THE TIMES OF INDIA, NEW DELHI / GURGAON
FRIDAY, JANUARY 19, 2018

Budget For Economic Recovery

Green shoots are showing, here are some ideas on how to make them flower

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When finance minister Arun Jaitley presents the Budget on February 1, he will have much to take credit for. The economy – which had been steadily decelerating over 2016-17 – bottomed out in the first quarter of the current year and is now showing signs of an upturn. The disruption that followed GST implementation on July 1 has been overcome, with some relaxation in the compliance burden for smaller players. The recapitalisation package for public sector banks has generated optimism that banks will be able to repair their balance sheets.

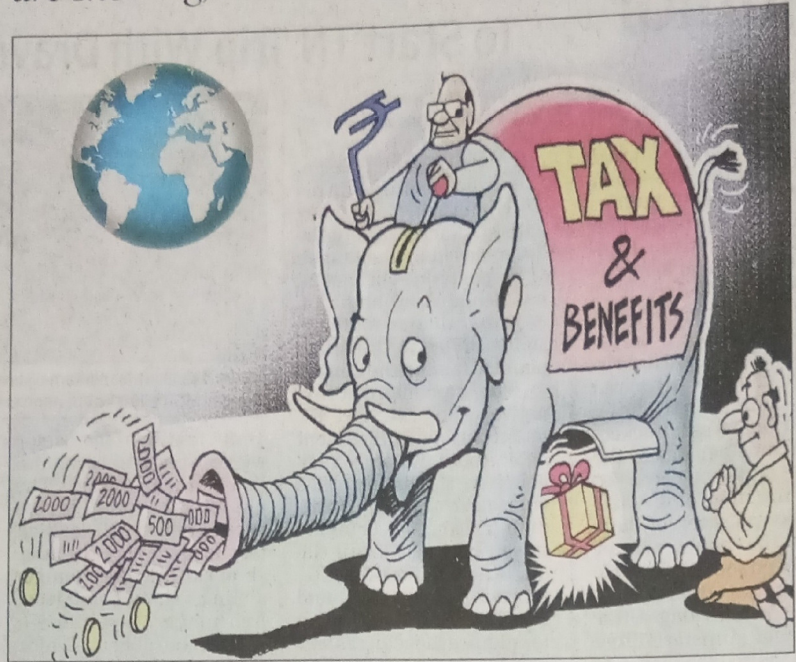
However, challenges remain. I hope he will articulate these as well in his Budget speech. One is the rise in global oil prices creating a headwind for the Indian economy. The resultant rise in inflation will prevent RBI from lowering interest rates while the fiscal and current account deficits will both increase. Fortunately, the practice of subsidising petrol and diesel has ended. But LPG and kerosene remain subsidised.

Second is the weak performance of the agricultural sector, which remains a drag on overall economic recovery. Even with a normal monsoon this year, output of several crops has fallen. Food inflation is rising even as farmers are unable to get a good price for their output.

To deal with rising pressure on expenditure, the FM is expected to focus on revenue enhancing measures and CII has suggested a few. An asset recycling policy will enable the government to identify public utilities and completed infrastructure projects either for outright sale or for giving out operation and maintenance contracts to specialised private sector firms. This is already being done for some road projects using the toll-operate-transfer model of NHAI. Similarly, the government can monetise its land assets by first creating a proper inventory of land parcels held by public entities that are underutilised and available for sale.

Industry further looks forward to a reduction in the corporate tax rate, as promised by the FM in his Budget speech of 2015. It needs to be pointed out that this will not lead to any loss in revenue as the effective tax rate (as calculated by the actual tax collection divided by profit after tax of the companies) is already around 25%. We believe that revenue buoyancy post a tax reduction will lead to an increase in tax collections, not a decline. In fact, CII has recommended that India needs to transition to a corporate tax level of 18% after removing most incentives and exemptions. Similarly, a simplification of the GST structure with three rates and more items included would lead to an increase in revenue.

Coming to the second challenge, the FM is expected to address the issue of how best to raise farmers' incomes. An empowered group of state agricultural ministers may be created to take forward reforms in the agriculture sector to address issues such as low productivity on account of small farm size and the volatility in prices of agricultural products. Ideas include amendment of contract farming laws and the APMC Act to allow aggregation of small farm sizes and better linkages between farmer and market. The Budget could provide incentives to states that implement these reforms.



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Investment in agriculture as a share of the total has been falling over the last few years and this trend needs to be reversed. Much greater investment is required in post-harvest infrastructure such as warehousing and cold storage at the district level. Once these assets are created, the government can earn revenue by leasing them to the private sector including food processors and large buyers. Development of food processing would also provide a boost to job creation in the rural economy outside agriculture.

Much improvement is required in the area of human development to best leverage India's demographic dividend. The FM would do well to increase allocations for health, education and skill development and set specific targets to be achieved in these areas. In fact, an improvement in India's rank in the Human Development Index from the current level of 131 should be targeted. Monitoring and rewarding states which perform well is a good idea.

For industry, it is important to improve productivity and competitiveness so that domestic industry is able to compete with imports. The high cost and/ or poor quality of land, labour, capital, power and other infrastructure have a significant impact on firms in India. The FM must think of ways to ameliorate these disadvantages and Niti Aayog's suggestion of creating coastal economic zones must be considered. These zones would not necessarily need tax incentives but would require support in terms of availability of industrial infrastructure and logistics at a reasonable cost.

For more investment to come into India, the industrial environment needs to be reinvented as a hub of innovation. Critical industries such as defence, aerospace, IT, electronics and capital goods need to adopt advanced technologies that are spreading globally, as part of the fourth industrial revolution.

The government could play a role in supporting an innovation ecosystem by creating a National Innovation Fund with a sizeable corpus of at least Rs 10,000 crore. Such a fund would provide seed funding to industry through competitive bidding for undertaking research projects. Funds are also required for institutes of higher education to expand the pool of skilled people who can work on research and development for industry.

Industry looks forward to an exciting set of measures to support the economic recovery.

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