# A common economic programme for India

A development transformation involves progress on many fronts, but there can be no transformation without high, stable, and inclusive economic growth. The economic programme of any party or coalition that is serious about transforming India must be underpinned by four economic objectives. In this sense, here I offer a common economic programme.

**Structural shift in GDP composition.**

As I have argued in previous columns, India is headed towards a middle income trap. So far, growth has been spurred by catering to the demands of the top hundred million, which is why Bombay's indicators of economic performance are about sales of cars, two-wheelers, air conditioners, and upmarket housing. The goods that are consumed by all 1.2 billion Indians — nutritious food, affordable clothing, affordable housing and affordable health and education — do not figure. If the share of these goods in the composition of GDP growth does not increase, we will be in a middle income trap. These areas of economic activity, that touch the lives of every Indian, should be the leading indicators of economic progress on which the government should focus.

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It is neither possible nor sustainable to increase such consumption for a billion people through subsidies and income support. At least half the population should earn incomes that enable them to buy these goods at affordable prices, so that a maximum 500 million can be subsidised to improve their welfare. This is the key that will open the door to jobs, inclusion, and sustained, stable growth

**Structural shift in growth location.**

Apart from the NCR region and a few other pockets, quality economic growth has occurred in the south and west of India. The major benefit to north and east India has been remittance incomes from migration to the south and west. While some migration has taken advantage of economic opportunities (IT, automobile manufacturing, diamond cutting etc.) the vast bulk of such migrants are in low paid, insecure, jobs. They are the construction workers, domestic servants, and security guards of the rich.

It is vital that activities that provide quality jobs in north and east India be fostered. Given technology and legacy disadvantages, this requires economic policy to deliver such jobs using existing, or slowly improving, capabilities. This further underlines the importance of giving priority to the five sectors I mentioned above.

**Credible macroeconomic policy**

The credibility of macroeconomic policy in India has no doubt improved over the past 30 years but its hallmarks continue to be short-termism and defensiveness. A medium-term macroeconomic framework is, I think, the most important enabling factor that we lack, possibly because the discipline it imposes will reduce discretion and undermine the culture of ad-hoc short termism that those in senior positions are used to, and are comfortable with.

Successive governments promised to deliver fiscal discipline. They have shown capacity to do so but, equally, a casual attitude when there are slippages and a disconcerting willingness to play silly accounting games. Tax policy needs to be based on forecasts for which policy-makers are accountable, rather than on estimates and targets and tinkering with tax rates, to macroeconomic detriment. Disinvestment cannot continue in an ad-hoc fashion just to meet fiscal gaps. Budgetary and financial sector policies cannot be such that the authorities manipulate the public sector for short-term gain. With monetary policy, there is an opportunity to improve the quality of the monetary policy framework by making the underlying theory and analytics explicit, specifying the stance on inflation and the trade-offs involved.

**Better government, less discretion, more rules**

The productivity of public spending in India is low even as fiscal space is constrained. Arguments for more public spending carry limited weight because of the demonstrated inefficiency and low effectiveness of public spending. Attempts to use technology to bypass this have met with limited success, since the root cause has not been addressed.

The machinery of government is antiquated. In the feudal and colonial tradition, policy interventions continue to leave huge scope for bureaucratic discretion, which signals that considerations other than public interest drive such interventions. With a few exceptions, the civil service is not able to deliver timely policy and rapidly correct policy failures. Media and event management can be used to cover this up and escape accountability, but this does not solve the productivity problem.

It is essential that government commits to implementing a rule-based system of economic administration. Governance credibility is low, but fear of individual retribution by a weak state that is, nevertheless, capable of inflicting individual malevolence mutes public criticism. There are also no socio-economic movements that force government to adopt rule-based economic governance. Hence, the impulse can only come from political statesmanship — the courage to give up short-term gains for the long-term reward of being judged by history as a government that transformed the Indian economy by transforming economic governance.

In my view, reform of government economic administration must take priority. As things stand, it is a prerequisite for the success of any other reform. A weak state cannot deliver anything other than grandiloquent statements of intention. This must change. Without a capable State, there can be no transformation.

A government that adopts an economic programme to transform India would take these objectives as priorities for the future, and not just compensate for failures of the past.

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