

India Unmade



India Unmade

How the Modi Government
Broke the Economy

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with

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To all those who are not afraid to pursue the truth



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Introduction

Why I Wrote This Book



India Unmade is a critique of the Narendra Modi government's economic management.

I have not always been a critic of Modi. Nor do I have a personal vendetta against him for not appointing me minister or giving me some other post, as some people incorrectly speculate. Whom he chooses as his advisers and to be in his council of ministers is his prerogative as prime minister. In fact, the truth is that I recognized his mettle early on and was one of the first senior Bharatiya Janata Party (BJP) leaders to say he should be made the party's prime ministerial candidate in the 2014 elections.

Sometime in the final year or so of Dr Manmohan Singh's government (2004–14), I was visiting a far-flung corner of my Lok Sabha constituency, Hazaribagh, Jharkhand, to condole the death of the wife of a prominent BJP worker of the area. Dusk had fallen but because their representative to Parliament was visiting, twenty-five to thirty people were still waiting about

when I arrived. After we had offered our condolences the people assembled there began discussing politics, as usual. They told me in one voice that to win the next Lok Sabha elections all that the BJP needed to do was make Modi the prime ministerial candidate of the party and our victory was assured. This was the kind of reach and penetration Modi had achieved in many parts of the country long before polling day.

Soon after, I was at Kolkata airport. A complete stranger ran towards me as I alighted from my car and said with passion, 'You should make Modi your prime ministerial candidate.'

Around the same time, I was visiting Hyderabad with the Parliamentary Standing Committee on Finance, of which I was the chairman. After finishing our business for the day we decided to visit the Golconda Fort. It was late in the day and most visitors were coming out of the fort as we waited to enter it. Some of them recognized me and came over to chat. I was standing surrounded by a few left party members of Parliament (MPs). The visitors said to me, 'The BJP should make Modi its prime ministerial candidate and you will win the elections hands down.' I asked them, 'Where do you come from?' 'Bengal,' they replied. So I turned to the left MPs and said, 'Did you hear that? This is the feeling even in Bengal.'

It was clear that Modi had successfully projected himself as the ideal prime ministerial candidate well before the 2014 elections and I genuinely believed that if we succeeded in turning the elections into a presidential

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contest with Modi as the BJP's candidate then our chance to win would increase manyfold.

The 2014 Lok Sabha elections, as predicted and as planned by us, became presidential in nature; on one side was the corruption-ridden United Progressive Alliance (UPA) government led by a tired Manmohan Singh and on the other was the National Democratic Alliance (NDA) led by the knight in shining armour on a white charger – Narendra Modi. The contest was one-sided, the BJP emerged with a majority of its own and the NDA with a very comfortable majority. India was blessed with a single-party majority government after three decades. Hopes soared, aspirations rose sky-high, and every section of the population looked forward to a new dawn.

But we waited and waited in vain. The elusive dawn never materialized, people's condition did not improve, and in fact it went from bad to worse; the promises made at the time of elections were not fulfilled and soon enough hope turned into despair, despair into anger and anger into rage in many sections of the population, especially among farmers, the youth, Dalits, the minorities, women, etc. The truth was hidden from the people through 'media management' and soon the country was left with nothing more than jumlebaazi, alternative facts and bombastic claims. I waited for forty months before I opened my mouth and once I did there was no turning back. I realized that the country was in the solid grip of a couple of individuals whose sole objective was the pursuit of power and for whom nothing else mattered,

not the people, not Parliament, not the conventions of our great and unique democracy, in fact, not even democracy itself. The country has never faced a threat of this kind before, more so because it is camouflaged by sweet talk and false promises.

The Modi government had everything going for it on all fronts; it had the kind of opportunity few governments have had in independent India's history, yet it squandered its mandate. The government no doubt tom-toms the fact that it managed around 7 per cent growth over its five years in office, the highest rate of GDP growth in large economies; however, as I have repeatedly said and now the former Reserve Bank of India (RBI) governor Raghuram Rajan has also pointed out, 7 per cent is not enough to generate jobs for the million youth joining the workforce each month; India requires over 10 per cent GDP growth to pull its masses out of poverty.

