



INDIA HAS EMERGED FROM A CRISIS-LIKE SITUATION TO WITNESS HIGHER GROWTH, LOWER INFLATION AND A RELATIVELY STABLE CURRENCY

# A MUCH-NEEDED TURNAROUND



## RECOMMENDATIONS IN 2014

### CONTROL FISCAL DEFICIT

Enforce tax laws strictly and ensure that fiscal deficit in the budget remains below 4.5 per cent.

### CUT SUBSIDIES

Take the phasing-out of subsidies on petrol and diesel to its logical conclusion. Also cut subsidy on fertiliser.

### EXPENDITURE REFORMS

End the distinction between plan and non-plan expenditure with the bulk of the transfers to the states provided in the form of monitored grants.



## THE ROAD AHEAD

### JOB CREATION

The ultimate aim of 'Make in India' should be job creation and alleviation of poverty.

### ALL-ROUND DEVELOPMENT

The government must look to provide shelter, electricity, clean drinking water, toilets, health, education and skills for all Indians by 2022.

On the morning of August 17, most of India's economic policymakers gathered in the Prime Minister's house in Delhi. The mood was tense. India, said Manmohan Singh, the Prime Minister, faced 'very difficult circumstances'.

So began the story titled "India in Trouble: The Reckoning" in *The Economist* magazine of August 24, 2013. The story went on to offer a chilling account of India's troubles. News on the economy had been disappointing for two years, with growth falling to 4-5 per cent; consumer-price inflation had remained stubborn at 10 per cent; the current account deficit had soared to almost 7 per cent of GDP at the end of 2012 and was expected to be 4-5 per cent in 2013-14; and the rupee had dropped to an all-time low and 13 per cent below its level just three months earlier. "It is widely agreed the country is in its worst economic bind since 1991," concluded the story.

Less than two years later and just one year into the tenure of the present government, where do we stand?

During 2014-15, the economy has registered a growth rate of 7.4 per cent, inflation is down to 5 per cent, the current account deficit has fallen to within 1 per cent of the GDP and the rupee has remained

stable against the dollar. An economy "in trouble" is now counted among the world's strongest by such institutions as the World Bank and the International Monetary Fund.

How has this turnaround been achieved? Some have suggested that with international prices of oil and other commodities sharply declining, India simply got lucky. But this explanation runs into two difficulties. First, the world economy has remained sluggish and is hardly the growth engine it once was. The situation in the European Union, one of our largest markets, has turned dire in the wake of the crisis in Greece. Second, and more importantly, the price declines have been there for all countries to benefit. But which other country has emerged from a crisis-like situation to produce high growth, low inflation, robust current account and a stable domestic currency?

The more likely explanation for the turnaround is the restoration of confidence in the economy. In turn, the confidence has been won through a number of concrete actions.

Among the early actions of the government, three stand out. First, upon taking office, it quickly moved to end paralysis that had plagued the decision-making in the environment ministry.

Second, Prime Minister Narendra Modi got personally involved in establishing a rapport with the bureaucracy and motivating it into action. Finally, the Prime Minister also ensured that decisions taken by the Union government were not stalled for the lack of cooperation among various ministries. As K.V. Kamath, who has recently taken over as chief of the New Development Bank of BRICS countries, stated, today, few are

complaining of backlog in Delhi unlike under the previous government.

Fiscal discipline exhibited by Finance Minister Arun Jaitley has reinforced these early actions. With inflation tamed, growth rate of nominal GDP has slowed down even as real GDP growth has accelerated. This has meant slow growth in government revenues. At the same time, the need to expand public spending on infrastructure has been acute and the

Prime Minister has had a strong commitment to social spending. Add to this, the 10-percentage points additional devolution of the divisible pool to the states and the finance minister has had a very difficult balancing act to perform. To his credit, he has stayed the course on fiscal consolidation.

