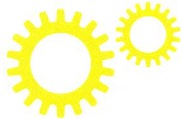


WHAT MR. JAITLEY SHOULD DO

Panellists at *Business Today's* pre-Budget discussion want the government to take steps to accelerate economic growth, boost investment and create jobs. 

There are high hopes from the first full Budget of the Narendra Modi government. Finance Minister Arun Jaitley has promised the second generation of reforms, rationalisation of subsidies and tight fiscal control. The Budget will also have to find ways to support Modi's Make in India programme and focus on job creation and growth. To discuss these issues, *BT* organised a panel discussion with Rajiv Kumar, Senior Fellow at the Centre for Policy Research; Surjit Bhalla, Managing Director of Oxus Research; Bakul Dholakia, Director General of International Management Institute, New Delhi; Professor M.V. Rajeev Gowda, Congress spokesperson and Rajya Sabha MP; Ajit Ranade, Chief Economist of the Aditya Birla group; Laveesh Bhandari, Director and Chief Economist at Indicus Analytics; and Ridham Desai, MD and Head of India Research, Morgan Stanley. *BT's* Prosenjit Datta and Shweta Punj moderated the discussion. Edited excerpts:

Ajit Ranade: The backdrop for this Budget is that, we've had this very good fortune of a steep drop in international oil prices and that gives us a triple bonus. Number one is the fiscal relief you get because of lower subsidies; the relief on the current account because of decrease in oil prices and number three is the impact on inflation. This translates into something like a de-facto stimulus to the economy without the side effects. The estimate is something like between half and one per cent of GDP.

I expect the Budget to take advantage of this huge stimulus impact coupled with a creative and aggressive disinvestment programme... we can't depend that much on export-led growth. Growth has to come from domestic factors and you can't depend on consumption growth as much as investment growth and investment has to come primarily from both public and private sector. Private sector investment is still not picking up steam. So, it's up to the government to take the lead in terms of investment.



OUR PANELLISTS

(From left) Ridham Desai, Managing Director and Head of India Research, Morgan Stanley; Laveesh Bhandari, Director and Chief Economist, Indicus Analytics; M.V. Rajeev Gowda, Congress spokesperson and Rajya Sabha MP; Bakul Dholakia, Director General, International Management Institute, New Delhi; Surjit Bhalla, MD, Oxus Research; Rajiv Kumar, Senior Fellow, Centre for Policy Research; and Ajit Ranade, Chief Economist, Aditya Birla Group

Ridham Desai: The subsidy burden this year will be around 1.9 per cent, slightly lower than what the finance minister had budgeted last year. Now, given where oil prices are today, that number falls to 1.6 per cent next year. On top of that the government has raised excise duty on oil products, which on an annualised basis will generate revenues of 50 basis points of GDP. So, when you add up the math, the government has about 90 basis points of GDP from oil. This is probably the greatest amount of flexibility any finance minister has had in the budgeting process in quite a while... he can do a lot with this money. He can use part of this to reduce the deficit for next year and the

remainder, I hope, he uses to boost investment spending.

Laveesh Bhandari: There has been this surfeit of these buzzwords, or programmes really, like Swachch Bharat, or Make in India and so on, or the smart city, where we don't know what these visions really mean. And as we all know, a vision without implementation is essentially hallucination. Now, the question is, how is this government going to try and implement this? What I definitely would not want to see is, that all these buzzwords remain buzzwords. I would like to see absolutely specific, definite implementation issues addressed for each of these.

The second point is related to Make in India. Is this going to be an incentive-laced Make in India campaign? Because what you really want is efficiency-based manufacturing or efficiency-seeking manufacturing or efficiency-seeking investment. You do not want incentive-seeking investment in the manufacturing sector. I think it's very, very important that the Make in India campaign not be accompanied by a tax holiday here, an incentive here, some subsidy there and so on. The third issue has to do with how this government is going to strengthen the institutions.

Rajiv Kumar: The benefit of the

ture of a different kind, human beings and their capabilities. This is something we really don't want to see going forward. We'd like to see the benefits of these triple benefits that Ranade talked about. All these should not just be focused on manufacturing alone, but also on those sectors that could possibly be very vital to development and growth across, especially rural India.

