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Go Beyond Fiscal Arithmetic

While reducing deficits is important, budget must also lay out an expansive vision for the economy

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The amount of importance given to the annual budget presentation is unique to India. Following the pioneering reforms undertaken in the 1991 budget, it is seen as an opportunity for the government to outline a broad policy vision.

At that time, the economy had been facing a crisis and path-breaking changes were brought about in our trade and industrial policies. The early burst of economic reforms announced in the 1991 budget following elections in May 1991 included opening up foreign investment, freeing interest rates and initiating PSU disinvestment. The gradual shift from socialist policies towards more market-friendly ones has been heralded by various announcements made in succeeding budgets.

I am reminded of the budgets presented in 1998 and 1999, by the BJP-led government, which had many new initiatives such as rationalisation of the indirect tax system, strengthening the banking sector and formalising gold imports through the banking system. Issues of regulatory burden constraining the private sector were discussed and sought to be addressed through exchange of best practices across states.

The economic situation at that time was in some ways similar to what we are facing now – GDP growth had dropped to a low of 4.3% in 1997-98 following the Asian financial crisis and expectations were riding high that the new government would take decisive measures to revive growth.

Currently, industry is again keen that the budget announcements should go beyond fiscal arithmetic and lay out a vision for an economy that has been underperforming in the last few years. That's not to say that the budget should ignore the imperatives of fiscal consolidation. But it should not constrain itself to fiscal issues alone.

For example, it is widely recognised that inflation, particularly food inflation, is an issue that needs to be dealt with to get the economy back on track. Reducing fiscal deficit itself will have a moderating impact on inflation. But in order to take more targeted action, the budget should initiate much needed supply-side reforms in agriculture.

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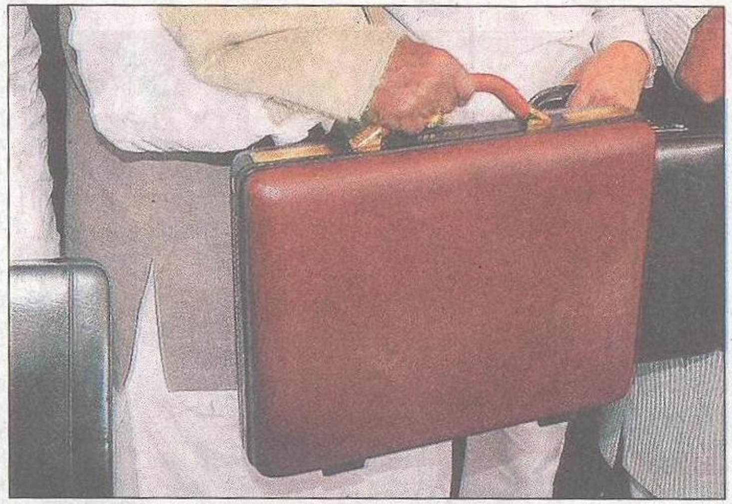
Chronic deficiencies in the supply chain result in large amounts of wastage, reducing availability and increasing prices of perishables. Currently, the Agriculture Produce and Marketing Committee (APMC) Acts of state governments force farmers to sell their products only at the "mandi" or designated marketplace. The removal of this restriction will encourage alternative marketing models and encourage investment in storage and handling infrastructure by the food processing industry and agri-businesses.

Even in case of grains, the private sector can play a meaningful role in procurement and storage by creating more infrastructure facilities for warehousing. The government will also need to revisit the MSP (minimum support price) mechanism to encourage crop diversification away from grains. A whole package of such reforms is needed to sustainably tackle the issue of food inflation.

Reviving growth itself is a task that needs policy action on various fronts. The first step woufld be to ensure that approvals for projects do not get delayed, either by the central government or by states. Projects awarded to the private sector should be given out only after securing key sovereign clearances. Special attention should be given to some high-impact projects such as dedicated freight corridors, industrial corridors and high speed rail.



Come up with out-of-the-box solutions

PSUs should be given autonomy to invest in new capacity by using their surplus reserves. Policy constraints in critical sectors such as coal and iron ore need to be addressed. In addition, the budget itself could give incentives such as allowing 25% accelerated depreciation for investments in plant and machinery.

Given the promise of job creation on which this government has come to power, it will need to think of out-of-the-box solutions to the problem of employment generation. Our record in this area has been poor, particularly in the last few years. Data from NSS surveys shows that the overwhelming majority of jobs created in the last few years were in the construction sector while manufacturing has been a laggard. In order to promote mass manufacturing enterprises that offer jobs to low-skilled workers, policymakers should think of some special incentives.

In this context, our labour laws need to be rationalised. Currently, a complex set of overlapping laws leads to a situation where companies prefer higher levels of automation, which is a lot easier compared to creation of jobs, which requires maintenance of books and submission of records to different authorities.

There is no room for flexibility, making it difficult to operate in today's globalised market environment. It is for this reason that labour-intensive sectors such as textiles and leather have not performed well despite a host of government incentives.

The government could use the budget to outline its plan to develop industrial zones or clusters where a facilitative investment climate is ensured. Companies need not face problems with regard to acquiring land or setting up supporting infrastructure such as connecting roads or access to power. Most regulatory requirements should be fulfilled on a self-certification basis while clearances and approvals should be time-bound. Industry can help by appropriately skilling workers and providing low-cost housing. Only then is it possible to make a strong pitch to invite domestic and foreign investors to invest in India's manufacturing sector.

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