The Modi government's lasting legacy will be the catastrophe that was the demonetization of high-denomination currency on 8 November 2016. Its effects were so disastrous across sectors that it broke the back of a BJP core vote bank – the micro, small and medium enterprises (MSME) sector – and to mollify this sector and forcefully improve liquidity and the disbursal of banks loans, which have dried up thanks to the non-performing asset (NPA) crisis, Modi's government threatened the RBI's autonomy, another move fraught with long-term negative consequences. At the time of going to press, two major developments loomed: whether or not the

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RBI governor Urjit Patel, Modi's pick to replace Rajan who was not in favour of demonetization, would himself resign after the finance ministry's continued assaults on his autonomy; and whether or not the government will find money to help bail out non-banking financial companies (NBFCs) that are also in trouble, apart from commercial banks.

In a televised address to the nation, Modi said demonetization was aimed at tackling black money, corruption and terrorism. He also added counterfeiting to the list of ills it would solve. Five days later, he told an audience in Panaji, Goa, that if his move or motives were suspect, he should be taken to 'the *chauraha* and burnt alive'. Such dramatics were characteristic of a man faced with the reality that he had committed a historic blunder.

In fact, the *Indian Express* reported in November 2018 that four hours before the announcement of demonetization, the RBI okayed the move but put in writing that it would be ineffective against black money: 'Most of the black money is held not in the form of cash but in the form of real sector assets such as gold or real-estate and . . . this move would not have a material impact on those assets.' On counterfeiting, the RBI said that the government's estimate of Rs 400 crore as the amount of counterfeit money in the system was just a drop in the ocean of the Rs 15.41 lakh crore of high-value notes in circulation and didn't justify demonetization.

As for corruption, the Modi government's claims of 'na khaunga, na khaane doonga' have been shown as

cynical, hypocritical and plain false: first, by the ability of rich people charged with fraud or worse to flee the country unhindered. These include the promoter of the defunct Kingfisher airline, which racked up unpaid debts of somewhere between Rs 4000 crore and Rs 7000 crore (the banks list figures closer to the latter as they include interest that continually adds on); diamantaire Nirav Modi, who defrauded Punjab National Bank of over Rs 12,000 crore; his uncle Mehul Choksi, whom the prime minister has referred to as ‘Mehulbhai’, as videos on YouTube can attest; and Gujarati businessman Nitin Sandesara, director of Sterling Biotech, who, accused of a Rs 5000 crore bank scam, fled to Nigeria. And these are just the big fish.

Second, the Modi government has been implicated in a defence scandal where, according to France’s former president François Hollande, the French were told that India would only buy Dassault’s Rafale fighter jet – approved by the Indian Air Force (IAF) in 2012 after five years of scrutiny and tests – if they chose Reliance Defence Limited instead of Hindustan Aeronautics Limited (HAL) as their Indian offset partner. Reliance Defence is owned by Anil Ambani, who set the company up a mere ten days before the deal was announced, and who stood to gain substantially from this deal. (More on this in chapter 7.) India is paying 40 per cent more for the aircraft that the Modi government renegotiated, favouring Ambani; and while the government was at pains to show that the extra money was for specialized

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'add-ons', a report in *Business Standard* in November 2018 conclusively showed the same 'add-ons' were included in the earlier version of the deal negotiated by the previous government.

Corruption requires a clean-up, and on that the government's record has been one of cluelessness and ineptitude. Rajan in 2015 forced the banks to clean up their books, and in the process he sent a list of major bank loan defaulters who were suspected of having committed fraud to the Prime Minister's Office (PMO). Despite demands by Parliament's Estimates Committee, the government has released neither the list of bank loan defaulters nor an account of the action it has taken against them. Probably because no action was taken against the fat cats.

As *India Unmade* went to press, the second anniversary of demonetization arrived. The Modi government, otherwise not shy of talking up its achievements, did not mark the anniversary in any significant way. Finance Minister Arun Jaitley did make some post facto justifications: that digitization of the economy had increased, as meaningless a statement as saying that Facebook use increased after demonetization; that the tax net had spread wider and collections had increased, another meaningless claim since the widening and increases followed a pattern of growth that existed before demonetization; and other marginal claims.

Dr Manmohan Singh, who in Parliament a fortnight after demonetization called it 'organized loot and

legalized plunder’, predicted it would dent GDP growth by 2 per cent. He was not wide off the mark – conservative estimates showed a drop of 1.5 per cent, as we shall see later in the book. An otherwise taciturn politician, Dr Singh spoke out again on demonetization’s second anniversary, saying that ‘the long-term ramifications were still unravelling’. He said, ‘This has had a direct impact on employment as the economy continues to struggle to create new jobs for our youth. The financial markets are volatile as the liquidity crisis wrought by demonetization is taking its eventual toll on infrastructure lenders and non-bank financial services.’