Jaitley is a very lucky man to

not agree that revival of private investment on a large scale cannot happen in 2015/16. All the factors are going right. The revival of the stock market has opened avenues in terms of private placement of equity... In addition, the interest rate cycle has reversed.

Surjit Bhalla: Oil prices only started declining just about a couple of months ago and, indeed, the best of

SURJIT BHALLA: "There are two things Make in India is not about. First, it's not exports. Second, it is not import substitution. It is about competitiveness"

have so many different things coming together so well. Not just oil prices, but the stock market is at a high. [RBI Governor] Raghuram Rajan has cut interest rates. Inflation is coming down. This is an opportunity for all kinds of strengthening of the systems... But let's not forget that one of the benefits that we are experiencing, lower inflation, is partly caused by lower spending, lower amounts of money in the hands of people in rural India and we need to do something to ensure that they are not left behind... Manufacturing growth will help to some extent but there are a lot of people who are not going to migrate. They are going to stay there.

Bakul Dholakia: All these favourable factors would pitch for some boldness in terms of decision making. But boldness alone does not serve the purpose. You require prioritisation of vision and a strategy to translate that vision. So you will have to have a focused strategy to revive manufacturing and the services sector. That is where the broader-level approach is not going to help. The devil is going to be in the detail... Each of these sectors also needs reforms. I do

the oil price decline is yet to come, certainly in terms of the fiscal deficit. Inflation is a more interesting story. In October, the BJP had its first chance at setting minimum support prices and they set it at an only 0.7 per cent increase. That has had a large role to play in bringing food inflation down... [Also], direct taxes reform needs to come on board and that's something I am hoping will come. And by direct taxes, I mean a reduction in corporate tax rates and a reduction in the peak personal income tax rate.

Rajiv Kumar: A massive simplification and rationalisation of tax administrative system.

Surjit Bhalla: Yeah.

Rajiv Kumar: That's the horror story.

Surjit Bhalla: Direct taxes, I am hoping, will happen. Disinvestment is certainly happening. I was not in the camp that said we should have privatisation. Disinvestment, which is our own unique Indian contribution to the English language, is happening. Then, labour reforms.

trade-off has to do with environmental concerns. One issue is, are we going to destroy the environment in exchange for getting more of these projects going? That's really a case by case issue you need to look at. It's a matter of great concern. The other concern has to do with who are the people going to be affected and what do you care for them and their rights and their views.

cause it is one thing to conceptualise a scheme driven by public expenditure and it is altogether a different thing in terms of matching expenditure with output. We have to identify the



RIDHAM DESAI: "When I talk to investors, they are all hungry to invest in India. But they are also frightened of setting up greenfield projects"

Shweta Punj: That's for a separate discussion.

M.V. Rajeev Gowda: No, no. That is very intimately tied with this whole issue of clearance. Make in India is a perfectly fine slogan. If you look at the website, you will see that the policy has been there from 2011 or something like that. The point is, this is going to take some time to roll out. I think the momentum is in that direction. However, don't expect overnight results.

Prosenjit Datta: I was speaking to somebody in Mumbai, an industrial-

critical skills required for the kind of sectors which have potential, to generate employment, to augment income and also to help in terms of our export initiatives and so on.

Prosenjit Datta: We have seen the government's intentions in terms of infrastructure, manufacturing and all that. Has it been largely silent in terms of skilling or in education in these seven months?

Rajiv Kumar: Not really. The HRD ministry is strengthening the National Skill Development Council to make it National Skill Development Authority and has focused on it. What's been missing is the attention by the ministry of human resources development on this whole issue.

Bakul Dholakia: There is a huge focus on vocational education.

Surjit Bhalla: I just wanted to add to that in my opening statement I had said that agriculture was one sector that had been completely untouched by reform. I should have added education. India's been very unlucky to have the last four HRD ministers, who have been relatively clueless about reforms and about

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ist, who pointed out that Indian labour, at least in several states, is far more expensive and far less productive than let's say, Chinese labour.

