

Four years of Modi Govt Reforms: A Stock Taking

by

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The present paper evaluates the reforms carried out by the Modi Govt against this benchmark, also pointing out which parts of the 2013-14 agenda were not appropriate, in hindsight.

Macroeconomics & Growth

Governance: Bureaucracy & Corruption

Virmani (January 2014) set the macro priority as follows: “The next Government’s top priority for its first two years in office must therefore be to restore the Indian economy to its long-term growth potential of 8% (\simeq 6.5% per capita) and to communicate to the public the importance of this objective for job creation and public welfare. In an uncertain and risky global environment, the Finance Minister must be one who has the respect of the investor-investment community. This will ensure that the government’s program to restore growth gains immediate credibility. A reversal of the governance failures and regressive tax changes during 2010-13 will help recovery in 2014-15. A return to the general philosophy of modernizing the tax system by reducing the plethora of State & Central taxes to a few (3-4) and simplifying these by reducing exemptions/deductions and reducing marginal rates, is imperative. This also requires introduction of a GST or National VAT.⁵ An improvement in day to day governance in terms of speed of decision making within departments, quicker resolution of interdepartmental differences and a quick cleanup of the toxic residue left by the alleged (2G, Coal, Iron ore, CWG) scams, will help revive growth. Competitive auction of all Govt. owned/controlled natural resources is one critical change that is now widely accepted as essential for avoiding such problems in future.” (Virmani (2014) page 3)

“The PM took the initiative to travel across the world to restore the *confidence of the investor community* across the World. The restoration of the trust and confidence is reflected in the sharp increase in capital inflow in general and in FDI (into India), which rose 31.6% during July 2014 to December 2015 over corresponding period in 2012-13. The increase of the stock market is difficult to compare, because by its nature it started rising when investors began to expect a change in government’ before the election” (Virmani 2016).

“There was increased perception of gridlock within government (among departments and between PM and his ministers), between the government and the ruling party and its leader, between government and the courts and between civil society and government, with the former accusing the latter of corruption.... Action taken on Spectrum, Coal and Mineral actions has been quick and effective. The government has handled both the judiciary, which was deeply involved in these matters, and the politics well, by implementing the most essential changes immediately, obtaining legal authority for fundamental reform, while phasing these in gradually. A new Government

⁵ The latter (differs from the former in that it combines a, (1) Uniform basic rate VAT on all goods and service, administered by the Center (with exemption for a basic food items and medical services), with (2) Right of States to impose Sales taxes (non VAT able) on half a dozen (final consumer) goods & services such as liquor, petrol, private yachts.

Procurement law consistent with **UNCTRAL** has been proposed in the 2015-16 budget. A Public Contracts (Resolution of Disputes) Bill is also proposed to help clear such disputes speedily and transparently, reducing the risk of corruption.” (Virmani 2016).

Progress on the last two (UNCTRAL PC&RD bill) have however been slow, though the e-market for Government purchase of goods and service is good administrative solution to inefficiency in corruption in procurement. Union Govt Decision making system was quickly stream lined by abolishing the 10s of GOMs and taking decisions directly at the Cabinet level.

“Many environmental issues have been cleared, by taking administrative decisions on balancing development imperatives with environmental concerns. A committee was also set up to suggest changes for sensitive areas like the Western Ghats, Coastal zones and forest areas. Clearance for linear projects like roads and transmission lines, has been simplified and speeded up by delinking forest and environmental clearance.” (Virmani(2016))

The atmosphere of corruption that had developed in Delhi has been decisively eliminated. The environmental gridlock, created for infrastructure and industry was also cleared. Several black money & anti-corruption laws have been passed. Though they have had a positive outcome so far, experience suggests that after the initial attention and enthusiasm wanes, the draconian nature of such laws always results in misuse and deterioration of the system.

De-bureaucratization

Retrospective tax issue laid to rest for future, but not fully addressed for past events, because of the sub-juice nature of some of the cases. Digitization of tax filing and review, has progressively reduced, but not eliminated the problems faced by tax payers.

A determined effort has been made to improve ease of living and ease of doing business. The replacement of the earlier practice of requiring certification of documents by Govt gazette officers or Notary Public by self-certification has made life easier for individuals, self-employed and tiny business. A 1000 outdated law have been repealed. India’s rank on the World Bank’s Ease of Doing Business has consequently moved up 50 places to 100 in 2017.

Macroeconomics

Virmani (2013) recommended a *Macro Pivot* to Scale back government consumption expenditures including subsidies and transfers, to bring Revenue deficit to zero in three years and Fiscal deficits to zero in five years.⁶ This will reduce government debt, the Current account deficit and foreign indebtedness and raise the national saving rate, allowing RBI to ease monetary policy and stimulate investment and consumer durable demand without fear of increasing Non Performing Assets or inflation” (Virmani 2014).⁷ Though govt took action in putting the fiscal deficit back on down trend and

⁶ <http://dravirmani.blogspot.in/2013/02/macro-pivot-rebalancing-of-indian.html>.