Whereas corruption scandals had been endemic under the previous government, there has not been a single such episode under

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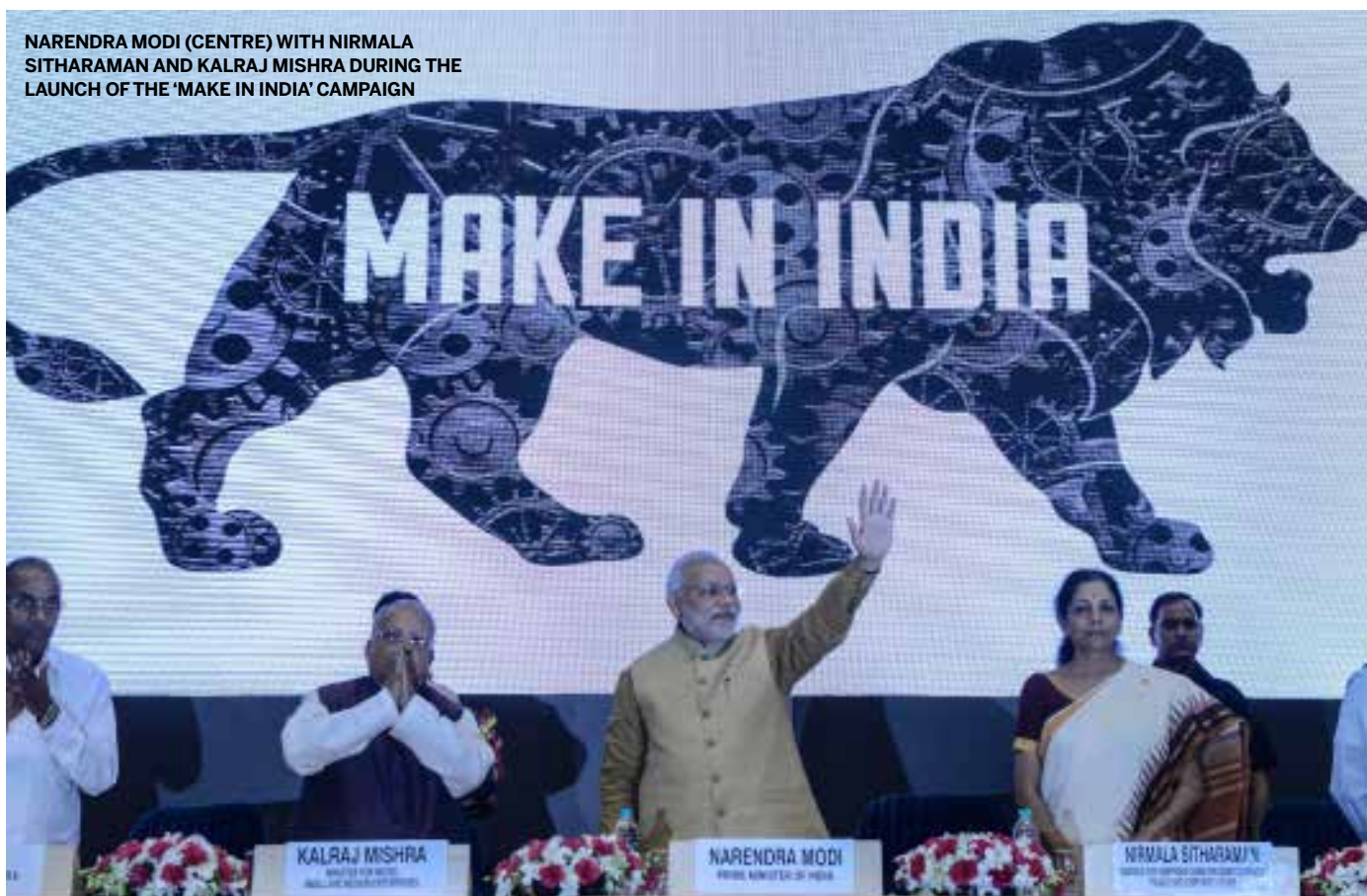
the present dispensation. Coal and spectrum auctions amounting to more than Rs 2 lakh crore have been conducted with no one alleging any under-the-counter dealings.

### BIG PUSH TO AGRICULTURE, MANUFACTURING

At the broader level, the government's strategy has been two-pronged. To stimulate growth, development, wages and jobs, it has given high priority to infusing new life into agriculture and manufacturing. And to bring direct relief to the poor and needy, it has maintained all social programmes and schemes while introducing some new ones. In the medium-to-longer term, the government has committed itself to providing shelter, electricity, clean drinking water, toilet, health, education and skills for all Indians by 2022. Let me elaborate on each aspect of the strategy.

In agriculture, the government has begun to reorient public investment in ways that would raise productivity while economising on our scarce water resources. Emphasis on micro irrigation, soil cards, better seeds and improved extension programmes are all steps in this direction. Action is also under way to bring the Green Revolution to the eastern states.

