

Economic policies under the Modi government

Serah Sudhin

Assistant Professor, New Horizon College, Marathalli, Bangalore, Karnataka, India

Abstract

On the 16th of May 2014, the country ushered in a newness- A government that promises transparency through reforms and liquidity through digitalisation. The economic barometers trumpeted and the sharemarkets rejoiced. Much water has flown under the bridge since then. This paper intends to highlight only three of the twenty-nine reforms as an educative article based on a mix of objective data and subjective assumptions. The reforms under discussion are: ‘Demonetisation, GST & Make- in- India’ Stay with me and read through the article and you can answer the tough questions of where did these reformist policies lead the country.

Keywords: digital India, tax reforms, single market, anti-money laundering, NDA 2014

1. Introduction

In the summer of 2014, a new government was sworn in. NDA under Narendra Modi promised India the world and Rs. 15 lakhs per bank account holder. Markets shone and the economy smiled. India Shining was the mantra on every lip.

Some of the promises made were to bring back black money stashed abroad in offshore tax havens; revamp the informal economy; provide infrastructure; create self-employment and other entrepreneurial initiatives.

On November 8th 2016- The denominations of Rs 500 & Rs 1000 were demonetised.

On July 1 2017, the GST kicked in making India the single largest economy in the world.

In September 2014, ‘Make in India’ scheme was unveiled with a gear and cogs lion logo.

2. Review of Literature

The growing euphoria of reforms is litmus tested and analysed for improvements or criticisms. Not every scheme/ initiative/ executive decision can be predicted for outcomes, as outcomes are a play of both social responses as much as economic will.

3. Objectives of the Paper

The paper strives to take the reader through the innovative reforms that were proposed and driven by the NDA government and critically reviewed from a neutral and apolitical standpoint.

The main objective is to allow for gentle criticism where social constructs fail to comprehend.

4. Methodology

The paper utilises freely available RBI data as well as statistical charts that are available on the internet that can be readily corroborated. As such, primary data is involved only to the extent of gauging the socio-psychological consensus of a limited cross-section of MBA graduates in Bangalore.

5. Demonetisation

5.1 What is Demonetisation?

It is the invalidation of currency notes that were valid and in circulation. Many countries had implemented that in the past. In 1946 and 1978, the Indian government had demonetised certain currency denominations, as a legislative act. For the first time in Indian History, in 2016, the demonetisation was announced as an executive decision or by the speech of the Prime Minister.

5.2 November 8th 2016- Executive Decision

Prime Minister of India Narendra Modi announced the demonetisation in an unscheduled live televised address at 20:00 Indian Standard Time (IST) on 8 November.

In the announcement, Modi declared that use of all ₹500 and ₹1000 banknotes of the Mahatma Gandhi Series would be invalid past midnight, and announced the issuance of new ₹500 and ₹2000 banknotes of the Mahatma Gandhi New Series in exchange for the old banknotes.

5.3 Implementation

86% of the entire currency value (Rs. 500/1000 notes) in RBI stood invalidated overnight. 50 days’ time was given to allow for deposits at bank branches. Daily withdrawal limits were capped at 2500 and revised to 4000. NRI’s were allowed time till March 31st 2017 to convert their old invalidated bank notes by visiting RBI. The government introduced Rs. 2000 bank notes instead. Logistic hurdles were witnessed in the printing of new notes and recalibration of ATM cassettes in order to dispense the new bank notes.

5.4 Stats and Analysis

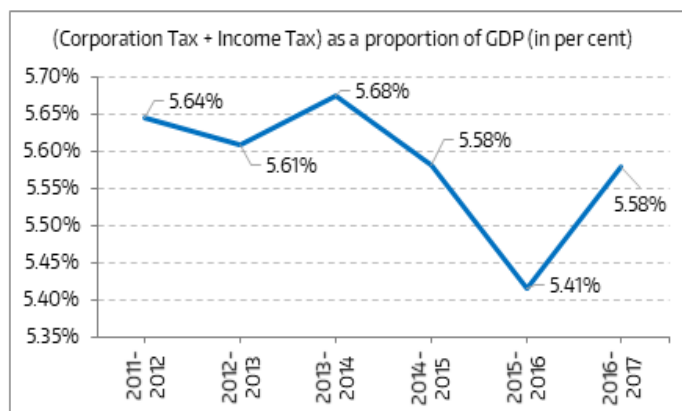
As per Parliament reports, the tax base has increased to 1.96 crores from 1.63 crores as a result of demonetisation

The increased tax base did not reflect any substantial increase in filing of Income Tax Returns at all

Financial Year	Tax-base at the end of the financial year
2014-15	6.91 crore
2015-16	7.46 crore
2016-17	8.26 crore

Source: <http://164.100.47.190/loksabhaquestions/annex/12/AU3444.pdf>.