⁷ Virmani, Arvind, “National Reform Agenda: Year Two of Modi Govt,” Policy Paper No. WsPP 1/2016, June 2016; <https://sites.google.com/site/dravindvirmani/policy-papers>

reduce the cost push arising from agricultural prices, RBI continued to follow an over tight monetary policy because of consistent over-estimation of consumer price inflation

“Inflation, Current Account Deficits and Capital flow instability rose during 2010-12, threatening a credit rating downgrade and potential BOP crises. Inflationary expectations were on an uptrend and threatening stability. The Modi Government has made progress on re-balancing the investment-consumption/subsidy mix and maintaining fiscal control. De-control of petrol and diesel prices and switch to direct transfer of LPG subsidies are structural reforms that will have long term benefits. Though it postponed the fiscal consolidation targets, the finance commission recommendations give it a mandate to transfer health-education-welfare schemes to States.” The quality of expenditure, has however to be adjusted further: “Government needs to reduce consumption expenditure by reforming all subsidies and reducing the leakages & systemic inefficiency through a faster move to direct cash transfers (eg fertilizer subsidy through cell phones or bank acts linked to Adhaar numbers). Replacement of current subsidies by a one-time capital subsidy can be an alternative (e.g. solar cookers and lanterns instead of kerosene subsidy). This creates more room for government investment in Public goods infrastructure. A cyclically adjusted target of zero fiscal deficit and positive revenue deficit should be set for 2025.”(Virmani(2016)

“The Government moved quickly to control cereals prices by selling grain from stocks. It also supported and implemented the CAACP’s recommendations to moderate the pace of MSP inflation, which was driving food/agriculture prices. The initial approval for scientific trials of GM crops was suspended and needs to be reasserted (if it hasn’t already been). A unified National Agricultural market is being set up. NITI Ayog has set up a Center-State committee on Agriculture to come up with agreed policy reforms. It is hoped that a consensus can be reached within the year so that policy reforms for enhancing productivity can begin. Inflation declined sharply from 11% in Oct-Dec, 2013 to 5.3% in Jan-Mar 2015 (CPI2012). Both food (weight 0.39) and Core (weight 0.54) have contributed to this decline, with food inflation down from 14.7% to 6.4% and core inflation from 8.7% to 4.5%. CPI Fuel (weight 0.68) inflation however rose from 1.6% to 2.3% because of lags in pass through.” (Virmani 2016)

“RBI on the other hand has allowed real interest rates to rise sharply, following the collapse in oil, food and other commodity prices. This slowed recovery of the real estate and other interest sensitive sectors, supported appreciation of the real effective exchange rate and put pressure on profitability of the globalized corporate sector. As monetary policy operates through the formal/organized economy, of which the Corporate sector is a large part, a clear understanding of the dual nature of the Indian economy for applying monetary targeting policies developed in the HICs and UMICs to an economy which has just crossed from LIC to LMIC.” (Virmani(2016).

RBI is accountable for its monetary management; CPI inflation stayed below 6% throughout 2015 (as the author & other analysts had predicted), at the cost of gross fixed investment growth and corporate (demand) growth. Reform of bankruptcy law through a comprehensive *bankruptcy code* has been passed to deal with Non-performing assets which can cause “Balance sheet recession,” in an environment in which banks find it difficult to take over and sell the assets of defaulting companies.

Fiscal Deficit:

The Central fiscal deficit was badly disrupted in 2008-9 and 2009 because of the Global Financial Crises (GFC), peaking at 6.5% of GDP in 2010-11, despite a sharp recovery and windfall non-tax revenues from Telecom auctions. It has been on a slow but steady downtrend since then after spiking to 5.9% in 2011-2. The revenue deficit has followed a similar track (from 5.2% and 4.5% of GDP in the same two years). Consequently, the average Gross fiscal deficit is projected to be -3.6% during 2014-5 to 2018-19 (NDA2 for short) compared to -5.3% during 2009-10 to 2013-14 (UPA2 for short).

The decline in global oil prices following the GFC has obviously helped. However, Govt followed a prudent policy by offsetting part of the decline by raising excise taxes, which had earlier been raised when oil prices rose. Reform and better targeting of subsidies and transfer has also helped. However, a zero cyclically adjusted GFD and a positive RD is still worth targeting for 2025. The reduction of total Central Debt:GDP ratio from 48.7% in 2017-18 to <40%, remains an important target.