It is true: there is a crisis of payments in our economy at the moment, and it is under-reported by a media made pliant by the government. This crisis will get worse in the days to come because there is no liquidity in the economy. The Modi government made a grave miscalculation: as the attorney-general of India in an affidavit to the Supreme Court said, the government expected that as a result of demonetization, Rs 3 to 4 lakh crore would not return to banks because it was ‘black money’. Those notes would be extinguished and the government would ask the RBI to hand over that amount for government expenditure. However, as per the RBI’s annual report in September 2018, 99.3 per cent of the cash was returned. The bonanza never materialized for the government.

As mentioned earlier, infrastructure lenders like Infrastructure Leasing and Financial Services (IL&FS), which in September 2018 defaulted on bank loans, long-

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and short-term borrowings of Rs 12,000 crore, are in huge trouble. Their troubles stem from deep problems in the infrastructure sector, including slow clearances and high interest rates. The government reconstituted the IL&FS board, which found that it was in debt to the tune of nearly Rs 90,000 crore. The new board has asked the government for a bailout of the type that Lehman Brothers Holding, Inc., the fourth-largest investment bank in the world, demanded from the US government in 2008, triggering the global recession. (Lehman Brothers, which had debt of USD 613 billion, went bankrupt.) But the government has no cash to do so.

The government will have to bail out IL&FS because its tentacles were spread far and wide into the Indian economy, and it was literally 'too big to fail'. As a result of IL&FS's troubles, other NBFCs have started to face liquidity troubles and seem unable to meet their payment obligations.

Banks, however, are themselves in a deep hole due to bad loans. When this government presented in Parliament the Economic Survey of 2014, it quantified bad loans, or NPAs, at Rs 2.05 lakh crore. Then, in October 2018, Jaitley shifted the blame to the previous government, saying the NPAs when Modi took office were not Rs 2.05 lakh crore but Rs 8.5 lakh crore. Did he then lie to Parliament in 2014? If yes, this demands a privilege motion against the finance minister.

The government, in election mode, was in late 2018 leaning on the RBI to hand over a humongous Rs 3.6

lakh crore – the same amount it had expected from demonetization but did not get – from the RBI’s reserves. (The government, under pressure, changed its story, saying it needed just Rs 1 lakh crore.) Neither governor Patel nor RBI deputy governor Viral Acharya was willing to dip into the RBI’s reserves; also, they wanted to use that same amount to recapitalize the banks hit by NPAs. The government made a noise about unprecedentedly invoking Section 7 of the RBI Act, which basically means giving the RBI orders in the national interest. Speculation grew that after this attack on the RBI’s autonomy, Patel might resign.

A good relationship between the government and the RBI governor sends a message to markets, to investors, to officials down the line, as well as to the citizens of India.

But what the Modi government has done is the opposite; it has brought BJP–Rashtriya Swayamsevak Sangh (RSS) ideologues on board, namely, S. Gurumurthy and Satish Marathe, who have been pressuring the RBI governor to toe the government’s line. Gurumurthy is widely believed to be the genius behind demonetization, and he has been needling the RBI governor at board meetings. The irony is that both Patel and Acharya were appointed by Modi, and now both are in revolt. It is a case similar to that of the Central Bureau of Investigation (CBI) director Alok Verma, who was appointed by Modi over the objection of the Leader of the Opposition – M. Mallikarjun Kharge of the Congress party – and

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was deposed, in a murky midnight drama during the night of 23 October 2018. Verma's crime? He was investigating special director Rakesh Asthana, an officer of the Indian Police Service (IPS), close to Modi from his days in Gujarat, for corruption. Asthana, it has been widely reported, was placed in the CBI as part of 'the Centre's attempt . . . to carry out more blatantly political investigations'.

Decisions like demonetization, and the fact that his own appointees eventually turn against him, seem to indicate that Modi takes decisions on a whim, even if it is against the advice of his own appointed experts. While his bhakts might interpret this as an iron will to get things done, to my mind it betrays that deep in his heart Modi is insecure. He seems to take no one's advice. He brooks no dissenting view.