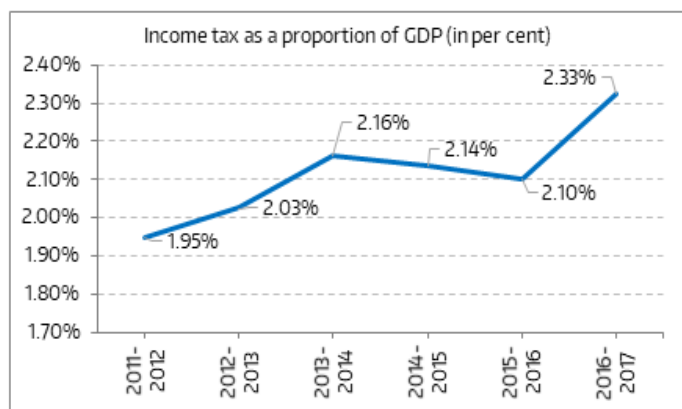
Fig 1: Direct Taxes have not really shot up after demonetisation. In fact they were higher until 2014.



Source: Author calculations on data from Centre for Monitoring Indian Economy and www.indiabudget.nic.in

Fig 2: Income Tax to GDP ratio increased by 23 basis points after demonetisation. However that was due to the back to back tax amnesty schemes in 2016-17.

The country lost 100 basis points of GDP due to demonetisation thereby making the ration of Income Tax to GDP look bigger.



Source: Author calculations on data from Centre for Monitoring Indian Economy and www.indiabudget.nic.in

6. GST

6.1 Introduction

GST (Goods and Services Tax) is the biggest indirect tax reform of India. GST is a single tax on the supply of goods and services. It is a destination based tax. GST will subsume Central Excise Law, Service Tax Law, VAT, Entry Tax, Octroi, etc.

GST is one of the biggest indirect tax reforms in the country. GST is expected to bring together state economies and improve overall economic growth of the nation.

GST is a comprehensive indirect tax levy on manufacture, sale and consumption of goods as well as services at the national level. It will replace all indirect taxes levied on goods and services by states and Central.

There are around 160 countries in the world that have GST in place. GST is a destination based taxed where the tax is collected by the State where goods are consumed. India is going to implement the GST from July 1, 2017 and it has adopted the Dual GST model in which both States and Central levies tax on Goods or Services or both.

SGST – State GST, collected by the State Govt.

CGST – Central GST, collected by the Central Govt.

IGST – Integrated GST, collected by the Central Govt.

6.2 Taxation Scheme

Introduction of GST is considered to be a significant step in the reform of indirect taxation in India. Amalgamating of various Central and State taxes into a single tax would help mitigate the double taxation, cascading, multiplicity of taxes, classification issues, taxable event, and etc., and leading to a common national market.

VAT rates and regulations differ from state to state. On the other hand, GST brings in uniform tax system across all the states. Here, the taxes would be divided between the Central and State government

6.3 Rates

- Items exempted under GST:** Milk, eggs, curd, buttermilk, Fresh vegetables and fruits, Un-branded wheat and rice, un-branded flour, Puja Items
- Items under 5%:** Frozen Vegetables and fruits, branded wheat and rice, branded flour, hand-made safety matches, cotton, cotton fabrics, Footwear below Rs.500
- Items under 12%:** Butter, Cheese, Dry fruits, mobile phones, ayurvedic products
- Items under 18%:** Biddi wrapper leaves, biscuits, footwear exceeding Rs. 500, man-made fibre, hair oil, soap, toothpaste
- Items under 28%:** Biris, LED TV, AC, Cars, tobacco products, cement

6.4 Benefits

Table 1

To trade	To Consumers	
Reduction in multiplicity of taxes	Simpler Tax system	Create unified common national market for India, giving a boost to Foreign investment and “Make in India” campaign
Mitigation of cascading/ double taxation	Reduction in prices of goods & services due to elimination of cascading	Boost export and manufacturing activity and leading to substantive economic growth
More efficient neutralization of taxes especially for exports	Uniform prices throughout the country	Help in poverty eradication by generating more employment
Development of common national market	Transparency in taxation system	Uniform SGST and IGST rates to reduce the incentive for tax evasion
Simpler tax regime	Increase in employment opportunities	
Fewer rates and exemptions		
Distinction between Goods & Services no longer required		

6.5 Criticism

Anyone claiming an input tax credit for the GST already paid down his value chain, needs to ensure that his suppliers have registered under this Act (i.e. they have a Goods and Services Tax Identification Number (GSTIN)). The individual also needs to ensure that he is in possession of an invoice from his suppliers.

Norman Loayza, an economist with the Development Research Group of the World Bank estimates that in a typical developing country the informal economy employs 70 per cent of the labour force and produces around 35 per cent of the GDP. India has multiple estimates of the size of the informal economy

The National Manufacturing Policy of 2011 estimates that, on an average, a manufacturing unit needs to comply with nearly 70 laws and regulations. At the same time, these units sometimes need to file as many as 100 returns a year. Furthermore, India has 150 state-level labour laws and 44 central-level labour laws.

If GST has to be a real success then the ease of doing business in India needs to start improving as well

7. Make in India

7.1 Childish or Innovative?

Make in India is an initiative launched by the Government of India to encourage national, as well as multi-national companies to manufacture their products in India. It was launched by Prime Minister Narendra Modi on 25 September 2014. India emerged, after initiation of the programme in 2015, as the top destination globally for foreign direct investment (FDI), surpassing the United States of America as well as the People's Republic of China. In 2015, India received US\$63 billion in FDI.

