

Vajpayee had the instinct to be on the right side of history, take the right decision: N K Singh

Written by Shaji Vikraman | Mumbai/ New Delhi | Published: July 14, 2016 3:55 am

NK Singh, then secretary in the PMO, with then prime minister Atal Bihari Vajpayee. N K Singh was revenue secretary in 1997, when then finance minister PChidambaram unveiled the famous “dream” Budget. Singh was also expenditure secretary, after which he moved to the Prime Minister’s Office as secretary in the NDA government headed by Atal Bihari Vajpayee. That was the period when significant changes were carried out in the telecom sector and in the roads and highways sector. Singh taught economics at St Stephen’s College, Delhi, before joining the civil services and later was made a member of the Planning Commission. After leaving the government, he became a member of the Rajya Sabha from Bihar, his home state. Singh, who is now a member of the BJP, says in an interview to The Indian Express that “malleability of rules for wider public purposes must be driven by deeper political conviction”.

How did your role play out in the run-up to the 1991 crisis and when the crisis unfolded?

I moved to the Ministry of Finance on June 1, 1991, when elections were still underway. There was uncertainty and our international credibility was perhaps at an all-time low. We were staring at debt defaults. Just prior to this, State Bank had initiated a sale of 20 tonnes of India’s confiscated gold to secure a loan of \$250 million... When I met Dr Manmohan Singh shortly after June 21, 1991, when he had just taken over as finance minister, he commented that “we will change India permanently. Excessive regulations and licencing arrangements have crippled our ability. We will pave the way for a better future.” I had little inkling that he was referring to the forthcoming Budget, which was going to be presented just over a month from then and would contain far-reaching macro and structural reforms.

My immediate worry was to quickly negotiate two more tranches of the compensatory and contingency financing facility and to seek an upper credit tranche arrangement with the International Monetary Fund (IMF) of over a billion dollars. The negotiations — after the Budget in August 1991 — were by no means easy. For one, they felt that the structural

adjustments in the Budget were inadequate, particularly on subsidies. Dr Manmohan Singh found this both awkward and annoying. How would he explain to then prime minister Narasimha Rao that the Budget estimates, within two months of its presentation, were unacceptable to the IMF? Anyway, fertiliser prices had to be raised and to say the least, it triggered opposition across the board against some of the ongoing reforms. We also needed arrangements with the World Bank for a Structural Adjustment Loan (SAL), given cross-conditionalities where arrangements with the IMF for an upper credit tranche could only be secured if we also settled the World Bank SAL. The World Bank wanted many conditions, the most awkward of which was a pre-commitment on tariff cuts, deeper trade policy reforms. This had multiple sensitivities. There were constant fears of leakage of information on the Budget, which needed to be guarded against. I once remember having woken up the India director of the World Bank, Heinz Vergin, at 4 am Washington time to be reassured that the commitments were safely in the vaults of the Bank.

Looking back, how much of progress have we made over the last two decades or more? Also, how do you assess the level of political support over the years?

It is clear that the reforms were based on the unswerving support of the prime minister and a determined finance minister. Were the reforms a response to the crisis or did they mean a genuine conviction to a more competitive economy which enhanced growth, productivity and employment? Who knows? The reforms constituency was miniscule. In retrospect, many of the agreements and arrangements which I negotiated through were necessitated by the compulsions of the time; not necessarily convictions.

People had yet to experience the benefits of competition, productivity and improved supply-side responses. It is a misnomer to believe that the reforms did not have bipartisan support. There were multiple back channels which were active. Senior leaders such as (Atal Bihari) Vajpayee and (L K) Advani were in the loop, receiving periodic briefings and implicitly supporting the response to the deep economic crisis. Bold reforms invariably need both unswerving leadership but equally bipartisan support. Finally, has the reform constituency irretrievably won? Perhaps only partially so. India has a laudable record of not resiling from commitments of reforms undertaken. Over time, the reforms constituency has enlarged significantly. People have experienced better road connectivity, improved telephony, automobile, better roads, and

improved power availability. However, deeper political conviction in freeing up factors of production, such as land and labour, continue to elude consensus. These are some of the challenges that lie ahead.

