

Indian Economy in 2009-10

A financial analysis providing a quick recap of ups and downs in the Indian economy in the year gone by...

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SEPTEMBER is a very crucial time for us economists. This is because it denotes the end of the second financial quarter, or the half yearly time for the economy. For any economy, post new budget and policy announcements, the second quarter is crucial as this is the time when the effects of newer policies are best seen. However, in this article, I tried not to evaluate the economic indicators, but the performance of the Indian government. Halfway through the year, and post 2 parliamentary sessions, the government's annual performance too is up for review. So here is a quick recap of some of the important bills and policies brought by the UPA2 government this year.

BUDGET 2010

The budget was the first major policy announcement by the Government. Faced with the dual challenge of managing a growing economy in the face of a global crisis and massive domestic inflation levels, the finance minister clearly chose to address the first and ignore the second. Budget 2010 announced income tax relief for the upper income group, along with cut in corporate taxes as well. Collectively, the government chose to forgo ₹26,000 crores in tax revenue this year. Such magnanimity comes with a price, and the common man had to

pay it. Food subsidy was decreased of ₹ 424 crores, followed by a decrease in fertiliser subsidy by ₹3000 crores, and rise in fuel prices of 6% for petrol and 7.75% for diesel. Collectively, indirect taxes were poised to rise by ₹60,000 crores, which more than compensates for the fall in direct tax income. However, given that the distribution of tax relief was to a smaller set while the burden of indirect tax falls on the entire population, the net benefit of the tax policies were skewed in favour of the corporate. Announcements of Privatisation of PSUs brought back from the NDA era by the UPA2 (while its earlier avatar had scrapped the Ministry of Disinvestment) clearly showed the path this government was choosing to take eventually.

INFLATION

High inflation rates have been plaguing our economy for over an year, and the government frankly has not managed to stem it. Much was expected of the budget, but given the Finance Ministers budgetary announcements, there was very little state intervention into the issue. Food prices have been driving the high inflation rate over the years. Incidentally, the huge gap between Wholesale prices (denoted by the Wholesale Price Index or WPI) and the final prices in which we consumers buy it (denoted by Consumer Price Index or CPI) indicates that there are certain economic agents that

are fuelling the price rise. The most obvious explanation is of course middlemen and hoarders. The problem of the neo-liberal economic policies is that it limits the scope and role of the government in procurement and distribution process of food grains in the economy. With lesser role comes lesser ability to control volumes and prices of distribution.

Inflation has been plaguing the global economy much before the financial crisis hit in. In 2007 and 2008 prices of the most primary commodities increased very rapidly with no relation to actual changes in the global demand and supply. Thereafter, they collapsed too, from peaks in May-June 2008, at a rate steeper than the rise. Non-agricultural primary commodities like metals and other industrial inputs showed less price rise during the 2007 commodity boom yet more volatility over the course of 2008 and sharper falls were witnessed thereafter. But these prices have exhibited recovery since then, with more than 50 per cent increase in the metals between March and November 2009, and by 43 per cent in the case of other industrial raw materials. The problem is, with our economy being further integrated with the global economic movement, we are more and more vulnerable to such volatilities. Such global integration also prevents scope of government intervention which only worsen matters.

The government's intervention in case of food prices has also been shoddy given its faulty mechanisms. Food storage facilities are pathetic, and loads of procured food stocks rot in government storage facilities. NDTV reported that in Punjab and Haryana, by official accounts, 100 lakh metric tons of grain has been stored in the open. According to an estimate, 10 per cent of this is rotting. That's enough to feed 100 million people for three months. The recent spat between the judiciary and legislature came forth when the Supreme Court asked the Agricultural ministry to distribute free food to the poor rather than let stocks rot in the warehouses. The repeated refusal by the ministry and even the prime minister to do so defies logic. One can discuss at length the role of the judiciary and its encroachment into policy making, but discussing semantics is but a ploy to divert attention from the basic issue. Having food rotting in warehouses when high price inflation is affecting our livelihoods is bad economics, period.

OIL PRICE DEREGULATION

Inflations were further affected by the government's decision to deregulate oil pricing. Oil is a very precious commodity for any economy, especially one like India which is poised for growth. Given that we are mostly dependant on importing this globally precious resource has always been a major impediment. Government policies till date were to maintain strong PSUs to import distill and market this commodity with strict control on its prices to maintain economic balance. Of course in the entire process the government did incur huge subsidy bills, but that was till date seen as inevitable. The diametric shift in position on inevitability, which now means deregulation of prices was a choice made by the government. In

that sense, it was not really inevitable. The UPA had commissioned the Rangarajan Committee to look into the issue in 2005, the B.K. Chaturvedi Committee in 2008 and the Kirit Pareekh Committee in August 2009. While the proposals of the first to committees were put on hold, the government suddenly decided to act on the last committee report and deregulate oil prices. What deregulation essentially means is that oil prices can rise any time throughout the year based on market signals. This can also be seen as a signal to private international giants to step in more comfortably into the domestic market, given that they for long have been lobbying against price regulations. The repercussions of this policy shift are yet to play out.

