

Re-imagining an India that can be

We have done the easier bits of reform. It's time to face tougher challenges



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India is unique. Instead of buttressing our founding principles, we have over the years confused, manipulated and vitiated our ideas of who we are and what we wish to be—to the extent that there is complete confusion about our current status or operating principles. While we lay the blame for every social ill at the doorstep of the 'politician', we must remember that this chaos was brought on by our collective actions.

Politics has become appeasement of vote-banks. Politicians feel they are overworked and under-appreciated, civil servants feel they get a raw deal both in terms of the remuneration and the combination of political interference and overbearing scrutiny; the rich feel they bear an unfair monetary burden in the form of levies and taxes; the poor feel they are exploited; the minorities feel insecure, the majority feels marginalised; the honest feel let down and disappointed or plain silly that they stick to principles, and so on.

Each one of these segments of society retaliates by adopting behaviours to compensate them for what they perceive is their unfair treatment of society. This leads to corruption, inefficiency, regulatory overreach and a lack of accountability. The upshot—India, despite its many positives, is not acquiring its rightful place in the world and is a society riven by a deep sense of dissatisfaction and unhappiness.

The recent election seems to have produced a vote for 'change'—but we must recognise that the task is enormous and needs everyone's contribution and not just the government's. As 'Big Bull' Ra-

kesh Jhunjhunwala so succinctly put it, "we have the vegetables, the masala, ghee, gas and now the *ba-warchi*, the food will arrive." "Ache Din" will come, but will need all sections of society to do their bit.

To start with, our generation has to ensure that our children and grandchildren are not burdened by the gargantuan amount of debt that our current government piles up. How do we do this?

Tax and subsidies reform

On the expenditure side, subsidies are the biggest culprit and while they are intended for the poor, a large fraction ends up with the middle and affluent classes. Taking explicit and implicit subsidies put together, total subsidies paid by the central and state governments add up to about 14 per cent of GDP. Of this about 60 per cent for states and over 30 per cent for the centre are on non-merit subsidies that do not reach the poor. Add leakages to this and we have a situation where a minuscule fraction of the money ostensibly spent on the poor actually reaches them.

Thus, a complete overhaul of the subsidy apparatus is imperative. We now have the technology to implement more efficient and better targeted modes of disbursement such as cash transfers.

On the revenue side, the emphasis should be on widening the tax net and not squeezing the harassed tax payer for more. The data on income tax assesses underscores this point. In a country of 1.2 billion, we have 35 million income-tax payers. In a country where every big or medium sized city has its roads teeming with Mercedes, BMWs and Audi cars, we are made to believe that there are just 43,000 Indians with incomes above ₹1 crore. Thus most Indians do not pay their tax dues—we need proper enforcement and the 80:20 rule. The simple act of calibrating highly active bank accounts (through PAN Cards) with the IT Returns correspond-



The road ahead There's no easy ride to prosperity REUTERS

ing to the same PAN Cards is likely to produce dramatic discrepancies and show the IT authorities where the potential for gathering tax revenues lies.

A simple tax structure, with a minimum of exemptions and qualifying clauses, is known to boost tax collection efficiency. Thus we need to introduce both GST and the Direct Taxes Code quickly. Filling the gaping fiscal deficit left by the UPA will require some one-off measures—major divestment and settlement of cases related to pending tax payments. The sale of government-owned real estate (the Kelkar Committee has recommended this) could also fetch the government a tidy sum of money.

Structural moves

We have, over time, plucked the low hanging fruits of reform. The time has now come to face the tougher challenge of pushing administrative reforms to ensure efficiency, convenience, cost and easy way of doing business.

The draconian Factories Act, a source of easy rent-seeking by in-

spectors, has to go. By holding on to the age-old Industrial Disputes Act of 1947, we end up mollycoddling the small pool of organised sector labourers and penalising the organised or contract labourers. The Act effectively discourages hiring through upswings in business cycles and keeps unorganised workers in a perpetual state of 'casualisation'.

Agricultural reforms will go a long way in bringing down food prices and removing many of the hurdles that lie on the path from the farm-gate to the food-plate. These reforms need to be comprehensive and cover every dimension of the food economy and policy. Thus policies related to the APMC, Minimum Support Prices, land-use, agricultural co-operatives, supply-chain and measures to curb hoarding.

The overall capital output ratio that has historically been in the neighbourhood of 4 has now climbed up to 6.5-plus, meaning that we need much more capital to produce the same output. This has to be brought down and can be achieved through de-bottle-

necking of critical sectors, particularly in infrastructure and new investments.

Policy balance

These steps are bound to impact positively on inflation. However, investments are sensitive to interest rates and instead of responding to every sign of a build-up in inflationary pressure through higher interest rates, we need figure out when a monetary response to a price rise actually becomes counter-productive.

In banking, there are many changes needed, but what should come on the top of the list are a viable (from a bank's perspective) agenda for inclusive banking, the development and restructuring of both the government and the corporate debt market and the commodity markets. Asset recovery has to be made easier for banks and financial institutions through insolvency laws on the lines of the US's Chapter 11 law.

The world balances the need for development with environmental protection—so can we, being a low income economy, tilt disproportionately on the side of environmental protection? Activists have a role, but their sole agenda cannot be to obstruct any policy that favours growth. Instead, their energies are better spent on ensuring that those who are unfairly treated or displaced as a result of project expansion are made stakeholders in the process.

In theory PPP is a good idea but the preferences of the private sector will have to be heeded for it to succeed. Thus projects have to be 'sliced' and 'repackaged' to appeal to private investors. The Government will have to step in where private preferences are weak.

If we adopt the measures stated above then we will have the money to fix health, education, food and poverty while maintaining the financial viability of the nation.

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