You were involved in one of the biggest tax reforms of 1997, starting with changes in the direct tax structure. How did it work and what has been the progress since then. What still needs to be done?

Tax reforms of 1997 was a complex strategy. Our tax rates were not only misaligned with global practices but also had myriads of administrative complexities — far too many rates, and ad hoc exemptions and annual uncertainties that placed a premium on evasion than compliance. In the 1997 Budget, the big task on the income tax side was the simplification of tax rates to just three slabs — 10, 20, 30 per cent. And this, indeed, has stood the test of times. In fact, I had worked out one or two possible tax options with higher rates since finance minister P Chidambaram initially felt that the rates of 10, 20, 30 may be too modest for a country like India, which still had several people living in poverty. He suggested that we should pose a few options to then prime minister H D Deva Gowda. Along with the finance minister, I presented to the PM two other options. To our utter surprise, and given his political orientation, he opted for the lower and simpler rates of 10, 20, 30, exclaiming, “Chidambaramji, don’t afraid!” Riding on the back of dramatically lower tax rates, we launched a successful Voluntary Disclosure of Income Scheme (VDIS), which, notwithstanding unanswered moral hazard questions and given its innovative marketing, secured tax collections of over Rs 12,000 crore with multiple of that brought into the system.

Clearly, the Laffer curve (the theory that suggests there is an optimum tax rate which maximises tax revenue) had worked! Thereafter, we embarked on simplification and lowering of excise and customs rates over a somewhat longer period. Changes in indirect taxes had proved more stubborn and less dramatic than the ones achieved in direct taxes. Tax reforms during that period had the full backing of PM Deva Gowda. Whereas enormous progress on tax reforms has been made, we still have a long way to go. The Goods and Services Tax has proved more elusive than I had ever thought. Hopefully, it will be enacted soon.

What should be next on the tax reforms front?

Imperfect as it might be, we must recognise that in any reform strategy, one must be sanguine enough to realise that the best should never become the enemy of the good. After a GST, we still need a Direct Tax Code (DTC) aligning our tax rates, particularly on corporate taxes and taxes on foreign companies, to make India a competitive tax destination for attracting foreign investment. There is also the daunting challenge of improving the quality of tax administration. It might be adversarial by definition but not excessively aggressive, with better relationship between tax collectors and assesses. Improving the transparency of tax administration is a long haul.

You were also part of the policy making team during the Vajpayee era, when the telecom policy was altered, leading to a dramatic transformation of the sector. What was the thinking behind those decisions and what was the political support then?

The Vajpayee period was an extraordinary opportunity to work with a man who had rare leadership, vision and passion for change. He was certainly keen to leave his imprint on history and bring about some decisive change.

Two clear areas were infrastructure and telecom. On telecom, he had inherited a mess. Telecom companies had bid unsustainable prices in open auction and contracted costly debt. They soon realised that the projections were awry and there was enormous pressure to foreclose the guarantees which would have ruined the companies, created enormous non-performing assets (NPAs) for banks and set back our telecom story for a long time. Vajpayee realised this quickly and felt that revenue losses projected were somewhat notional, if the companies themselves were to become bankrupt. More importantly, he felt that this important change (migration to revenue sharing) would benefit the people of India by offering affordable voice and data connectivity. It would be a major catalyst in our growth process. He tasked his officers, including me, to work out a credible solution. Thus, on the night of July 6, 1999, India's private telecom operators were permitted to switch to the revenue-sharing arrangement embedded in the National Telecom Policy (NTP), which was unveiled in March 1999. The problem was that this would be applicable for the next round of telecom licences but the policy had not specified how existing operators, saddled with huge licence fee obligation, would migrate to the new revenue-sharing regime, leaving room for controversy.

