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"Need to shed swadeshi mindset

The government should open up FDI and ensure lesser bureaucratic interference”

by S L Rao

The Modi governemnt will follow the precedent of successful policies in the earlier BJP government. It must resume and expand the Vajpayee initiatives: aim for fiscal balance, privatization of state owned enterprises, massive infrastructure investments, market determined petroleum product prices, and focus on agriculture infrastructure while integrating them into the rural employment guarantee scheme. Modi has said he will aim at improved economic efficiency and better implementation. He has to rationalize subsidies, expenditures on them, and better target the intended beneficiaries to minimize waste and leakage. The UPA’s social programmes have wasted huge funds and encouraged corruption. They have not built assets and so faild to build for the future. He must drastically reform the administrative services to improve individual accountability and punish malfeasance.

The new government must not junk Aadhar as some of its less literate members have wanted. Instead the government must expand the direct benefits transfer of welfare payments to bank accounts, and use Aadhaar. It must5 stimulate banks to open millions of micro bank branches. Public-private partnerships were a great idea of the UPA, but like so many of its ideas, very poorly implemented. Accountability of all concerned government departments for time-bound clearances must be introduced to encourage private investment. PPP contracts must not ask for tariffs to be set for 325 to 30 years as now, but only for the period required by lenders, usually 12 years. The debt equity ratio should be raised TO 2:1 against the present 66 to 80%. The present ratios have led to huge non-performing assets with banks, as projects make little progress due to raw material uncertainties, lack of government clearances, aggressive bidding and poor implementation.

Agricultural infrastructure must get private and public investments in warehouses, cold stores, refrigerated transport, rain water harvesting, water

storage, canals, etc. Government must get out of agricultural marketing and allow local initiatives, now helped by better rural roads and transportation, and better communications due to mobile telephony. Minimum support prices must not stimulate more grains production. Government must accelerate clearances for genetically modified seeds to improve productivity. The MNREGA must build agricultural assets, not just give money away.

The NDA government must control black money creation and the large holdings overseas by Indian citizens. No capital gains tax on investments from Mauritius, and participatory notes), have enabled vast money laundering on a vast scale by politicians, businessmen and bureaucrats. This must be stopped and these enabling routes be closed, or at least better controlled.

The NDA must not allow its swadeshi hang-up, to oppose foreign direct investment. The main problem with FDI on retail is not the prospect of closure of many small kirana outlets. It is the prospect of large and cheap imports from China by stores like Walmart (which has destroyed American manufacturing). FDI must be opened and with less bureaucratic clearances. This must include Defence industries which must be opened to private domestic and foreign investment.

For deficit reduction, NDA must revamp direct and indirect taxation with the early introduction of the direct tax code and uniform goods and services tax. The DTC needs some changes but both these could help stimulate the economy.

The Planning Commission should be abolished and a think tank created in the PMO to do strategic thinking for the economy. Instead, state governments must do their own planning as required by the conditions of each state.

On social welfare schemes which have caused the large fiscal deficit along with poor growth, government must as a philosophy now emphasize building capability through education and skills development on a large scale. Any schemes must build physical or human assets, and not just give money away. This can not only reduce expenditures and the deficit, but also help growth.

It must positively encourage and not bemoan rural-urban migration. It must invest in new cities and towns and in infrastructure for roads, public

transport, housing, health and education, for both old and new migrant populations in cities and towns. Reducing pressure of population in rural areas and on land is imperative. Migration to urban areas is the only way out. If migrants can be taught new skills and provided reasonable facilities in cities and towns, we will have a win-win situation, apart from the investments stimulating growth and employment.

At the same time the new Prime Minister must be conscious that his government was voted in only by a third of the country and that it has no representation in the South except for a limited one in Karnataka. The NDA also will not have a majority in the Rajya Sabha for some two years. The government must carry the nation with it while it is trying to move the economy forward.

The other challenge to moving the economy is the imperative need to make the bureaucracy individually accountable, efficient and time conscious. This does not require will. The deas are already there in various reports of the Administrative Reforms Commission and Police Commissions.

It should not need saying but must be, that India is much more complex than Gujarat. Modi is yet to show that he understands and can deal with this complexity.

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