However, the very campaign, its brochures and the website design was outsourced to foreign firms. Nothing stands out better than this irony.

7.2 Examples

PM Narendra Modi unveiled a scheme called, ‘Make in India’ (MII), with a gear-and-cogs lion logo.

Three years later MII has, literally, gone off the rails.

By October next year, work was supposed to start on the largest MII project: a \$2.5 billion venture by America’s GE to

make diesel-electric locomotives in Marhaura, in Chhapra, Bihar.

But recently, New Delhi switched off the Bihar project, saying electric trains were the future. Chief minister Nitish Kumar, who gambled his political future by breaking with a Congress-Lalu Yadav coalition to ally with BJP recently, isn’t amused. He says it’ll take ages to electrify India’s 1,10,000 km of tracks.

Against government claims that 96% of Bihar villages are electrified, a 2015 survey found only 8% of households get electricity for 20 hours a day. A staggering 80% of homes don’t use electricity for lighting, but get by with kerosene lamps. An incensed GE wants India to pay it Rs 1,300 crore in compensation.

Such irony: our loss-making, cash-poor railways will now pay to cancel MII investments.

7.3 India is the Pharmacy Capital of the World?

India contributes 0.9% of its GDP to research, compared to China’s 2.1%.

60% of medical institutions in India produced no research.

India merely imports medical raw material called API (Active Pharmaceutical Ingredients) from China and package it into desi form every year 30,000 young graduates get added to the unemployment pool while layoffs are happening especially in the engineering sector.

Make in India pretends that manufacturing is the only sector of the Indian economy and is trying to ape China that started its program 40 years ago.

Exports alone cannot drive GDP. Domestic consumption should be factored in.

Discouraging imports will stifle life style and a progressive mindset.

8. Stats

While interviewing MBA students in Bangalore, the following opinion has been collated for subjective analysis.

- More than half the respondents felt that Demonetisation was having little to no effect on curbing the evil triumvirate of ‘Black Money/Financial Terrorism/Counterfeiting’
- Less than a fifth of all respondents reckoned that they faced no real inconvenience during the 50 day window to

exchange invalidated currency notes.

- It was a surprise that urban Bangalore was not yet ready to go cashless as almost half of the respondents deal with currency notes on a daily basis as opposed to electronic transfers.
- 'Wait and watch' was the kind reaction to the effect of Demonetisation by two-thirds while a small minority was scathing of the executive decision.
- Only one out every four respondents felt that the rural economy is not affected by the demonetisation drive.
- GST in its present form is badly needing changes is what the Opposition is saying. Yes, 80% of the respondents feel the same.
- Unfortunately, some of the respondents did not realise that cooking oil and sugar are also under GST. The majority realise that petrol is strangely not under GST.
- 70% of the respondents believe that the 28% cap on GST is very unfair.
- In terms of lifestyle and essential shopping GST is seen as a wet blanket, according to three-fourths of all respondents.
- Make in India as a scheme is most suitable for automobiles- opined two-thirds of the respondents, while, one-fifth felt that defence could also usher in the scheme.
- More than two-thirds felt that the Make in India initiative had no real roadmap and could hit a road block very soon.

9. Conclusion

Demonetisation was a lion hearted cop-like raid with great intention but it cost the economy 2% of GDP as of latest RBI figures while the cost of printing currency notes cost us 8000 crores. Revenue lost to the government through RBI dividends was around 32,000 crores 99% of the demonetised currency value returned back into the RBI coffers making this a thorough failure GST was being opposed for many years by the same government that hastily implemented it by sheer force of Rajya Sabha plus Lok Sabha majority numbers.

It failed to address a cap that could make it more solvent for the informal economy.

The benefit of GST is not passed down to the end user at all. Make in India is a childish initiative that fails to realise the pulse of the economic demographics. India is not a manufacturer... We cannot compete with China. Let us focus on Services exporting while upping domestic consumption to increase GDP.

10. References

1. <https://www.equitymaster.com/diary/detail.asp?date=08/07/2017&story=2&title=Demonetisation-Barely-Made-Any-Difference-to-Tax-Collections&title=Demonetisation-Barely-Made-Any-Difference-to-Tax-Collections>
2. https://en.wikipedia.org/wiki/2016_Indian_banknote_demonetisation
3. <https://www.indiasopinion.in/list-of-pm-modis-reforms-time-for-investments-to-roll-inside-india/>
4. <https://www.taxmann.com/blogpost/2000000048/what-is-gst-goods-and-services-tax-explained-with-benefits.aspx>
5. <https://blogs.timesofindia.indiatimes.com/folk-theorem/make-in-india-is-looking-more-and-more-like-a-bad-joke/>
6. <http://economictimes.indiatimes.com/news/economy/policy/a-quick-guide-to-india-gst-rates-in-2017/articleshow/58743715.cms>
7. <https://www.newsland.com/2017/07/12/the-other-side-of-gst>
8. https://en.wikipedia.org/wiki/Make_in_India