It was not easy to convince then Attorney General, Soli Sorabjee, who expressed his reservations about devising a migration mechanism that would be legally tenable. Besides, then minister for communications, Jagmohan, had on moral grounds opposed any deal that did not involve the surrender of licences by the operators. Vajpayee's instructions were clear. In quick succession, the minister was transferred and the Attorney General, based on new facts and a comprehensive understanding of the implications of the stalled telecom story on India's economic health, changed his opinion. The telecom sector survived. Subsequently, the new TRAI Act suggested by the Group of Ministers, first under Jaswant Singh and later under Yashwant Sinha, of which I was member-secretary, also laid the foundation for spectrum allocation and a telecom policy that would harness the huge potential that the opening-up of this sector would have. Vajpayee had the instinct to be on the right side of history. More importantly, the political instinct to take the right decision without waiting for narrow economic calculus.

During that period, another significant decision was taken — to build national highways.

The announcement of a National Highway Development Programme was made at a meeting of the Federation of Indian Chambers of Commerce and Industry (FICCI) in 1999. This project would connect India — the Golden Quadrilateral, linking the metros of Delhi, Mumbai, Chennai and Kolkata; the Srinagar-Kanyakumari North-South corridor; and the Silchar-Porbandar East-West corridor. It was a somewhat impromptu announcement, not carefully analysed by the administrative and financial pundits. Some months after the announcements, Vajpayee asked me if the NHAI work was making progress since a cess had been imposed to finance this ambitious project. By then, it had become increasingly clear that the cess was inadequate, compared to the finances needed to complete this ambitious project in the stipulated timeframe. Vajpayee, in his inimitable style in Hindi, told me, “Maharaj! Ghoshna apne karwa di, banwa bhi dijiye (You made the announcement, now you have to get it implemented)”. The way out I found was that if the proceeds of the cess could go into a non-lapsable fund and based on the securitisation of the future revenue stream of this cess, larger debt could be contracted to finance this ambitious project. The finance ministry was naturally opposed to the creation of a non-lapsable fund. When the ministry officially expressed their reservations, Vajpayee overruled the expected opposition from the ministry, enabling the roads project to be implemented

through a non-lapsable fund. In retrospect, the economy has vastly benefited. Malleability of rules for wider public purpose, debatable as they might be, must be driven by deeper political conviction.

What would you want to see on the reforms agenda over the next 25 years?

How do we transit to the next generation of reforms? There is no magic wand. We need to persevere and widen the constituency supporting these changes. I am a believer in consensus dialogue. Looking back over the 25 years of reforms may sometimes look tardy, hesitant and even faulty. Consensus building, however, is always tiresome but has the advantage of being enduring. Maintaining social cohesiveness and the compact for change is the only cardinal principal to ensure that changes once undertaken endure the test of times and changing political fortunes. My six favourite items for change would be (a) Administrative changes which have a Centre-State compact to transit to an outcome-based bureaucracy. This would mean protecting bonafide action by altering rules, regulation and laws which favour meritocracy and outcome over risk-averse state quo; (b) Similarly, while the world believes that we have a fair judicial system, judicial reforms, quicker disposal of cases, alternative dispute resolution mechanism... need improved quality of judicial appointment; (c) The reform of our education system and rubric is a historical necessity; in fact, a compulsion; (d) Our health system, particularly, primary healthcare, malnutrition, infant mortality, improving the reach of health insurance are all areas which entail enormous reforms; (e) On agriculture, much more needs to be done. This is particularly so given the noticeable adverse impact of global warming and climate change on cropping patterns; (f) Finally, not enough jobs are being created. Improved competitiveness has implied enhanced automation, and movement away from labour-intensive technologies. It's important to provide gainful opportunities outside agriculture and inculcate skills in tandem with emerging skill requirements.

This month marks the 25th year of the historic reforms that set in motion the irreversible process of opening the Indian economy. The Indian Express speaks to those who unlocked the power of change to ask what then – and what now.