Bakul Dholakia: Yeah, and I would say that NREGA have a contribution to make in doing so. It is be-

is still very low and our debt servicing record has been very good.

M.V. Rajeev Gowda: Disinvestment proceeds should be turned into government investment in infrastructure.

Surjit Bhalla: I don't believe there should be anything called cess. Whatever you have to tax, you should tax. I also don't think there should be any earmarking of I am selling this, and, therefore, this must go into infrastructure. That's what governments are there for. This is how much we are going to spend

do you see the hurdles?

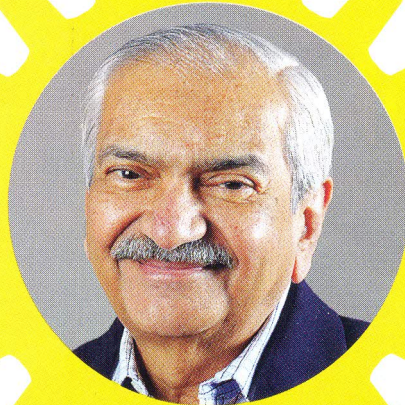
Rajiv Kumar: Rajeev Gowda's party will help the government.

M.V. Rajeev Gowda: I don't know what that statement intended to say, but I have been part of passing the Apprentice's Act, which made it easier for companies to hire people. There are various other reform measures we have introduced and we

pro-employment Budget. It must be pro-employment Budget because I think the government's future is at stake on this. The country's future is at stake on this.

M.V. Rajeev Gowda: The last Budget was a major disappointment. It was name changing, rather than a game-changing Budget... I have no problem with investment, industry, capital and corporate India doing

BAKUL DHOLAKIA: "A signal about fiscal consolidation and fiscal prudence has to be given, so the fiscal deficit target for the next year has to be lower than 4.1%"



on infrastructure.

Bakul Dholakia: I believe a signal about fiscal consolidation and fiscal prudence has to be given, so the fiscal deficit target for the next year has to be lower than 4.1 per cent. But 3.8 per cent versus 3.6 per cent is not going to do that much damage because if you continue lowering the fiscal deficit ratio, inflationary expectations will remain moderate. And, therefore, to return to the regime of higher inflation in the years to come, the fear would subside.

Prosenjit Datta: We know there are certain things the government can do. Administrative reforms on its own it can do, direct tax reforms. What about the things where it needs parliamentary support? It can't go the ordinance route all the time. Where

have helped in. I think the government needs to reach out. Half the challenge is in the government's hands. The other half is in the hands of the Opposition, which is still in majority in the Rajya Sabha. Parliamentary management, creating consensus, avoiding or taking responsibility to prevent divisive issues overtaking development, we need to see the government doing their part.

Rajiv Kumar: Given the critical nature of reforms needed today, I think the government should not be shy at all of calling any number of joint sessions of the two Houses and getting the reforms passed. Precedents have to be created in a young democracy and if the need of the hour is to pass these reforms, bunch them up, call a joint discussion, get them passed and tell the Opposition you mean business.

Ridham Desai: If we lift growth, I think a lot of problems the economy faces today will start receding. The private sector will come in, poverty levels will start reducing. In my view, pro-growth is how it should look and how it should be positioned.

Rajiv Kumar: Pro-investment and

well. I just want to make sure that we look over our shoulders and make sure that rural India, the poor, social sector spending, the environment, the tribal, none of these get sacrificed in this quest for growth.

Surjit Bhalla: The poor will be helped more by growth, the tribals will be helped more by growth and by better targeting their welfare will improve.

Bakul Dholakia: It should not be a populist Budget. This is something that the time has come to at least give a vacation to populism.

Prosenjit Datta: We have come to a certain degree of agreement that almost everybody is expecting a pro-growth Budget, certain degree of administrative reform, pro-investor, may be tax reforms, perhaps not so much of agricultural reforms, some degree of fertiliser rationalisation. Let's see if the finance minister meets these expectations or he just tinkles around the margins. So far he seems to have shown the intentions. Whether that will come into the Budget, we will know soon enough. ♦

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