The 'Make in India'



NARENDRA MODI (CENTRE) WITH NIRMALA SITHARAMAN AND KALRAJ MISHRA DURING THE LAUNCH OF THE 'MAKE IN INDIA' CAMPAIGN



campaign has provided the umbrella for the policies and initiatives to accelerate manufacturing and job creation in India. Even a partial list of these policies and initiatives is impressive.

First, many economists have written for years that onerous labour laws pose insurmountable barriers to the creation of good jobs in the manufacturing sector. We have finally seen action in this difficult area of reform. Encouraged by the willingness of the government to allow states to change central laws falling under the concurrent list, we have seen the states of Rajasthan and Madhya Pradesh reform India's archaic labour laws. The Centre too has reformed some of these laws and is now considering modernising the entire labour law regime by consolidating 44 laws into five.

Second, to assist small and medium firms, the government has instituted the portal "Shram Suvidha" that allows them to comply with 16 central labour laws through self-certification using a single-window facility. Any inspections are done via a computer-generated random selection, thus curbing the past power of the inspector to arbitrarily harass enterprises.

Third, micro, small and medium enterprises regularly complain of shortages of skilled workers. Recognising this, the Prime Minister has taken up skill development on a war footing. An entire new ministry has been created to give focus to the efforts in this area.

ARUN JAITLEY



**THE** FINANCE MINISTER HAS HAD A DIFFICULT BALANCING ACT TO PERFORM. HE HAS STAYED THE COURSE ON FISCAL CONSOLIDATION.

Fourth, building infrastructure, housing and cities requires land. The 2013 land acquisition act went a long way towards addressing the plight of the farmers whose land used to be taken away for a pittance in the past. But it also threw serious hurdles in the way of acquisition. The present government has shown the resolve to rectify this situation. Through an ordinance, it has strengthened the compensation to farmers by bringing land acquisitions for such purposes as highway construction under the purview of the 2013 act while also rationalising the procedures for projects that are in public interest.

Fifth, the Department of Industrial Policy and Promotion has been diligently working at the Centre as well as with the states to rapidly improve the ease of doing business. States have enthusiastically joined in this effort.

Sixth, in the recent

budget, the finance minister has proposed major reforms to reduce uncertainty for and improve efficiency of investment. These include the goods and service tax, a modern bankruptcy law, reformed corporate profit tax and harmonisation of regulations across various infrastructure sectors.

Seventh, increased public investment in infrastructure, commitment to build 100 smart cities and industrial corridors and facilitation of private infrastructure investment would contribute to 'Make in India'. And the imaginative initiatives by our dynamic Minister of Railways, Suresh Prabhu, promise to open new avenues in manufacturing while modernising our railways.

Finally, thanks to the highly successful visits of the Prime Minister to numerous important countries around the globe, from having been written off, India has now returned to the world stage as the most promising emerging market. Wider opening to direct foreign investment in defence, railways and insurance has reinforced this image.

'Make in India' is not for the sake of just making products in India. It is ultimately for job creation and poverty alleviation. Additionally, faster growth accompanying it would speed up growth in government revenues allowing further rapid expansion of social programmes. In the medium-to-long run, these revenues would help the government deliver the basic minimum needs such

as shelter, electricity, clean drinking water, toilet, road connectivity, health, education and skills to all by the 75th anniversary of India's independence in 2022 as per the government's commitment.

## STRONG SOCIAL SECURITY NET

But even with the moderate growth in revenues in 2015-16, the government has moved to strengthen social safety nets along two dimensions. First, while retaining all existing social programmes, it has introduced important new ones. Swachh Bharat and insurance schemes for the poor are two examples of such programmes. Second, the government has committed to plugging the leakages in social schemes via Direct Benefit Transfer (DBT) using the Jan Dhan Yojana-Aadhaar-Mobile Numbers (JAM) instrumentality. Already, the DBT has been effectively used in the provision of cooking gas subsidy. In addition, the PM has led an effort for voluntary transfer of cooking gas subsidy from the well-off to the needy, who currently rely on wood or kerosene for fuel.

In sum, the list of substantive actions by the government in its first year is remarkable. It is difficult to think of another recent government that has done as much as the present one in its first year. Make no mistake: we are well within striking distance of eight to 10 per cent growth.

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