Monetary Policy:

The formal adoption of flexible inflation targeting was seen by domestic and international financial markets as a great advance in inflation control. “Government signed an agreement with the RBI which guarantees its independence to pursue monetary policy within pre-agreed targets (CPI of 4% +/- 2%). This also means that RBI is accountable not just for achieving the annual inflation target set by it (8% for January 2015, 6% for January 2016), but also for overachieving it by excessive monetary tightening that pushes GDP growth (further) below potential, as has happened in 2014-15“(Virmani(2016)).

The two important indicators of inflation, the Consumer Price Index(CPI) and the GDP deflator for private consumption (PPFC) have both shown a sharp decline. CPI inflation as declined from an average 10.2% during UPA2 to an average 3.8% (projected value for 2018-19) during NDA2. PPFC inflation as declined from an average 7.4% during UPA2 to an average 4.2% (projected value for 2018-19) during NDA2. Global oil prices have clearly played a part, but tight monetary policy has played a much greater role. The real repo rate, the key policy rate, was raised by RBI from -3.4% during UPA2 to +1.6% (proj) during NDA2. Consequently, real market interest rates rose sharply. This was reflected in a rise in real treasure bill rates from an average of -3.0% during UPA2 to an average 1.9% during NDA2. The growth rate of non-food credit which averaged 16% during UPA2 has averaged 9% during 2014-15 to 2016-17. Similarly, REER which depreciated an average 0.6% during UPA2, appreciated an average 3.7% per

annum during April 2014 to July 2017. The tight monetary policy has therefore had a negative effect on growth of GDP.

Taxes: GST

The Goods and Services Tax(GST) which replaced dozens of Central and State indirect taxes was the most important constitutional change in economic structure and policy since independence. A number of compromises had to be made to pass this constitutional amendment and were worth the compromise. The structure of the GST as designed by the GST council in which Central Govt and all 29 States and UTs are represented left something to be desired. The spirit of compromise among 30 members on GST went to far in that the structure became too complex both in terms and rates and in terms of administration. There is direct relation between the two a simple three tier structure (basic rate, exempted goods and services, and surcharges) would have made administration and compliance much easier. The most glaring mistake was the input offset system which instead of making life simpler for exporters made it much more difficult and unprofitable. A simpler modified structure for exporter was introduced in April 2018. Other measures to simplify the rate structure and compliance burden have also been taken. This should actualize the benefits of GST during 2018-19, including the revolution in logistics and the integration of India into a single market.

Growth-Macro Results

“Economic growth accelerated during the two years (2014-15, 2015-16) to an average 7.4% per annum from 6.1% in the previous two years. On the demand side this was supported by an acceleration in private consumption to an average 6.8% from 6% in the previous two years. However, Gross Fixed investment growth remained flat at an average 4 to 4.5%. On the supply side the acceleration was due to acceleration in all important sectors of the economy except Agriculture, which suffered from two consecutive years of drought. The sharpest acceleration in productive sectors was seen in Mining(7.9% points), followed by electricity(3.6% point) & Manufacturing(1.6% point). The shortfalls due to agriculture were made up by Public administration & other services. The major discordant note is the disappointing growth of the listed large scale corporate sector, indexed by the IIP. IIP growth accelerated by 2.1% points in 2014-16 to 2.6%, while IIP for manufacturing accelerated by 1.9% points to 2.2%. Even though the acceleration is sharper than in total GDP and Manufacturing GDP respectively, the level of output growth was far lower than in GDP value added growth, because of a sharp deceleration in inflation: Inflation in the GDP deflator declined to an average 2.2% (from 7.0%) and in Manufacturing deflator to 0.4% (from 4.2%). The decline in pricing power was primarily due to massive global excess capacity, and consequent low capacity utilization, in products produced by the globalized part of the Indian corporate sector. The average rate of growth of the IIP for electricity (7.0%) was however consistent with the rate of growth of GDP from electricity (7.4%).”(Virmani(2016)

The two-consecutive back to back droughts in 2014-15 and 2015-16 had a much stronger negative effect than the 15-20% share of agriculture value added in GDP suggests.⁸ On the margin a double drought has a strong effect on (dis) saving, employment, rural wages and consumption. The effect of governance improvements and reforms were therefore very fragile and subject to negative shocks.

⁸ <http://dravirmani.blogspot.in/2016/04/growth-inflation-and-monetary-policy.html>

Demonetization followed by GST added to and slowed the recovery of GDP.⁹ Nevertheless, both the macro numbers and the growth rate has been promising.

GDP growth has accelerated marginally from an average 7.0% during the UPA2 to a conservatively projected 7.3% during NDA2. Investment growth (GFCF) in real terms (i.e. adjusted for deflation in capital goods prices) as accelerated from an average 6.3% per annum during UPA2 to a projected 6.7% per annum during NDA2. This is underpinned by a Current Account deficit (CAD) which has improved by 2% points from -3.3% during UPA2 to a projected average of -1.3% points during NDA2. Though declining international oil prices contributed to this improvement, the collapse of international trade also led to a decline of export growth. The 7.6% points declaration in export growth, was greater than the 5.5% deceleration in imports.

