

**Fiscal Deficit: A holy cow?**

Recent reports suggest that our Finance Minister seems to be taking the deficit target of 4.1% of GDP as sacrosanct, presumably to satisfy the rating agencies. The bigger worry is that in order to meet the target, capital expenditure would be slashed: and we badly need larger public investments, particularly in infrastructure, if growth is to improve. (Hopefully, in the next budget, the Finance Minister would bury the increasingly meaningless distinction between plan and non-plan expenditure, replacing the nomenclature by capital and revenue expenditure.) One wonders whether he would be tempted to indulge into creative accounting and higher interim/advance dividends from the public sector undertakings to somehow meet the target. “Disinvestment” may once again need to rely on financial institutions in the public sector to meet the revenue target. The other side is that this merely reduces the PSUs ability to grow and invest. The politically weaker NDA government under Prime Minister Vajpayee was more radical and actually privatized some PSUs. Its present *avatar*, though far stronger in parliamentary terms, seems to shy away from privatization/closure of perpetually sick PSUs. Surely, public resources have more productive demands on them?

Coming back to the budget deficit, we often forget that the government’s gross debt as a percentage of nominal GDP has been falling year-after-year thanks to inflation. Also, what is perhaps more relevant is the net debt rather than the gross debt. In other words, we should also be considering the value of assets of the Government of India. (One example: the railway system alone would be worth lacs of crores of rupees!). Has a time come for us to adopt the International Public Sector Accounting Standards (IPSAS) to have a better idea of where exactly government finances stand?

The budgeted fiscal deficit is not a “holy cow”! As for the last expression, perhaps the Finance Minister should be reminded of what the late V. D. Savarkar, the intellectual father of “Hindutva”, wrote a long time back: the cow is not mother, nor holy, nor a goddess! She is but a useful animal, as is fiscal accounting! As for the rating agencies and their judgements,

Standard and Poor's is likely to enter into a billion dollar settlement with the US authorities for its practices in rating mortgage-backed securities which led to the financial crisis of 2007/8. Surely we should not give them too much importance in policy-making?

As for "Make in India", I recall an incident from the early 1980s, about calculators. Mrs. Indira Gandhi, the then Prime Minister, proudly presented a "Made in India" calculator to a visiting Head of State as a token of Indian manufacturing prowess. The reality was that only the cover had been manufactured and affixed in India, something which the Prime Minister obviously did not know. The reason for remembering the story is the recent directive supposed to have been given by the Prime Minister's Office to government departments to buy only made in India electronic goods. One wonders whether the directive would only lead to similar 'Made in India' goods.

One reason for such worries is that Nokia, which was manufacturing mobile telephones for the global market in India has recently closed down operations because of taxation uncertainties. So has Foxconn, its main supplier/contract manufacturer. Micromax, the only successful Indian mobile phone brand, gets the actual manufacturing done in China. And, Xiaomi, the Chinese electronics company, which is coming up very fast in the global markets, is likely to establish an R&D Centre in India but continue to manufacture in China. There is no doubt in my mind that we do need to focus on "make in India", as the Prime Minister has emphasized, but directions to buy Indian are not the right way. The reality is that from 19<sup>th</sup> century Britain, where the industrial revolution started, no country has grown rapidly except by starting with labour intensive manufacturing: China is only the latest example. In our case, manufacturing as a percentage of GDP has remained stagnant for more than two decades, and our share of global exports has been coming down since 2011.

Our Governor, in his Bharatram Memorial Lecture last month, expressed pessimism about replicating the Chinese model, partly because global demand is low: this is surely true of the European Union and Japan, but the US seems to be back on the growth path after the crisis of 2008 and, and while China is slowing, it is still likely to grow at over 7%. The Governor would like to change the focus from "Make in India" to "Make for India". One wonders

whether this means import substitution. While that clearly is needed, we should not forget that export pessimism and focus on import substitution were the cornerstones of our industrial policy for several decades. One of the end results was the so-called 'Hindu rate of growth' which barely kept pace with population growth. We do not need "Ghar Wapasi" of that kind!

Nor is one very impressed by several initiatives of the NDA in the financial sector. The *Jan Dhan* Yojana launched with great fanfare has managed to open 10 crore accounts: but the aggregate balance is barely Rs. 8000 crores! The first decision of the NDA on coming to power was to appoint an investigation team to bring back unaccounted money supposed to be held outside India. So far nothing seems to have been achieved.

A.V.Rajwade

Email: avrajwade@gmail.com