While others may have stifled their own dissent, I have not. I cannot remain silent; history will not forgive me if I did. I speak out now in the national interest, not for any other reason. One could object that the book points out only the failures of the Modi government, and that there must exist a success or two that deserve mention. Yet over the last fifty-five months, the Modi government has dished out a stunning continuum of untruths and boasts about its economic management, performance and accomplishments. It thus becomes essential to speak truth to power, and so it is my job that this book be a statement of fact.

Having been a finance minister, it is my duty to point out the Modi government's disastrous economic mismanagement.

I know that economic reforms and politics can be an unpredictable combination. But when the people of India give you a responsibility to govern the nation, you should govern in the interest of the people and the country's future, not just with an eye on electoral considerations. That should be the criterion; not just winning the next election, as it seems to be with the Modi government. If you govern only to win the next election, you will only take populist decisions which may not be in the interest of the country, certainly not in the long term.

For instance, demonetization was a whimsical decision that served no purpose of governance. It did, however, provide Modi with a populist campaign plank of having taken tough decisions to nab the corrupt rich. His decision paid a rich electoral dividend in Uttar Pradesh in 2017. But as far as the constantly shifting governance objectives of demonetization went, it was a big zero.

During Vajpayee's time, however, posed with a clash between our electoral prospects and the national interest, we would always choose the latter. This meant taking risks in governance. If you can't take such risks and prefer to stay populist, then you're not worth your salt. This goes to the core of ethics in governance. This inherent tension between undertaking difficult reforms and doing what will be popular with people is something we'll see throughout this book. You'll see, from the point

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of view of a former finance minister, what a balancing act reforms can really be.

Sometimes even a benign measure can have adverse consequences, like the national highway project. I later found that in 2004 we lost all the constituencies that lay along the Grand Trunk Road that goes from West Bengal and through Jharkhand, Bihar, Uttar Pradesh, Haryana and Punjab up to the Pakistan border. It was a paradox. The highways programme was the Vajpayee government's most outstanding project – his enduring legacy, the accomplishment now cited by even his staunchest political opponents – so we should have won in those very constituencies. We lost, however, because all highway encroachers were evicted. Even in my constituency of Hazaribagh, removing encroachers made a lot of voters angry. This is the political reality of India.

There is thus an argument to be made that there is no correlation between good work and getting re-elected. Any correlation is the first fallacy of punditry. Voting is only marginally connected to the work you might have done, or the government you were a part of. It is dependent on many other factors which may or may not work in your favour.

The biggest factor is managing voter perception, a fact of which the Modi government is obviously keenly aware. Take the election in 1989, in which V.P. Singh overtook Rajiv Gandhi as Mr Clean because the Congress prime minister was bogged down by the Bofors scandal. Chandra Shekhar as prime minister used to

wonder out loud to me that V.P. Singh as Rajiv's finance minister had to have given approval to the Bofors gun procurement. Yet he was never stained by the scandal. Rajiv Gandhi's defeat by V.P. Singh was thus a result of perception management.

Yet perceptions can't be managed only by slick slogans. 'Feel Good' and 'India Shining' backfired on NDA 1, probably because we chose the wrong slogans. Perhaps we needed different slogans? But I now can't help but think that coining slogans is foolhardy and can only bring grief.

In this book, I will demonstrate why the Modi government's various slogans have come back to haunt it in the worst way, be it Achhe Din or Sabka Saath Sabka Vikas. The reason is that it made promises in 2014, and those promises have not been kept. The promises have been broken because the government has managed the Indian economy poorly. Modi has been accused of running a suit-boot ki sarkar – of serving private interests rather than the national interest.

Though India has been the fastest growing large economy in the world, it has performed below potential, and in Modi's fifth year it is up against severe macro challenges: oil prices above USD 65 a barrel; the rupee well above 70 per dollar; rising interest rates to keep inflation reined in as the country goes to the polls; and a rising current account deficit (CAD).

In this book, you will read about how Modi blew a golden opportunity to send the economy soaring to new

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heights. He could have fixed the UPA's legacy issues and fundamentally raised India from a poor country to a middle-income country, but he squandered the chance. In the following pages I will demonstrate how Modi unmade India. This book is an attempt to place the truth before the people of India which has been denied to them by a pliant media and a barrage of false propaganda.