Infrastructure

Virmani (2014) suggested, a “Break up of government monopoly in coal and infrastructure sectors and introduce competition. Convert the Indian Railways, Ports and Airports into publicly owned Ltd companies and set up professional independent regulatory structure to oversee free entry & benchmark competition in these sectors. Enforce open access in electricity distribution & transmission & separate farm feeders for irrigation. This will set of a cycle of self-sustaining infrastructure growth and productivity improvement.”

“Infrastructure thrust started a couple of decades ago. Public Private Partnership (PPP) was introduced in the 1990s. Some elements of PPP worked others didn’t. Forced lending without policy & regulatory reforms leads to bad debts, not higher growth. A committee was appointed to review & suggest required changes in PPP contracts, old and new. The Central budget 2015-16 proposed to introduce a regulatory reform law for infrastructure, which was previously stymied by inter-departmental wrangling.” Virmani (2016). Progress has been made at a slow but steady pace, using all means including the arbitration act and improvement in arbitration law and procedures.

“Railways has started the process of opening up and step by step opening of various aspects of railway services to greater competition. For instance, private development of railway Stations has been still born since it was first mooted in a 1999 paper on second generation reforms. Similarly, private rail lines for connecting ports and industrial estates to main lines could become a reality. The emphasis of the railway minister on first focusing on improving the productivity and efficiency of the *Indian Railways* and gradually introducing more fundamental reforms that will help sustain this momentum will be fruitful as long as the goal increasing competition is kept firmly in mind.” (Virmani (2016)) We are finally beginning to see progress in railway station development, railway cleanliness and hygiene and railway safety. Some institutional changes have also started.

“The 2015-16 budget also urged the Port Trusts to consider conversion into Public Ltd Companies. There is also some movement towards separating Air traffic control from AAI so that the latter compete like a commercial organization.” Private participation in airport development has however halted. The

⁹ http://dravirmani.blogspot.in/2016/11/demonetization-economics_16.html

extension of air connectivity to NE and other underserved areas seems to have proceeded without excessive reliance on subsidies.

“Reforms of the electricity sector have also re-started and auction of “plug & play” projects was proposed in the last budget to speed up regulatory approvals and land acquisition without attracting concerns of corruption & cronyism.” Electricity distribution has now reached virtually all villages in the country. Electricity production and distribution reform at the State level under the Ujwala scheme is however, proceeding fitfully.

“The governments “Sagar Mala” and “National Waterways” programs have good potential for improving physical connectivity and reducing transport costs and bottlenecks and must be pursued vigorously. Virmani (2016)

Highway and Roads building program has recovered from a trough. Both the roads contracted and built are on a clear uptrend. Other road connectivity projects, such as border roads, NE connectivity and connectivity to neighboring countries also seem to have picked up pace.

Output Market Competitiveness

Virmani (2014) had suggested, “Break up of government monopoly in coal and infrastructure sectors and introduce competition. Sell those units in industries that are inherently competitive (e.g. steel, airlines, power/ railway equipment, hotels, machinery; banks, insurance).¹⁰ This will stimulate a surge in manufacturing productivity (as in 1990s). Use the proceeds of Public sector bank (PSB) share sale to recapitalize them and thus lift constraint on bank lending.¹¹ Use PSU share sales to expand the fund for Govt. investment in Public goods infrastructure like highways, seaways, higher speed rail lines, MRTS & sewage collection & disposal networks”.

The Coal Act, by auctioning coal mines and allowing commercial mining has set the stage for introduction of genuine competition in coal mining.” Progressive liberalization of entry and sale restrictions have led the industry from monopoly to competition. The coal industry is now virtually de-monopolized except for the overwhelming share of Coal India.

“Similar provisions for auctioning of mines and commercial mining have laid the basis for freer competition in mineral exploration and mining sectors.”

“ Public sector disinvestment & strategic sale can be a driver of growth as shown by research on economic growth and manufacturing productivity in the 1990s. It can therefore act as one of the drivers of growth. Though political compulsions cannot be ignored, all loss-making units can be

¹⁰ For rationale, see <https://sites.google.com/site/chintan1997reg/institutional-reform/governance-corruption>

¹¹ A recent calculation shows that the market value of the 23 largest PSBs (excluding SBI) is less than the market value of one private bank. Thus a large portion of the national debt could be eliminated by selling these 23 PSBs. All those who are declared eligible for bank licenses by the RBI could be authorized to bid for controlling shares in a competitive auction of the smaller, less profitable PSBs (with 51% minimum govt. holding deleted). Govt. would also sell 25% of its shares in the other 23 PSBs (reducing it from 51% to 26%) so as to capitalize them.

