‘COMMENTARAO’ IN “THE TELEGRAPH”

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From vision to reality

- The national budget in 2015 must accelerate reforms

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Asking for attention

The National Democratic Alliance's first budget was a disaster. It did not paint Narendra Modi's vision for the Indian economy nor was it a delivery of Modi's grand election promises. It was a bureaucrat's budget speech. A minister who was unfamiliar with the subject had no overarching vision.

It did not confirm Modi's intention to move the country from a statist economy to a regulated market economy. It did not cut the deficit and subsidies, prune social welfare programmes, make social schemes more effective and efficient, announce measures to implement cash benefit transfers, roll out a micro banking system, make nationalized banks into efficient commercial entities, give timelines for introducing the goods and services tax and the direct tax code, announce changes to make it easier to do business in India, remove the anomalies in the tax system, improve efficiencies in the public sector and stop supporting sick or inefficient enterprises.

Of course, since the budget, crores of bank accounts for the masses were opened, making cash benefit transfers possible; foodgrain stocks were released to combat food inflation, bottlenecks on account of rigid environmental restrictions were relaxed, land legislation made less restrictive for land acquisition, foreign direct investment was increased in defence and insurance, labour law reform was begun in some Bharatiya Janata Party states. The budget for the Mahatma Gandhi National Rural Employment Guarantee Act was cut and given to building agricultural assets. Other announcements (no actions) were about disinvestment - as in Coal India, public sector and nationalized bank autonomy and so on.

The 2015 budget will make or break this government's image of a gung-ho reforming one. Either the economy will stumble along as it did under the previous prime minister or it will rise on a new trajectory.

The 2015 budget must also incorporate the Venugopal Reddy finance commission report. Raising the state share of Central funds to a reported 50 per cent will compel severe cuts elsewhere. The Reserve Bank of India has, on January 16, begun the easing of interest rates, responding to the decline in inflation globally and in India. The balance of payments and the rupee have improved.

Even China, with massive debts incurred domestically by the provinces, is faltering and might do worse. Only India and the United States of America show reasonable growth. However, in an interconnected world, weaknesses in most world economies, should warn us to hold our gross domestic product growth rates at about 2 per cent above other emerging economies. A target of 6 per cent in 2015 and perhaps seven in 2016 might not unbalance the economy.

The 2015 budget must eliminate undeserved beneficiaries, reforming delivery to reduce subsidies. Direct cash benefit transfers have begun with liquefied petroleum gas and support schemes for minorities. Their extension can reduce substantial leakages and thefts of funds. Top priority must be given to introducing this in the public distribution system and the Food Corporation of India, the MGNREGA and electricity subsidies. Reforms in administrative, institutions, public sector autonomy and ownership must be implemented fast. Resistance from entrenched bureaucracies must be crushed.

The tabled amendments to the Electricity Act, 2003 are inadequate. The budget must find ways to eliminate cross-subsidies by states, forbid creation of "regulatory assets" and so on. These prevent the developing of electricity markets, promote tariff populism, pile massive distribution company losses and debts.

The inefficiencies of Central government-owned enterprises reduce GDP by at least 1.5 per cent per year. Disinvestment is a short-sighted revenue generation exercise. Private shareholders are still powerless to improve efficiencies. The budget must lay out a roadmap for the privatization of state enterprises and nationalized banks. In the interim, the autonomy of managements and boards must be ensured.

To achieve efficient markets and competitive private and public enterprises, strong regulatory frameworks are essential. A truly independent selection of boards, CEOs and statutory regulators - chosen from among all professions and not merely retired bureaucrats - must be announced. The Companies Act has provisions that improve over-seeing by the board and these must apply to all state enterprises. Remunerations to managers and CEOs in state enterprises must be competitive with regard to private ones. Tenure and termination must be the board's, not the government's, decisions.

Agriculture must receive infrastructure build-up. The government must announce that there will be no loan write-offs. Agricultural markets must be allowed to operate independently. Minimum support prices should be set by experts, and not aimed at political gain. Diversion (like water in the Vidarbha to sugar factories) must be penalized.

Drastic reforms in government procedures must stimulate industry: such as, streamlining and coordinating procedures, eliminating the inspector *raj* and delays in various approvals, reducing delays in allowing new enterprises. Retrospective taxes must be categorically abandoned. Transfer pricing rules are now being made crystal clear. Foreign investors imagine that majority equity gives IPR protection in spite of Indian employees. But there is no loss to India if limits on foreign investment are removed and there is stimulus. State legislatures must be encouraged to imitate the labour reforms of Rajasthan and Maharashtra.

The largest employment (counting self-employment) is in small-scale and cottage industries. Independent bodies must be set up to improve their access to finance, organized and online marketing, reasonably priced materials, training and supplies for absorbing technological advances. Governments have done little so far. For substantial additional employment generation, small-scale and cottage industries must get these supports.

Development finance is today mostly from nationalized banks, which are reeling with non-performing assets. Long-term investors, such as those relying on provident fund, pension and gratuity, must be enabled to invest with protection to the investor. Development finance institutions may have to be revived. Foreign investment from the US, Japan and China should be monitored and protected by an empowered mechanism.

Loopholes must be plugged. These enable black or unaccounted for money to be held in India and abroad. The exemption from capital gains tax to Mauritius-based investments must go. States should be persuaded to reduce property tax rates. People pay in black money to avoid property tax. To improve housing supplies, the floor space index must be raised and rent control abolished. State governments must also be persuaded to copy Karnataka's self-assessment scheme for property tax to enhance collections.

Other measures should include introducing the direct tax code, rationalizing minimum alternate tax rates, increasing effectiveness of Central VAT, accelerating introduction of the GST with the phasing out of present compromises.

Administrative services reform is fundamental. Promotions, transfers, punishments, tenures of administrative officials should be decided by an independent body like the Union Public

Service Commission. At present, administrators comply with political demands. The external recruitment of experts and permission for government servants to work in non-governmental organizations for a few years should be encouraged.

Statutory regulators and tribunals must be insulated from political machinations. Appointments of retired senior bureaucrats ensure such compliance. Selection committees should be neutral, independent, objective. Academia, media, business and so on must be selectors. Appointments of *lokayuktas* in each state and *lokpal* at the Centre must be expedited.

Health, education, skills development and faculty development, need far more funds. It is disheartening that the government has decided to reduce funds for health. Public health, particularly drinking water and sanitation, also need substantial funding. We need many more schools, colleges, professional institutions, more faculty of better quality, not merely buildings.

State ownership of and control over economic resources must be replaced by market orientation under tough independent regulation. There will be misuse but this can be corrected by regulators with penal powers. Today, there is little accountability for losses to investors because of government inaction. Theft of resources. misuse of power, and the failure to achieve outcomes go unpunished.

Transformation is essential if the nation is to reach its potential. The country must change direction from statism to enterprise under independent regulation. Budget 2015 must provide the funds and the right policies for this to happen.

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