

# Modinomics vs Manmohanomics

Manmohan Singh, while quoting Keynes, gave yet another proof of how the insipid bureaucrat in him is all that is left of a man who started off as an economist and ended up as a servile figure-head. With demonetisation, Modinomics has in fact undone the inept legacy of Singh



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The difficulty lies not so much in developing new ideas as in escaping from old ones", said John Maynard Keynes. Keynes must have turned in his grave when former Prime Minister Manmohan Singh invoked him in Parliament recently, quoting his famous idiom, "In the long run we are all dead". Singh used this quote to protest against the Modi Government's game-changing demonetisation drive, aimed at curbing black money menace in the country, which is estimated at anywhere between 20 per cent to 30 per cent of gross domestic product, if not more.

The former Prime Minister, not known for his oratorical skills or political acumen, gave yet another glaring proof of how the insipid bureaucrat in him is all that is left of a man who started off as an economist and ended up as a servile figure-head, presiding for 10 long years over the most corrupt dispensation in the country.

Coming back to Keynes, Singh and naysayers of his ilk, would do well to know that Keynes was, in fact, amongst the biggest proponents of demonetisation. The essence of Keynesian economics is that while free markets and the private sector have to be the guiding force, state intervention is a must to raise aggregate demand because the private sector alone cannot be the balancing mechanism to provide jobs or growth.

Keynes advocated lower taxes and increased Government spending. In other words, he stressed on the need for a benign fiscal policy by the state, to boost growth and that is precisely what the Narendra Modi Government is doing.

Demonetisation will reduce/eliminate fiscal deficit, lower inflation, make available more funds with the Government for infrastructure and social spending. By 'formalising' the informal sector, which is estimated at between 20 per cent to 30 per cent of the overall economy, demonetisation will also boost jobs.

Few know that more than 70 per cent to 90 per cent of the jobs created in India, in most sectors, are those created within the informal sector, with many workers over-worked but under-paid. Demonetisation will re-balance these glaring anomalies, giving growth and jobs, the much-needed impetus, Keynes style.

Keynesian economics relies heavily on two pillars. First, the investment multiplier effect and second, avoiding the 'liquidity trap'. The investment multiplier theory can be best explained by an example. For instance, if the Government spends/invests additional ₹100 crore, the additional jump in income, output and employment, will not be limited to ₹100 crore, but could be ₹300 crore or ₹400 crore or maybe more, depending on whether the multiplier is three or four or even higher. Higher the marginal propensity to consume/save, higher the 'multiplier' and higher the impact on overall GDP, of any fresh spending by the Government.

Demonetisation is an ode to Keynes and will, in the medium term, essentially, *via* the multiplier effect, boost GDP in a manner than can alter the entire growth paradigm in India to far higher than eight per cent, notwithstanding the interim hiccups.



Speaking of 'liquidity trap', well, it is simply a situation where low interest rates fail to stimulate consumer spending because of poor velocity of money, which means money does not change hands often, due to overall slack in the economy. Post the global financial meltdown of 2008, much of the developed world, including the US and Europe, got into a 'liquidity trap', wherein despite zero/negative interest rates, growth faltered and how. No wonder that despite the US Fed expanding its balance sheet by more than four trillion dollars in the last eight years, US GDP averaged at just 2.4 per cent in 2014 and 2015.

Unemployment rate in the US is less than five per cent, not because more jobs have been created, but because more people stopped looking for a job. More than 48 million people in the US survive on food stamps. If Japan had two lost decades from 1991-2010, the US has in the last eight years straddled between disinflation and recession, because Obamanomics relied on merely low interest rates and quantitative easing to do the trick. That one trick pony, obviously, failed.

By opting for demonetisation and not rampant deficit financing, Modinomics has in one fell sweep, averted the liquidity trap and the problems that Obamanomics could not. Deficit spending certainly increases money supply but may or may not increase growth whereas demonetisation increases the velocity of money, which means money exchanges hands more frequently within the formal channels of the economy, ultimately boosting national income, output and employment, with no 'ifs or buts', whatsoever.

Again, you don't need to be a rocket scientist to know that in a country of 1.27 billion people and counting, if less than 500 million people are regular income tax payers, there is something horribly wrong and that needed fixing...that "something" is what Manmohanomics miserably failed to do...and that "something" is precisely what Modinomics chooses to do, *via* demonetisation, GST, benami transactions amendment, bankruptcy code, Aadhaar, Jan Dhan Yojana, merging Forward Markets Commission with Sebi, amendments in Double Taxation Avoidance Agreement agreements with Cyprus, Luxembourg, Mauritius *et al* and the like. And yes, that "something" is nothing but the political spine to bell the cat.

Modinomics trumps Manmohanomics on virtually every count. Despite a strong dollar rally in November, the rupee lost only 2.5 per cent, compared to say the Chinese yuan which recently touched a eight-year low. In August 2013, in the wake of a dollar rally then, the rupee had plunged by 8.1per cent in a single month! Also, India's forex chest has soared from 289 billion dollars in 2013 to a robust 367 billion dollars, as on 11th November. This is not all. Consumer inflation, CPI, has fallen by more than 50 per cent from 11.16 per cent in November 2013 to 4.2 per cent in October, with food inflation in the same period falling from 14.72 per cent to just 3.32 per cent.

Inflation is the most regressive tax that hits the poorest the hardest and by dramatically reining in inflation *via* APMC reforms, Modinomics has undone the inept legacy of Singh and the erstwhile corrupt Congress-led UPA

Government that faltered between Nehruvian Leftism and Fabian socialism.

Even on other parameters like CAD, current account deficit, Manmohanomics paints a grim picture. For December 2013 quarter, India's CAD came in at a dangerous 6.7 per cent, with overall CAD for 2012-2013, coming in at 4.8 per cent, pushing India to the precipice of disaster, on the external front. Even fiscal deficit in 2011-2012 and 2012-13, were hugely worrisome at 5.7 per cent and 4.9 per cent. Due to India's pathetic track record on the CAD and fiscal deficit fronts, India's global standing and international credit ratings, suffered a huge jolt in those years.

Thanks to Modinomics, more than \$300 billion has come into India by way of sticky long-term FDI inflows in the last 2.5 years and for good reason! India's CAD in September quarter was just 0.1 per cent of GDP and for 2016-17, it is expected to be a mere 0.5 per cent of GDP.

Even on the fiscal front, the Modi Government has, without compromising growth, reined in the fiscal deficit to a mere 3.9 per cent of GDP in 2015-16, on-course to fall further to 3.5 per cent in 2016-17.

The most exemplary performance of the Narendra Modi Government is reflected in the fact that, while India's external debt rose from \$409 billion in March 2013 to \$486 billion in March, India's debt service ratio during this period improved by leaps and bounds from just 5.9 to a solid 8.8. Short-term debt to total debt fell from 23.6 per cent in March 2013 to barely 17.2 per cent this year. RIP Nehruvian socialism! RIP Manmohanomics! Hail Modinomics!

(The writer is an economist and chief spokesperson for BJP, Mumbai unit)

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