

Seven steps towards growth and price stability

The Modi government would do well to consider these easily doable initiatives to improve our economic prospects

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Prime minister Narendra Modi has unleashed unbounded expectations among people, particularly among the youth, in the course of his election campaign. It is therefore imperative that he delivers at least on growth and price stability within a reasonable time-frame. Growth recovery and reining in prices call for policy actions on many fronts. But the new government can reach for some low-hanging fruits to establish its credibility.

1 Price stability or containing persistent price rise is good both for growth and well-being. The current inflation is largely triggered by supply-side factors relating to vegetables, fruit, milk and milk products and protein products such as meat, eggs and poultry. It is therefore imperative to address the various supply constraints. Prices of vegetables have spiked even as some studies have pointed out that 40-46 percent of vegetables and fruits are wasted even before they reach the market.

A panel headed by Modi himself had prepared 20 specific recommendations and 64 actionable points back in 2011 as supply-side solutions for food inflation. These recommendations include reforming the APMC Act, liberalising agri-markets, developing agri-marketing infrastructure such as storage capacities in food-deficit regions, cold chain logistics, agro-processing and increasing competition by promoting retailing by the organised sector and cooperatives, unbundling of FCI operations of procurement, storage and distribution and a ban on future trading of essential commodities. In this regard, FDI in retail with a precondition to invest in backend infrastructure would also be a step forward. These are measures that are readily available before the new government. These should be implemented in a time-bound framework. At another level, the RBI would also do its bit to contain inflation.

2 Fiscal balance continues to remain fragile. The new government should attempt to ensure fiscal stability by containing the fiscal deficit ultimately at 3 percent. A beginning can be made by eliminating wasteful expenditure and restructuring government expenditure and containing

subsidies on food, fuel and fertiliser on the one hand, and tax reforms on the other. Restructuring and privatising the loss-making PSUs would also be a way forward.

3 Considerable thought and effort have already gone into preparing the **direct tax code**. It should be enacted as a law forthwith even after incorporating any changes if needed. It should be recognised that the goods and services tax (GST) is a game-changer in terms of its possible impact on growth, export and revenue mobilisation. Over the years, the empowered committee has made considerable progress. The new government should walk the last mile by removing the remaining impediments to the introduction of GST.

4 The importance of the **manufacturing sector** for income and employment generation is widely recognised. Yet, this sector is stagnant or growing very slow. Three initiatives would spur the growth of the sector.

One, it appears that even after two and a half decades of liberalisation, a new firm requires 40 or so clearances. By minimising such barriers, the entry of new firms could be eased.

Two, there is a cobweb of rules and regulations, the compliance of which is both time- and cost-enhancing. Merely simplifying regulations and putting in place a simple and transparent law could bring down the transaction cost and give a boost to entrepreneurs.

Three, an appropriate mechanism should be put in place to ensure clearances such as environment, land, tribal areas and forest. It should be emphasised that all these factors contribute not only to affecting the business environment but also raising the transaction cost and making Indian producers uncompetitive.

5 24x7 power supply in rural areas can recharge the rural economy. There has been remarkable progress in rural roads under the Pradhan Mantri Gram Sadak Yojana. There has also been progress in rural electrification, but that is merely in name. Power failure, not availability, is the norm in rural areas. A step to provide coal to the huge idle capacity of thermal power projects, commissioned during the 11th plan period, would significantly ease the shortage in power supply.

6 The UPA government in its last two years cleared **investment projects** worth ₹6 lakh crore, but these are facing hurdles of one kind or the other. The new government could redress these impediments by identifying the specific problems and addressing them appropriately.

7 More than two-third, or 68 percent, of India's population is below the age of 35. Immediate and effective **initiatives in skill generation** would enable the country to reap the benefits of the much-talked about demographic dividend. Such an opportunity comes only once in a nation's life.

Clearly, all this will not yield instantaneous results but is worth initiating for growth and price stability. ■

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