sold if greater effort is made to educate the public about the enormous wastage of public resources and assets & how they can be used to stimulate economic & infrastructure development that benefits them. The option of auctioning management control of inefficient PSBs to all those with private banking licenses, should be resurrected. The pace of dis-investment has been stepped up in the last two budgets. After the 2015-16 the FM made a statement that strategic sale of loss making units would be considered. The minister of heavy industry has recently indicated that four chronic loss-making units are being readied for Strategic sale to stop hemorrhaging of funds and to unlock frozen assets held by them. However, a few companies like Air India continue to be overindulged with new equity and loans, which never produce profits, only losses. In the case of Public Sector Banks (PSBs) a decision to expand the equity of only the profitable/efficient ones, will gradually reduce the share of the unprofitable, inefficient PSBs.” (Virmani 2016)

Decontrol of Petrol and Diesel pricing has been completed and some rationalization for Natural gas and Kerosene have been initiated on an experimental basis

“Agriculture was an important driver of inflation in last 5 years, despite a relatively high growth rate, due to excess Government stocking and high procurement price rises. Agricultural Productivity has been 50% of World average for four decades. Halt procurement price led inflation and massive overstocking of wheat and rice. (Need to) repeal Agricultural Produce Marketing Act and Essential Commodities Act (or limit them drastically to promote competitive markets). Remove all policy restrictions on FDI in food retail. Replace the policy of Ad hoc agricultural import-export bans by import-export tariff bands that offer transparent protection within limits. Re-establish scientific approach to GM crop trials and introduction of GM crops”(Virmani 2014). Agriculture reform is still largely pending. The introduction of a national E-market platform is a useful way around the problem but only if all major producing States join it. The number of crops and participating States remain limited, The Direct Fertilizer subsidy transfer (DFST-DBT) through retail outlets to farmers, can be useful if it’s a prelude to direct transfers to farmers. The most efficient method is a direct input subsidy by unit of land owned or cultivated(DCT), with latter having primary claim when properly recorded. A version of this is already being done in Telangana/Andhra.

Factor Markets

Capital Market/Financial market

Several actions have also been taken or initiated to improve the capital markets and technology transfers. FDI in insurance and Defense were raised to 49%. Several other conditions on FDI in construction, single & multi-brand retail and railways have also been eased, though progress on FDI in retail trade has been halted. The determined effort to expand the participation of Indian private industry in defense, and to reform Public sector defense R&D & production, will produce huge benefits in 5 to 10 years.

The 2015-16 budget announced a slew of measures to improve the functioning of capital markets, several of which require legislative changes. The Forward Markets Commission is proposed to be merged with SEBI, a long-delayed step in creating modern futures and forwards markets for commodities. Other institutional reforms include the establishment of a *Financial Redressal Agency* grievance redress viz all financial service providers, a Financial Data Management Centre, a *Financial Sector Appellate Tribunal*, and a *Resolution Corporation*. An *Indian Financial Code (IFC)* for integrating financial laws rules and regulations was to be introduced in Parliament for consideration. The pass-through provisions available to Mutual Funds, were also given to REITS.

The Bankruptcy Law was introduced and passed by Parliament. The rules regulations and procedures institutional structure for implementation have also been created. The first few cases of bankruptcy are now under process. The working of this system is already having a salutary effect on loan defaulters who earlier treated the loan recovery system through the courts as a farce to be taken advantage of.

Land

“Land Acquisition Relief and Rehabilitation Act. The extremely laudable objective of fairness in *compulsory acquisition of land* has been converted into an expansive ecological and social agenda. Purely private voluntary land transactions must be removed completely from the ambit of this law and the enormous bureaucratization of rules and procedures rolled back. In addition the process & procedures for changing land use must be made transparent” (Virmani(2014)

“The Land Acquisition Act and the Relief and Rehabilitation Act were two different acts relevant to different situations, which both needed review and modernization. The latter act was relevant to large dams and similar applications that submerged large tracts and villages. The former act dealt with issues of eminent domain and public goods. These two were merged and the provisions of each made applicable to the other, brought in a host of other social issues irrelevant to both and created a bureaucratic nightmare that would have frozen economic development. After discussion with States, a consensus was apparently reached to make certain changes in the LAR&RA. However, the consensus seems to have crumbled before or after an ordinance was issued to make changes to facilitate faster economic development. The ordinance was approved in the Lok Sabha but could not attain a majority in the Rajya Sabha. It is not clear how and where the political ball was dropped? The ordinance is being promulgated for the third time, while efforts continue to get a majority in Rajya Sabha to approve the changes. As Land is a State subject, all issues unconnected with Central list of the constitution, could be removed from the Land law and left to the States to legislate, given the diversity of conditions across the country. “ (Virmani 2016)

In practice, Eminent Domain has been greatly clarified and the Bureaucratic acquisition procedures in Land law moderated and made less onerous.

