

# Moving on reforms

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**O**n the occasion of the first anniversary of the present NDA government, the last fortnight has seen a tremendous blitzkrieg making claims and counter-claims about achievements or otherwise of the government during its first year in office. The most sensible statement perhaps was made by the prime minister himself, that reforms do not mean passing laws. Indeed, they do not, but reforms also do not mean overwhelming publicity, self-congratulatory rhetoric and acrimony between the ruling and opposition parties. What was needed in the first year was a clear vision of development, setting of targets, prioritising them and drawing up a clear roadmap to achieve them in the next four years.

The new government undoubtedly inherited a bad economy. The problem was reflected in the decelerating growth scenario, declining savings and investment rates, poor business climate, raging inflation, worrisome external balance situation, stagnant employment, indecisive governance, a series of scams in the allocation of natural resources and expanding populism in the name of inclusion. However, once elected to power, the ruling party should have abandoned the election rhetoric and got down to the business of governance and policy calibration by putting out a vision and setting targets for reviving growth. The historic mandate, that gave it a clear majority after three decades of fractional mandate, was opportune to focus on development with a spirit of accommodation. This was particularly needed when the ruling coalition does not have a majority in the Rajya Sabha. What is required is a forward-looking agenda. Continuing the tirade against the UPA is like flogging a dead horse and this has continued even in the self-congratulatory rhetoric on completing the first year.

This is not to mean that the government's achievements during the past one year in office are not noteworthy. The problem is that the comparison is always not with the past, but with the expecta-

tions that were built during the most acrimonious election propaganda we have witnessed in recent times. Indeed, the initiatives on financial inclusion, insurance for unorganised workers, transparent system of coal-block auctioning, control over prices, opening up FDI in insurance and defence sectors, attempt to enact a bankruptcy law, attempt to amend the labour laws and apprenticeship Act are all noteworthy. The government deserves credit for limiting the increase in procurement prices of foodgrains. Also, the deployment of surplus stock of foodgrains when the economy had unseasonal rains helped to contain food prices. However, it must also be noted that the government was distinctly lucky; the fall in global commodity prices helped it in many ways. Benign prices of crude oil helped it contain fiscal and current account deficits besides reining in prices. It also made it possible for a painless transition to decontrolling diesel prices. However, all these are piecemeal reforms, and the big picture and the strategy are yet to emerge. Instead, the entire scenario is mired in controversies on legislations for land acquisition and labour laws and constitutional amendments for facilitating the GST. Programmes like Swachh Bharat, Namami Gange and Make-in-India are important for raising awareness of the people and for their symbolic value. Swachh Bharat is essentially a municipal function and the Central government can only help them to undertake the task. Namami Gange requires continuous flow of water besides regulation to prevent release of untreated waste into the Ganga. Make-in-India should not be self-reliance for its own sake; it should ensure



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competitiveness through business-friendly governance, state of the art infrastructure and availability of credit at reasonable rates.

The immediate priority for the government is to undertake measures to revive the economy. At the macro level, the savings and investment ratios have declined from the high levels of 36% and 38% of GDP in FY08 to just a little over 30%. The household sector's financial saving has declined from the high of over 13% to 7%, which is just a little more than the combined fiscal deficits of the Union and states—which means that funds available for the private sector at reasonable interest rate is scarce. The productivity of investment is low as investments in stalled projects amounts to more than 8% of GDP and an overwhelming

proportion of this is in the infrastructure sectors. These have to be disentangled one by one to bring the projects on stream. These have had severe adverse impacts on the balance sheets of the public sector banks, with sharply rising non-performing assets, and the recapitalisation requirements of banks is estimated at 5% of GDP. The agriculture sector has been languishing for want of reforms and investment. Continuation of administered prices on a number of commodities results in large subsidies and distortions in resource allocation. While much rubble has been raised on the need to empower the future generation to reap demographic dividends, very little has been done and there is a need to have a clear strategy framework for achieving this. Clarity and stability in policies is essential. The flip-flop we have seen in tax ad-

ministration does little to infuse confidence in the investors. The government will have to prioritise reforms in these areas and work out appropriate strategies to implement them.

It is important for the ruling party to move ahead on the reform front rather than continue with spiking the Opposition. In a democracy, the job of the Opposition is to raise issues and they will, even if it is branded as "obstructionist". After all, the BJP, when it was in the Opposition, did severely oppose the nuclear deal and opening up the economy for foreign direct investment in multi-brand retail and the BJP-ruled states did not exactly cooperate in evolving a reasonably sound GST regime. These are now thought to be the key drivers of the economy. It is naive to think that the Opposition will embrace every measure the present government proposes even if there are significant merits in them. Again, if the government is not able to manage the floor and get a bill passed, they should wait for the right opportunity. While some changes in the law may be important, it may be necessary to work around them in the short-term. There is no need to get bogged down with enactments.

What is required is a coherent policy framework to achieve the desired objectives. Looking back will help us to learn the lessons of the past and move ahead and therefore, hopefully, the coming year will see a clearer policy articulation, their prioritisation and strategy to achieve them. In this task, the prime minister will have an important role in preventing many distracting voices and focussing on the developmental agenda. These have to be done for the people of India. After all, we are concerned about the people of India and not the political parties or their dispensations.

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