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"Economic Policy challenges before Modi" by S L Rao"

Since independence there were two major shifts in economic policies, in 1974-75 and 1991. The first was due to the oil "price shock" of October 1973 and Over three years, crop failures, ideological resistance to food imports, growing current account deficit, extravagant government expenditures, rising fiscal deficits, and consequent inflation (double digit from 1972 to 1974), many student strikes, and a threatened national railway strike, and Jayaprakash Narayan's movement. Indira Gandhi had a drastic short-term solution, slashing government expenditures, raising taxes, freezing wage increases, and capping dividends. Inflation dropped.

Fundamental economic weaknesses were not reformed. By 1991, mounting fiscal deficits, current account deficits, rising foreign borrowings, depleted foreign exchange reserves, and double digit inflation following oil price increases, and downgrading of India's credit rating, compelled drastic reforms. Narasimha Rao changed policy directions. Fiscal deficit was contained; the economy was opened up and liberalized; industrial licensing was removed, as was import licensing; income taxes and import tariffs were reduced considerably and rationalized, tax administration was computerized and made efficient, restrictions on technology imports were removed; new sectors like information technology and electronics were allowed to grow. These gave almost 20 years of growth.

The Sonia Gandhi-Manmohan Singh government introduced populist social programmes and massive subsidies, poorly targeted, with large thefts. These destroyed the macroeconomic balance begun in 1991. The Kelkar report for eliminating of administered prices for petroleum products was shelved. Politicians held back price increases for diesel, petrol and kerosene despite rises in crude prices. Fertilizer subsidies, heavily subsidized rail fares, free electricity to farmers for pump sets, subsidized rice or wheat to the "poor", write-offs of farmer debts, the badly administered rural employment guarantee scheme, and other social schemes made for huge government deficits at centre and states. These led to double digit inflation.

Savings, investment and employment growth, are in decline. More difficult reforms are needed: in farmer support prices, agricultural markets and building rural infrastructure. Administrative reforms to speed decisions, reduce corruption and make India an easier place for doing business, are required. Building infrastructure and exploiting natural resources are bogged in opaque allotments of spectrum, coal

mines, iron ore mining, etc. Land legislation is a bottleneck for industry. Easier land acquisition, transparency in sale of natural resources, removing restrictions on foreign investment (The "Mauritius route" and participatory notes that enable money laundering), must change. Environmental issues like salinity, water logging, leaching of soil, and contamination of rivers must receive sufficient funds.

Energy supplies are hurt by nationalized coalmines, and Gas by opaque administration. State owned enterprises in key sectors-power, coal, oil and gas, steel, aluminum, railways, road construction, food procurement and distribution are, with vast thefts, and poor quality and availability.

Cities and towns are poorly governed and planned. Sanitation, drinking water, housing, are neglected. Drastic reform of all administrative and police services is a vital necessity. For employment in the organized sector to grow, investments to expand education and skills development are essential. To accelerate industrial investment reforms have to correct our institutional structures, systems and procedures. Schemes for the poor can be effective and much less expensive if Aadhar identifies beneficiaries, with cash transfers from easily accessible ATM-type bank network.

Infrastructure reform is a very major challenge. It is so riddled in confusion, state ownership and control, populist pricing, poor management, that there has to be drastic surgery. What is infrastructure? For an economy to develop and people to be comfortable, it include: Roads, railways, inland transport, ports, airports; electricity, oil and gas, coal, nuclear power; housing, sanitation, safe drinking water; dams, canals, water storage, cold and other storages, agricultural markets, agricultural research; education at all levels, skills development, health services. Thanks yto the early precedents, a great part of each is government owned, constructed, operated and maintained. In most cases investment and pricing decisions are taken by politicians and bureaucrats at central or state levels. For some there are statutory 'independent' regulators, almost all of whom are not career professional in the sector but lifelong bureaucrats.

In most cases designs for physical infrastructure, especially roads, water supply, sanitation, and in services, for health and education, are unsatisfactory. Poor maintenance and delays in completion are common to all. Tariffs in physical infrastructure are grossly inadequate and there are limited funds for operation and maintenance, and expansion. In health and education it is common to find under the

table payments, sometimes very substantial (as in medical education). There are multiple ministerial clearances required. They are very time consuming and many times corrupt. Delays in clearances and consequent money locked up, prevent private investment from entering. Government enterprises have little money available for investment.

Reform demands streamlining the administration, less and faster clearances, making all infrastructure regulators (whether by government departments or statutory regulators) truly independent, to determine that tariffs give reasonable return to investors and are fair on consumers. The number of Ministries and Regulators must be pruned by combining related ones. This will also lead to better decisions and timely ones. Thus, why must we have separate ministries for power, renewable energy, nuclear energy, coal, oil and gas, with separate regulators for each either in place or to come? This is equally so in health services where public health (sanitation, water supply, garbage) is separate from others which are also separate (drugs testing, approvals, pricing, hospitals, nursing home, medical education).

Infrastructure managers at all levels must be career professionals, not bureaucrats as now. Competitive tariff bidding must be for a maximum of 12 years, not the present 25-30, with serious inspections for quality. Best would be for all infrastructure to be under private management, with strict regulation.

Slashed government deficits, administrative reform for individual accountability and transparency, constitutional and statutory regulatory bodies with qualified staff, and combining authority over all related matters, and a professionally run if not privatized public sector are essential. Procedures for all purposes must be simplified and transparent. Judiciary must be expanded and subjected to time discipline.

All these reforms will be resisted. Mr Modi must be willing to use up political capital to get them done. (1020) Deccan Herald July 2014
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