Labor

“Repeal of exit clauses in *labor laws*, with existing employees in organized sector grand fathered. Allow private competition in Employee State insurance (ESI), Employee Provident Fund (EPF) and other monopoly social welfare schemes for employees.¹² Reform Contract labor Act to make it easier for labor contracting firms to comply with labor laws and increase hiring & provision of contract labor to industry. Reform Apprenticeship Act, to encourage training, instead of hindering it.” Virmani 2014

“The Government has taken a Dual approach to Labor policy reform. Firstly it has encouraged States to liberalize exit policies, promising speedy approval of legal changes that have to be approved by the Central Government as per the constitution. Rajasthan, Madhya Pradesh, Maharashtra and other States have already taken advantage of this to restore pre-emergency provisions (300 workers) for closure of units. Second it has started making the legal changes that are less controversial. Thus it has proposed simplification and integration of three labor laws : The Trade Unions Act, the Industrial Disputes Act and the Industrial Employment (Standing Orders) Act into a single code for industrial relations. The Apprenticeship Act was amended (December 201) to make it easier to hire trainees, particularly by small & medium companies. A separate bill is being drafted to regulate employment in small factories with less than 40 employees to simply the law reduce Inspector Raj and ease doing business. Third, changes in rules, procedures and processes that can be made administratively are being done. Thus the Provident fund is to be made portable through the introduction of a LIN. The 2015-16 budget is also giving more flexibility to employees to opt for the New Pension Scheme (NPS) instead of Provident Fund (EPF) investment and to use Health Insurance Products instead of Employee State Insurance(ESI). E governance systems and e-reporting is being introduced across the spectrum of labor rules to minimize “Inspector Raj” and reduce harassment.” (Virmani 2016)

The Contract Labor Act has been progressively liberalize to facilitate provision of such labor by organized companies that can provide labor benefits. The changes labour intensive export industries to step up production for exports, while providing flexibility in meeting seasonal demand and in addressing sudden shifts in product demand in a highly uncertain global trade environment

The proposal to integrate 40 odd different labor laws into 4 labor laws has been discussed by cabinet, but is still be introduced in Parliament.

State labor laws: Decentralization to States; 4 have reformed

Reform of ESI, PF and other social security subventions, which add ~ 30% to the cost of labor(with << commensurate benefits to workers), was promised in the budget, but has made slow progress. Without it, the ban on cash payments above Rs 3 lakh is likely to have unanticipated consequences. It will make large scale subcontracting of labor very difficult and thus reduce informal employment further. At the same time the 30% addition to wage costs will continue to incentivize more capital-intensive production methods in the organized sector. Initial moves to reform ESI and PF have slowed. Account portability has been introduced,

¹² The New Pension Scheme (NPS) for government employees already allows private management of these funds.

The Apprenticeship Act was modified to make it easier to hire interns and trainees without becoming subject to normal labor laws. Much more needs to be done to make apprenticeship as easy as it in Germany and other countries (though the nature of apprenticeship there is different). Skills & Basic education (3Rs) are essential for filling advertised jobs for which there aren't enough applicants with minimal communication skills. The National Skills Mission has been activated, but hasn't really found its direction & vigor;

“Right to Education Act: Research has shown that the private non-profit (NPO) sector provides education of quality equal on average to that of the public sector, but at 1/3rd the cost. By requiring the NPOs to double or triple the salaries of teachers it will drive them out & do incalculable damage to the cause of education. These clauses need to be dropped. The “license-permit raj” control system in education, needs to be replaced by a modern system of (output) quality rating and transparent accounting cum financial disclosure.” (Virmani 2014)

“By requiring the NPOs to double or triple the salaries of teachers and imposing excessive bureaucratic requirements on small NGO and non-profit schools, this law would have reduced educational choices and worsened education outcomes. In 2014 there were many reports of schools shutting shop because of onerous requirements of RTE. Since then governments at the center and states seem to have worked out some rule or bureaucratic approach to moderating the draconian provision, so some of the NGO-NPO schools that would have gone under, seem to have survived. More fundamental changes in licensing and regulation of schools and colleges through Rating and transparency requirements should be carried out in the next four years to facilitate, “Ease of Education” and “Educate in India”(Virmani (2015)).¹³

Welfare

“This government seems to understand the critical link between economic growth, employment generation and public welfare. This is reflected in the change in focus from “poverty alleviation” to “poverty elimination” and economic & technological development and employment creation as the principle instrument for achieving it. Another indicator is that it has adopted, as its principle foreign policy objective, the need to close the economic and technological gap with the rest of the World.” (Virmani (2016))

