Buckling under Pressure*

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Is there no one left in our important institutions who is still capable of speaking truth to power? The last year has seen a depressing – even frightening – erosion in the credibility of the major institutions that in different ways are vital for the functioning of our democracy. It is true that the Congress Party when in power has also not covered itself in glory in terms of respecting such institutions, except when forced to do so. But the current "low, dishonest" phase of history (in W.H. Auden's apt phrase) that we are experiencing in India surely marks a new low.

The basic source of the problem is a rampant national leadership that brooks no dissent and is content to create its own echo chamber version of reality, which it is then able to impose on the population through effective use of the increasingly pliant mainstream media. But the malaise goes wider and deeper. It is not only the wishes of the leader or regime that matter in a democracy that supposedly has checks and balances, but the willingness of those at the helm of other institutions to go along with those wishes, forgetting that their primary responsibility is not to the leader but to the people the institution is supposed to serve, and to society in general. In India we have a long tradition of abasement to authority, but we have also had in the past, shining examples of integrity who have refused to be cowed down and upheld both the independence and the dignity of their positions and the institutions they administer.

Sadly, such independence, or even willingness to speak up at all, now seem to be almost lost, as all sorts of important institutions are bent to the will of the ruling dispensation. Some of this has been because the ruling party has been quick to appoint as heads of such institutions, those who are eager to show their obedience and fealty to power and follow commands issued by "those who matter". Certainly, this could be said to hold for recent appointments to institutions like the Indian Council for Historical Research and the Film and Television Institute of India, along with other cultural institutions like the Indian Council for Cultural Relations and the Sangeet Natak Akademi.

But it is also unfortunately true of organisations that are important for maintaining trust in the justice system of the country. During the UPA governments, opposition leaders and especially the BJP were apt to decry the use by the Congress Party of the Central Bureau of Investigation (CBI) as a political tool. But the BJP itself has now honed this practice to such a degree, and is using the institution so openly as a means of political vendetta or suppressing any dissent, that the CBI risks losing all credibility. This has consequences that go well beyond the short-term gains or losses to any political party. It will be hugely damaging to future social stability and cohesion if people start to doubt the objectivity of law-enforcing and investigative agencies.

But far from being contained, now the disease is spreading even to economic institutions that are supposed to be far removed from petty political considerations, and in the process reducing their credibility and social legitimacy. The Reserve Bank of India's involvement in the drastic demonetisation exercise is a striking – if depressing – example. While it is obvious that the central bank cannot and should not be completely "independent" since monetary policy is very much part of the overall macroeconomic strategy of the state, in this instance, the RBI has clearly allowed itself to become an entirely subservient political tool in the hands of the current government.

As India's central bank, the RBI is the agency charged with managing and monitoring the supply of money in the economy, particularly the "base money"" in the form of currency. Indeed, currency notes are promissory notes expressing the liability of the RBI Governor. Yet it appears obvious that the RBI was not even a junior partner but only a minion of the Modi regime with respect to demonetisation. It is obvious that the extreme decisions made and the bizarrely erratic implementation, with constant rule changes and foolish errors, could not have been undertaken by professional bankers and those with a knowledge of the workings of both currency systems and banks, which presumably those on the board of the RBI possess.

But the RBI's Board is currently functioning without most of the independent Directors' posts being filled, so that the independent Directors are currently in a minority relative to the Government's nominees. It is rumoured that the Board met on the afternoon of 8 November and took the "decision" to demonetise currency notes of Rs 500 and Rs 1000 value, even as the Prime Minister had already booked the evening slot on national television to make his announcement. Did no one on the Board, least of all the Governor, have the courage to point out that replacement notes could not be provided quickly and this would lead to huge liquidity shortages that would affect economic activity? Did all of them truly feel that this would actually and effectively end black money, and if they had any doubts, did they even consider raising them?

The RBI Governor, who was the official in charge of this entire scheme, was conspicuously silent on the issue for almost an entire month after it was announced, surfacing only to make the most banal statements at the necessary press conference after a meeting of the Monetary Policy Review Committee on 7 December 2016. Subsequently, the RBI's official pronouncements on the matter have mirrored or echoed the shifts in the government's own positions. The result is not just embarrassment for the RBI; it contributes to the erosion of public faith in the central bank and in the banking system, an erosion that may yet have long-term adverse consequences for society and economy.

