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"How FY16 Budget must transform India" by S L Rao

The Narendra Modi government fluffed in signalling fundamental change in its first Budget. The forthcoming one must be transformational. It could incorporate the 14th Finance Commission's recommendations that could significantly change the devolution of funds from the Centre to the states. RBI has begun the easing of interest rates, responding to the decline in global and domestic inflation. Hopefully, it will not target GDP growth rates much, in excess of the low rates expected in other emerging markets and globally. Even China, with massive external and domestic debts, is faltering. A target of perhaps 6% in 2015 and 7% in 2016 for India might be achievable without unbalancing the economy.

What should we expect from the Budget? There has to be a clear rationalisation of subsidies. Direct benefits transfer started with the LPG and is rolling ahead with support schemes to minorities. But the government must roll it out for the PDS and rural employment guarantee scheme beneficiaries. These will demand major administrative reforms. It must also be rolled out for power subsidies. The government sent the wrong signal by not eliminating the cross-subsidies in the proposed amendments to the Electricity Act of 2003. A substantial reduction in subsidies is possible while still looking after the poor and the vulnerable.

Another wrong signal is the finance minister talking of disinvestment of state-owned enterprises and nationalised banks, instead of talking of privatising these. This concern is valid for the insurance sector too. Disinvestment is merely a revenue-raising measure. Privatisation will add to efficiency in the economy. The government seems afraid of the opposition from other political parties and trade unions. But the intent should have been explicitly stated and privatisation implemented not just for loss-making enterprises, but also for the entire band of PSUs. Timing would depend on the expected turbulent reactions in specific sectors. Thus, a Coal India being divested of mines through auctions and reduction of subsidies, along with further sale of telecom spectrum, can more than cover the budget deficit.

The government must facilitate the independent selection of boards and CEOs in all state-owned enterprises, apply the Companies Act provisions for nomination and remuneration and not link the PSU board members' and CXOs' salaries to those of government officials, and leave appointments, tenures and termination of top company officials to the respective boards. On the pain of disciplinary proceedings, the government must forbid its officials from second-guessing the decisions of PSU CEOs and boards.

Agriculture must get the positive signal of infrastructure spending and a negative one of ceasing of loan write-offs. Agricultural markets must be allowed to operate independently. MSPs should be determined by experts, and not mandated for political gain. The diversion of resources like water (as seen in Vidarbha sugar factories) must stop.

Industry must get faster relief from bureaucratic procedures and inspector raj, and delays in approvals. Delays in allowing new enterprises must also be removed. The government has to clearly signal that retrospective taxation has been junked entirely. Foreign companies must be assured of clear rules on transfer pricing, etc. All limits on foreign investment must be removed so that investors believe that majority equity gives them IPR protection. The initial moves for easing business and some approved state legislation on labour reforms are a beginning. Much more still needs to be done.

The largest employers (including those self-employed) are in the small-scale and cottage industries. Access to finance, marketing support, reasonably-priced materials and access to cutting-edge technology are the crying need for these employers. The government has done little so far and must initiate immediate measures.

Development finance is mostly from nationalised banks; it must come from long-term investors like provident funds, pension and gratuity funds. This must be enabled, with regulatory oversight that protects investor interest. Development finance institutions may have to be revived.

Significant foreign investment is likely to come from Japan and China, but probably chiefly in government-controlled infrastructure projects. There should be an empowered monitoring mechanism when it goes to private enterprises.

Stopping the flow of black or unaccounted money requires plugging of loopholes that enable its creation. Mauritius-based investments must have equal, and not preferential treatment, for capital gains tax. High property tax rates are also a cause. Property tax rates should be reduced to prevent the temptation of carrying out transactions in black. The floor space index must be raised and rent-control abolished. State governments must be persuaded to copy Karnataka's self-assessment scheme for property tax to enhance collection.

The DTC should be introduced. The MAT should be rationalised. The Central VAT should be made more effective. The introduction of the GST should be accelerated. Even if it gets delayed, the compromises that have made it a shadow of what it was meant to be should be dropped. Administrative services must be allowed to function freely. Promotions, transfers, punishments and tenures should be decided by an independent body like the UPSC. External recruitment of experts and allowing government servants to work in non-governmental organisations for a few years should be encouraged. Appointees to the post of statutory regulators are mostly retired bureaucrats, often eager to comply with the government's desires. The selection should instead be made by a committee comprising eminent members of the academia, media, business. Ministers should exercise self-control and not contradict RBI in public. The appointment of Lokayuktas in states and the Lokpal at the Centre should be made soon.

The Indian economy needs a dramatic change of direction. It must move from a statist, state-ownership and control-driven mindset to a market-oriented one, albeit under tough independent regulation. There will be misuse and abuse but these can be corrected. In the system that India has built over the years, there is no accountability or oversight, and thefts, misuse of power and rampant failure to achieve outcomes go unpunished. This transformation of India is difficult to achieve. But it is essential if the nation and people are to reach their potential.By S L Rao

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