“The strong negative effect of the double droughts of 2014-15 and 2015-16 on rural economy, employment and farmers welfare were not understood or accounted for in welfare policy. Ameliorative measures should have been taken in second half of 2015-16 and early 2016-17 and focused on badly affected areas, regions. Instead, there was a certain amount of panic reaction (such as sudden loan

¹³ <http://dravirmani.blogspot.in/2015/06/educate-in-india-ease-of-educating.html>

waivers in TN in 2016, Maharashtra, UP, Punjab, Karnataka in 2017) and risky measures like massive demonetization that (temporarily) accentuated the problem.” (Virmani (2016))

“Right to Food Act: By ignoring the corruption in the PDS-FCI while expanding the provision of cereals to 2/3rd of the population, it does great dis-service to the hungry (1-3% of population) and to wasted/stunted/malnourished children under 5 (7.5% of population). The coverage of FSA should be scaled back to the 22% below poverty line (BPL) population and directed to eliminating hunger by seeking them out in remotes areas and identifying those who are invisible to the bureaucracy. Govt. focus should be on eliminating the causes of child stunting-wasting, by improving sewage and sanitation and eliminating open defecation.¹⁴ “ (Virmani 2016)

“By giving greater flexibility to States to integrate and adapt their food programs, the fiscal disaster that threatened has been averted. The “Swach Bharat” campaign, the clean Ganga & related programs and the “Smart Cities” programs, have the capacity to bring about a revolution in sewage and sanitation, which is most important reason for child malnutrition. However, more detailed planning & programing will have to be done to attain success. The entire PDS-FCI system needs to be drastically reformed to empower people through either a food debit card/smart card system or a direct cash transfer system, with PDS outlets maintained only where there is less competition. The Shanta Kumar committee report also has useful suggestions for reform.” (Virmani 2016)

“Empowerment of the poor (including farmers) through a UID linked Multi application smart card (MASC) containing all entitlements (food, education, health etc.).¹⁵” Virmani (2014)

“An expanding role of the State since 1950 in providing social services and Welfare to the poor and not so poor has gone hand in hand with the expansion of a “Mai Baap Sarkar” which treats the recipients as supplicants receiving the munificence of the “Sarkar” (politicians and bureaucrats in govt from highest to lowest). Yet nobody knows how many people receive the benefits of each of the 300-500 different programs and schemes run by different levels of government, or whether any given individual receives a 100 or zero different benefits. The UID was proposed to solve this problem. The government quickly realized the enormous potential benefits of UID/Aadhar and has accelerated its implementation and adoption for improving delivery of transfers, subsidies and other targeted programs. Thus for instance the LPG subsidy was rapidly linked to Aadhar and paid through bank accounts. Universalization of bank accounts through the Jan Dhan scheme is also being seeded with Aadhar so it can be used for providing other subsidies to various target groups. (Virmani (2016))

¹⁴ Virmani, Arvind, "Undernourishment of Children: Causes of Cross-country Variation," Working paper No.WsWp 4/2012, October 2012. <https://sites.google.com/site/drarvindvirmani/working-papers> and Virmani, Arvind, “The Sudoku of Growth, Poverty and Malnutrition: Lessons For Lagging States,” Working Paper No. 2/2007-PC, Planning Commission, July 2007. <http://planningcommission.nic.in/reports/wrkpapers/rpwpf.htm> .

¹⁵ See <http://dravirmani.blogspot.in/2012/12/the-unique-identification-uid-number.html>

“We need to Focus Programs on five basic *public goods & services*, essential for bringing the entire country into the 21st century, while improving governance of these and other government services.¹⁶ (a) A quality *National Road grid* connecting every city and every village. Highways/roads are the most cost effective stimulators of economic development. Roads & footpaths within cities and towns must be of quality expected of a middle income country. (b) A *modern drainage, water supply & sewage system* with water works, sewage treatment plants and comprehensive (end-to-end) system for garbage disposal.¹⁷ In villages & habitations, septic tanks and dry disposal devices would need to be implemented. Research shows that this will dramatically reduce disease and “malnutrition”.¹⁸ A system for managing & treating, industrial effluents and pollutants requires greater attention. (c) *Basic education* (reading, writing & arithmetic) and *Job skills* (1/4500 recognized/certified) for every youth in this country. This will ensure that the rural & semi-urban youth are empowered to participate in a growing economy. (d) *Broadband Connectivity*(*telecom, internet*) for e-governance,¹⁹ public education, public health, development knowledge (agro/rural) and mobile banking to every habitation. € *Rural Water, Irrigation & Drainage Grid*: Water planning, recycling, training and management for sustainable water use. “

Road Grid: The National Highway program is being reviewed with a view to removing bottlenecks and sorting out legacy problems arising from overestimation of demand, bad contracts and regulatory problems. A program for connecting highways to district headquarters is also being initiated. The States must also be persuaded to maintain State highways as the arteries of growth & employment generation.