The latest institution to succumb to political pressure appears to be the Central Statistical Organisation, which surely should have been better placed to withstand the pressure as it is run and staffed by professional economists and statisticians. In a somewhat surprising move, in early November the CSO had already agreed, in response to a request from the Finance Ministry, to provide its advance estimates of GDP growth by the first week of January instead of the first week of February as usual. This would then facilitate the presentation of the Union Budget a month earlier than usual, on 1 February.

The political implications of this shift of dates – with important Assembly elections in five states to be held from mid February onwards – are now evident, but would not have been so obvious then. However, this decision of the CSO to bring forward its advance estimates (which incidentally are problematic to begin with) meant that it lost out on the ability to use important data that typically provide the wherewithal for its calculations. Thus, advance estimates released in February would have been able to take note of the company accounts data for the third quarter (October to December) as well as the Index of Industrial Production data and information on other sectors that would provide a better projection of the likely national income over the entire year. Instead, the advance estimates for this year necessarily have to be based only on data for the first six months.

In a normal year, this would have been less than ideal, but still acceptable. But this is not a normal year. Instead, November witnessed a massive disruption to the economy in the form of demonetisation, which has undoubtedly already taken a huge toll especially on informal economic activity. Since even the CSO estimates informal activity to account for around 45 per cent of GDP, this in turn must affect the estimates of GDP. It is one thing to estimate likely GDP without knowing about the demonetisation, but to ignore its effects after the fact, on the weak grounds of inadequate data, is pusillanimous. The more ethical thing to have done perhaps would have been to say that advance estimates could not plausibly be provided without some indication of the impact of this move, which would require waiting until early February for release, as usual.

Yet this was not the choice of the CSO, which instead has released detailed data for all the sectors, apparently oblivious of the economic tsunami in the economy. In an interview shortly after the release of these estimates, Chief Statistician TCA Anant ruled out any significant changes in the final estimate of gross domestic product (GDP) numbers even when the newer data would be factored in. “Our general experience has been aggregate processes tend to display a considerable degree of stability and the estimates which we released in advance have tended to be in very close proximity to the final figure.”

This may have been true in previous years, but is extremely unlikely – indeed next to impossible – in the current year, as should be obvious to anyone. Yet by sticking to this rigid but unrealistic format, the CSO has provided estimates of GDP growth at 7.1 per cent in the current year, thereby assuming no significant deceleration in the second half of the year.

But it is not just a simple extrapolation of the first half of the year to the second half in this unusual year, that raises eyebrows. What is even more surprising is that the CSO apparently expects a reversal of the current downswing in investment in the second half of the year! According to its estimates, even though gross fixed capital formation contracted by 4.4 per cent over April-September, it will expand by 4.2 per cent in October-March of 2016-17! This still leaves an annual decline of 0.16 per cent for the financial year as a whole, but obviously the decline would have been much greater even if the first six months had been projected to the full year. And if demonetisation had been even partially factored in, clearly the decline in investment would be projected to be much sharper. We already know that investment proposals fell by 40 per cent in November, so the only way there could be a significant revival in investment is with a massive public investment push. Perhaps the CSO knows something that the rest of the public does not?

In any case, the political usefulness of this statistical exercise cannot be missed. The CSO’s advance estimates suggest nominal GDP growth of 11.9 per cent for the current year, slightly higher than the 11 per cent projected in last year’s Budget. This gives the Finance Minister greater leeway in supposedly meeting his fiscal deficit targets. And of course, these estimates provide some ammunition to the government in dealing – at least temporarily – with critics who have argued that demonetisation has had and will have a devastating effect on the economy.

If even purely technocratic exercises like statistical measurement of levels of economic activity in the country can be converted into propaganda tools to serve the ruling government, the consequences are immense. Just as faith in the central bank can be eroded, so can faith in these statistical systems, especially when they eventually turn out to be false. The result may not be only cynicism, but a more widespread anger that could be all the more dangerous for being invisible to those who have created their own bubble of illusion.

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