NUCLEAR LIABILITY BILL

Following up on its biggest achievement in its first term (by own admission) on the indo-US Nuclear Deal, the UPA2 faced a major hurdle in passing the nuclear liability Bill in the parliament. Paving way for private firms to set up nuclear power plants in India, the government had to legislate specific rules and regulations on the compensation issue in case of any accidents. While private companies from Russia or France have their liabilities underwritten by their respective governments, the US companies do not have such provisions. Any compensation claim on a nuclear plant based accident can bankrupt such private companies, and hence they are reluctant to step in unless it is well specified by the host countries.

The parliament was wracked by debate on this bill with the Government facing stiff opposition from the house. The main point of controversy was the compensation liability

amount, and the degree of liability of the different private players, including the operator and also the supplier. The Final bill was passed with 18 amendments, which also included a redrafted clause 17b "the nuclear incident has resulted as a consequence of an act of supplier or his employee, which includes supply of equipment of material with patent or latent defects or sub-standard services." Much ado was raised on a single word 'intend' during the period. However, with the coming of the main opposition and the ruling majority on same board, real intend of the parliament on this issue was made amply clear by the end of the entire debate.

MP SALARY HIKE

But perhaps the issue that grabbed maximum public attention and led to lot of eyeballs rolling was the issue of salary hike of the members of parliament. Last time the Mps hiked their salaries was in 2006 when it was raised from ₹4000 to ₹16,000. The current proposition was a threefold hike to ₹50,000. This topped by other provisions like constituency and office allowances meant that MPs were set to draw around ₹1.45 lakhs a month. Such bills are not expected to draw much criticism from members, but surprisingly it did. Many Mps were seeking for a fivefold hike! The logic (if it can be called so) was that given the Mps should draw more salary



than the Secretary of India, the top-most bureaucratic post that currently draws ₹80,000 as basic salary. However, a closed door meeting called by the Finance minister personally finally cleared the air. It was strongly reiterated by the house that some independent body must adjudge future salary revisions (perhaps keeping in mind the uproar generated by the issue in public). The current revision raises the daily allowance of members from ₹1,000 to ₹2,000 and constituency and office expense allowances each from ₹20,000 to ₹40,000. It seeks to enhance pension of former MPs from ₹8,000 to ₹20,000 with effect from the constitution of the present Lok Sabha on May 18 last year.

For all of you planning your future prospects, keep in mind the option of fixing your own salary and you might just want to join politics!!

THE VEDANTA DEAL

A major breakthrough decision taken by the Government was the cancellation of the Vedanta backed Project in Orissa on environmental grounds. The project had drawn major public criticism and mass protests over the last few years and along with the steel plant being set up by Korean giant POSCO, was the cynosure of popular agitations in the state. With the state government firmly backing both projects, the ball was finally set in the central governments court. In a landmark judgment, the central government has ruled out the Vedanta project as it was found to be violating the Forest Rights Act provisions. Under it, the state recognises the habitat and community rights on indigenous populations like tribals etc who have been traditional residents of these areas and the consent of the gram

sabha has to be taken into account. This ruling, though simple (given legal provisions) is nonetheless a landmark judgment simple because it is unprecedented. Whether this sets a precedence is however a million dollar question (and quite literally too!). There are numerous similar projects facing popular resentment (like the Polavaram Dam Project). Ironically, the POSCO project, which almost mirrored the Vedanta issue, was passed under the statement that it does not violate tribal rights. Whether the government will follow similar lines on all such other projects can only be judged over time. However, criticisms are already pouring in which accuses the Government of playing petty political games over the Vedanta deal. The fact that it has also vetoed UK based Vedanta's takeover of Cairns operations in India sparking allegations of myopic vendetta (the usage of an Italian word here is purely coincidental!). However, environment activists can celebrate this judgement as a moral victory and perhaps can use it as a rallying point for other protests.

The discussion covers some of the bills and laws that were passed by the parliament (though it is not exhaustive given the limited scope of this article). There are of course certain other bills that are in the process of being ratified. Discussions on these will only be meaningful once they are passed in their final forms. These include:

RESERVATION BILL

Being discussed for over a decade by respective governments, the Women's Reservation Bill was finally passed by the Rajya Sabha amidst much drama. Then suddenly the government got cold feet and

backed out from presenting it in the Lok Sabha.

NEW DIRECT TAX CODE

A pet project of the current finance minister, the draft has been finalised but debate on it is yet to take place. What can be inferred however is that this new code will simplify the taxation process considerably. All of us who have to struggle with Form 16 and its variants every year can vouchsafe for the need of such simplification. Such simplification is not only beneficial for streamlining administrative procedures, but also will help the government's efforts to encourage greater transparency in the taxation process. Over the years, online tax submissions and other systems have been introduced to raise tax collections. This new code simplification will go a step further in easing it all.

ET BILL

This is the pet project of the current HRD Minister himself. It was initially passed in the Lok Sabha but is yet to be ratified by the Rajya Sabha. The Bill proposes to set up a two-tier structure of Educational Tribunals (ET) at the national and state level to adjudicate all disputes that arise in the higher education system. The state tribunals would adjudicate matters concerning teachers, employees and students of institutions in the respective states. The national tribunal would deal with all matters concerning regulatory bodies in higher education and also matters involving institutes located in two or more states.

A lot more is in store over the remaining half of the year. If the last 6 months is any indication, we are in for some more exciting laws and regulations to hit us by this year. ■