside government accounts is not readily ascertainable," the CAG records.

Furthermore, CAG finds that fifty per cent of the total expenditure listed under 28 major heads of the government accounts; an amount of Rs. 20,273 crore has been lumped under a minor head, "other

expenditure". "This indicates a high degree of opaqueness in the accounts," the CAG observes in characteristic under statement. Giving further examples, the CAG concludes, "This shows that the existing structure of the government accounts does not truly reflect the current activities of the government in these ministries/departments." The CAG contrasts the original provisions that were approved by Parliament when Chidambaram presented the Budget for 2007-08 with the supplementary provisions that government had to present within a few months. The supplementary provisions were 143 per cent of the original provisions in the case of the civil aviation Ministry; 1378 per cent (yes, 1378) in the case of the department of economic affairs; 10,761 per cent (yes, 10,761) for the ministry of labour and employment; 718 per cent for the ministry of petroleum and natural gas. Such large discrepancies are due to "unrealistic Budget assumptions," the CAG points out.

Is this accountability? Is it responsible budgeting? Look at the myth we live by: on the one hand, we follow the obsolete British convention that a cut of just a rupee in any item in the Budget must cause the government to resign, and, on the other, governments so casually disregard what Parliament bound them to do. And yet, the budget is but a symptom of the way economic policies have been managed in the last five years. Reforms were left to rot. The "dream team" insinuated that the Communists were not letting them do anything. The responsibility actually rests with that team itself. The "team" exemplifies a type: persons who believe in nothing. For commitment to a cause — say, reforms — does not mean that one makes the occasional speech on it. Commitment is measured by what you are prepared to stake for that objective.

The stoppage of reforms prepared the ground for the slowdown. And the exact repetition of what had been done in the mid-1980s sealed it. Prices started rising, in part because of shortages of specific commodities, in part because of erratic announcements and policies — recall how food stocks were allowed to run down to dangerous levels; recall the announcements and reversals of announcements on imports of wheat and other commodities. Prices rose. Instead of attending to the specific problems and shortages that were triggering the rise, the government, exactly as had been done in the mid1980s, wielded the axe of monetary policy: interest rates were raised, CRR was raised. These measures choked growth without reining prices in swiftly enough.

By early 2008, anyone who traveled to factories and industrial estates could see that the momentum was petering out. By March, a minister of the government itself had acknowledged in answer to a question in Parliament that 25 lakh jobs had been lost in three sectors alone. As the tsunami of the financial crisis rose, Chidambaram and Manmohan Singh, and sundry *chota-motas* of the government stood firm — on denial. "Our fundamentals are strong," they declared. Had the fundamentals of the Southeast Asian economies collapsed? Had the fundamentals of Argentina, Brazil and Mexico collapsed when their economies went into a tailspin? Indeed, has anything happened to the fundamentals of the US, Japan, European countries today? But "our fundamentals are strong" it was.

Next, the country was fed — and, I am so sorry to say, leading economic papers broadcast this nonsense — "We are effectively decoupled." Decoupled? Twenty per cent of the GDP, which is what our exports are by now, is no inconsiderable figure. Remittances are over

$ 45 billion. Even a fool could see that the slowdown in the Middle East, in the West would lower this figure. Similarly, IT earnings are close to $ 50 billion: how could they remain unaffected when some of the largest clients of our companies were literally collapsing? Even more than these interconnections, we are intertwined with developments elsewhere because of the overriding determinant: confidence. That knows no boundaries. The way our markets would every day mimic what had begun to happen to Nikkei in the morning, and what had happened to the Dow overnight was a daily reminder of this. But so were eruptions in the "real" economy: the fact that importers abroad were not honouring their letters of credit; the fact that they were not lifting goods that had reached their ports; the cancellation of orders... But "decoupled" it was. And then, superciliousness, not to say piety, was made policy. "Just casino capitalism," Manmohan Singh said as he returned from Japan. Vital months were lost.

Puffing up the bubble:

Such dereliction is in itself a crime against the country. But there has been more than dereliction: the government actively fed the bubble as it swelled, and then decreed measures that accelerated the downswing. To take just one instance, in Parliament and outside, my good friend Bimal Jalan warned more than once that the soaring ascent for which the government was taking credit was a bubble that it just could not, and would not be sustained. With dividends having been exempted from taxes; with interest rate differentials having become what they had; with higher and higher institutional inflows chasing a small range of equities and the resulting sharp increases in stock values; with the appreciation of the rupee, a person abroad could shift money to India, earn a 100 per cent return, and take his money out. It doesn't take rocket science to see that this just cannot be sustained, Bimal warned repeatedly.

Others gave similar warnings. Chetan Ahya and Ridham Desai wrote a series of analytical reports in which they pointed out how the entire bubble had come to swell merely because of foreign inflows, and, in these, on inflows from the most fickle segment among foreign investors, the institutional investors. In emerging economies other than India, foreign direct investment is around 75 to 85 per cent of foreign inflows, they pointed out, and institutional portfolio inflows are around 25 to 15 per cent. In India's case though, the proportions were running at just the opposite levels. These inflows reached unprecedented levels: whereas in 2001-03, India received around $ 10 billion a year as foreign inflows; in 2007-08 it received $ 107 billion. *Sarkari* propagandists claimed this testified to the excellence of the government's policies. In fact, as Bimal and others were pointing out, it was just arbitrage money. These inflows were what fueled the easy credit cycle: in the last five years, credit creation grew at a rate double that of nominal GDP. The swing was bound to reverse. But who would listen? Certainly not "internationally famous economists", certainly not "dream teamers".

By October 2008 it seemed that those in authority were active participants in the market: it really will be instructive to juxtapose their announcements with the gyrations of the market in the latter half of 2008. Absolutely inexplicable steps were decreed. As everyone was pulling his money out, as there wasn't even a remote chance that amounts would be brought into India, P-notes were suddenly sanctioned again: this in the wake of the national security advisor having

warned that terrorist money was coming into the stock market, that the strictest inquiries must be made about who is bringing in money lest our financial system is destabilized, lest funds brought in anonymously are utilized for financing anti-India operations. Not just that, even as other countries moved to stop short-selling, the government allowed it to continue. Indeed, it went one better: even "naked short-selling" — a nefarious practice which cannot but sharply amplify the amplitude of market swings — was allowed to continue.

I remember our meetings with leading figures from the market as well as leading industrialists. We studied first-hand reports of what was happening all round the country, and tabulated a set of recommendations. The government had no time for any dialogue. We released them in public. During one discussion in the Rajya Sabha, Yashwant Sinha drew attention to these recommendations. Chidambaram's response was typical: FICCI has given its 10 points, he said; CII has given its 8 points; BJP has its 12-point recommendations. All of them will be examined by government as and when necessary. What loftiness! That is the attitude that has brought us here. Growth slowed down. Reforms that would ensure future growth, arrested. Infrastructure that future growth requires, at a crawl. Government finances out of synch. Too little being done, too late, to stimulate the economy. The worst of it: the word of India's government devalued. Not an Interim Budget. An Interment Budget.

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