

'COMMENTARAO' IN "the Telegraph" of September 2 2013

"First Things First-Economic Agenda for a new government in 2014" BY

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The Food Security Bill will barely begin to take effect when the elections come. The best economic brains in government are silently against it. Chidambaram cannot coolly contemplate a huge rise in government expenditure when the deficit is already high. The next Prime Minister and his Finance Minister must deal with it.

The Indian economy is in terrible shape, and almost at the bottom of the list amongst emerging economies. The expected withdrawal of cheap money by the USA is only partially responsible. All the present ills-high central government deficit, continuing high inflation for over two years (measured at wholesale level), high current account deficit, high balance of trade deficit, the collapsed Rupee, huge external commercial borrowings coming up for repayment over 2014, foreign exchange reserves composed mainly of debts (covering around 9 months' of imports, declining investment and industrial production)-are results of poor governance. Lack of coordination between Ministries, poorly drafted contracts for public-private infrastructure projects, poor project implementation and contract management, poor response to potential insolvency and stranded investments in infrastructure investments, lack of accountability in the bureaucracy, absence of independent investigation of corrupt officers and politicians, inadequate opportunities to the poor of health and education, are some of the contextual reasons for the situation.

What should a new government by May 2014, do?

The government's fiscal deficit must be slashed. Subsidies on oil products (petroleum, diesel, domestic gas), must be eliminated in one swoop and retail prices left to the market, with the regulator keeping a close watch. Fertilizer subsidies must be capped so that they do not remain a growing burden. Increases in dearness allowance should be frozen (for a stated

period) as they were in 1975 when inflation was over 20%. A time limit must be put on the recent actions such as reduction in outward remittances by Indians (not companies), increased duties on gold imports, stopping duty free imports of expensive television sets, etc.

Social welfare schemes (PDS, MNREGA, and others) should undergo frequent and reliable social audits. States identified to have high leakages and wrong targeting of beneficiaries should have their funds under these social welfare schemes sharply reduced. The public distribution system is highly corrupt and inefficient. Until a reliable means of identifying beneficiaries is in place, the p.d.s. and the additional food security, should be merged with the delivery of the intensive child development services (ICDS) and the school mid-day meals scheme. Early introduction of cash benefit system in lieu of physical distribution of grains should be accelerated.

The scheme to support losses of state electricity boards (of over Rs 120000 crores), should cease. Instead, states that have a time bound privatization programmed for electricity could be supported. The Centre and the Finance Commission should relate central fund transfers to states to a given percentage on populist 'freebies'. Anything above should mean a reduction in the central transfers.

There should be no financial support to failing and failed state-owned enterprises (Air India, ITI, HMT, Hindustan Photo Films, etc). Instead, their assets should be sold by an independent commission. A three year programme should be devised to privatize all other state-owned enterprises, except in cases where national security deems state ownership to be necessary.

Manufacturing must be stimulated. A generous investment allowance like the 'development rebate' of earlier years, more flexible labour laws, land laws that are more open to industry than the new law that places severe restrictions, tax benefits to new investors, are some measures that might help.

The g.s.t. (goods and services tax) has yet to be finalized. The Centre must develop a generous package of incentives to tempt states to move forward on this essential reform. It will boost trade and investment.

A law that will allow renegotiation of infrastructure contracts with government must be finalized and enacted quickly. It should give powers for renegotiating stranded projects to independent regulatory commissions or create a new Tribunal for the purpose. Fiduciary responsibility of banks, and their early involvement on matters of policy, regulatory and other changes that threaten cash-flows and viability of projects must be introduced. Information that gives early signals of such changes must allow actions like expropriation, rebidding, restructuring, liquidation to renegotiation

Both lenders and government should act fast on signals of potential insolvency and stranded investments in public goods.

Meanwhile the large number of stranded infrastructure contracts under public-private partnerships must be revived through immediate clearances by the many government departments that are holding them up. This will unblock bank funds presently locked up in these non-performing projects, and improve services and employment.

RBI must be asked to form a high-level committee to look at the sticky large loan portfolios of banks, and decide on immediate actions to make them productive or get back some of the funds. An independent CBI (not amenable to influence) must be tasked to identify illegal foreign bank accounts and their holders and forfeit their holdings. Similarly domestic holdings of black moneys must be identified and dealt with. It should not be too difficult since politicians suddenly show large wealth after being elected. So do many bureaucrats and policemen in positions with discretionary authorities that can offer pecuniary advantages.

A new government must appoint a States Reorganization Commission to recommend formation of smaller states that are more geographically, administratively and culturally cohesive, and hence more effective.

An urgent priority must be administrative reform that enforces individual accountability, performance orientation, time limits for decisions, and ensures coordination between Ministries. This is particularly necessary since government's delayed decision-making has led to hundreds of thousands of crores of investment funds becoming unproductive. Indeed, government

departments should commit to a time limit by which clearances will be given, or pay a fine to cover the costs to the applicant because of delays.

Police reforms have been pending for over thirty years (starting with the Rustomjee Commission). Expansion of forces, training, remuneration, housing, restricted VIP and ceremonial duties and more policing, are all urgently required. This will improve the investment climate.

All judicial vacancies must be filled immediately. Judicial appointments must be the prerogative of a Judicial Appointments Commission that will have senior judges and top bureaucrats. A law must be introduced to restrict the present universal right of appeal to higher Courts-an important reason for the logjam in higher courts. Corrupt judges must be identified and investigated by a Judicial Ethics body to be created. Faster case disposal is the imperative.

Electoral and political party reforms must be high on the agenda. The Supreme Court has ruled out the continuance of charge sheeted elected representatives. This must be refined in consultation with the Courts, and implemented so that criminals are not allowed to legislate. Huge black moneys spent by political parties must be tackled. The ridiculously low permitted election expenditures by candidates must be made realistic, and those who exceed it must be punished. Political parties must publish their accounts.

The new government must act as if it believes in practicing federalism. Many state governments today show better results on growth and human development, than others. The central government must act in frequent consultation with state governments. The Prime Minister must be *primus inter pares*, not a head master to Chief Ministers.

The new government whether headed by Manmohan Singh, or Rahul Gandhi, or Narendra Modi or Mulayam Singh, has many things to do. Who is most likely to do them?

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