Modern Water, Drainage & Sewers: The “*Swachh Bharat*” program, the “*Clean Ganga*” plan and the *smart cities* program can serve as an umbrella cum nucleus for implementing this program. The Niti Ayog needs to consult and co-ordinate with States and to draw up a perspective plan that covers all elements, not just solid waste and sewage treatment along the Ganga. The Niti Ayog committee on Poverty elimination should also reflect on this issue, as sanitation is the key to child malnutrition.

Basic education & Job skills: The National Skill development program is critical to the success of this program. Standardization and certification of the 4000-6000 different skills is the foundation on which a competitive system of skill development and training must be built. The operational plan is promised during this year.

Internet Connectivity: The Digital India and e-governance initiatives are very important for achieving success in this program. To maximize benefits to growth & social welfare, e –learning/education and e-medicine/health should be given sufficient attention.

Rural water, irrigation, Drainage: The NITI Ayog committee on Agriculture and the committee reflect on this issue.

¹⁶ See Five point Program at, <https://sites.google.com/site/chintan1997reg/social-welfare/5pt-program> .

¹⁷ Urban Parks and trees for cooling cities & absorbing CO2 . “Natural Cities” by Vikram Soni & Arvind Virmani in Economic and Political Weekly (forthcoming)

¹⁸ As in FN 4.

¹⁹ Including a Public Accountability Information System (PAIS): “Planning for Results: Public Accountability Information System,” Working Paper No. 1/2007-PC, Planning Commission, March 2007. <http://planningcommission.nic.in/reports/wrkpapers/rpwpf.htm> .

All villages will be connected to Electricity by the end of the year. The capital subsidy to be provided by govt is best for connecting poor households within these village to the village distribution point.

Public health; Swachh Bharat program has reached 80-90 coverage for toilet access and is well on the way to achieving 95-99% swachh villages. It will then have to address issues of sustainability like double pit dry toilets, The focus on Communicable diseases has also intensified, The new Health insurance for (for major health catastrophes), E-medicine,

DBT (Aadhar linked): LPG & extension of LPG connections (cylinders) has been very successful and needs to be extended to and integrated with Kerosene (experimental DBT)

Financial Inclusion: Till about a decade ago only 50% of citizens had bank accounts and RBI was very wary of allowing mobile wallets and genuine mobile banking.²⁰ Now there is 80-90 coverage on bank accounts and Mobile payments are expanding rapidly. Digital India program, however needs to be stepped up.

“Institutional Reform: Fundamental political/electoral, police, judicial, legal and bureaucratic reform to address the issue of pervasive, systemic corruption and restore *good governance* on a sustainable basis.²¹ Public safety & security is the right of all citizens as is “equality before law.” In the long term, the “rule of law” is critical to sustaining growth in a democratic open society. With good governance, we can even dream of welfare catch up with China! (Virmani 2014)

“Public safety & security is the right of all citizens as is “equality before law.” In the long term, the “rule of law” is critical to sustaining growth in a democratic open society. Good governance can also accelerate the growth of per capita income and welfare catch-up with China.

The government has shown great sincerity and dispatch in weeding out outdated and unnecessary laws. About 50 obsolete laws have been repealed and another 900 are on the anvil. Government has also proceeded with judicial reform by passing the Judicial appointment bill. Government has proposed to set up Forensic laboratories across the country and to improve the investigation of criminal and corruption cases. There is a move to resurrect reform of the Code of Criminal procedure which was earlier sabotaged by lawyers agitation. The “Ease of Doing Business” in India is an important campaign for reducing the bureaucratic control jungle that has developed over half a century of State Socialism. Self-certification of documents has given relief to lakhs of people who have to apply for licenses, permits and permissions. E-governance can extend this to crores of citizens.

Before the next General elections, Government should initiate political reform, with focus on State financing of elections coupled with auditing of accounts and legal changes to keep criminals out of legislatures and politics. The home minister has promised to sharply improve India’s “economic freedom” within the next 5-7 years. This an excellent target to aim for along with raising India’s “Ease of Doing Business rank” from 140 to 50. Government should also pay some attention to “Ease of Educating” and “Ease of Researching” in India.

²⁰ <http://dravirmani.blogspot.in/2014/04/mobile-banking-vs-mobile-access-to-bank.html>

²¹ See institutional reforms at, <https://sites.google.com/site/chintan1997reg/institutional-reform>

Conclusion

A review of the reforms of the Modi Government shows that a considerable amount of reforms have been carried out. There are ofcourse many gaps that need to be addressed, some in the next year, and others after the next general election