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Speech by Shri Rajeev Chandrasekhar, MP
During the Debate in Parliament
on Union Budget 2013-14

21st March, 2013

Boosting Investments

That our economy is facing challenging times is the politically non-alarmist way of describing our current situation.

Judged on virtually every macroeconomic parameter, the parallels between today and the crisis period of 1990-91 are striking. At 4.8% of GDP, in fact, the current account deficit is at a historical high, much higher than the 3% it recorded during the 1990-91 crisis. Likewise, as former CEA Virmani points out, the growth rate of GDP at constant market prices is at 3.3%, only slightly better than it was at the height of the earlier crisis. And another red light that's flashing is high inflation rate – particularly the 9% average rise in GDP deflator for private consumption.

To quote a recent article - *"India has become a low growth-high inflation economy (officials remain in denial), and the macro healing will be protracted and uneven."*

Dharmakriti Joshi, Chief Economist, CRISIL Ltd, said, in a recent article in Business Standard dated 04 July, 2012 – *"Growth slipping to 5.3% in a developing economy is as worrisome as stagnation or near-zero per cent growth in advanced countries. India needs to grow faster on a sustained basis."* Further, that *"If the current low growth-high inflation environment continues, incomes will not rise fast enough, while inflation will continue to erode the purchasing power of consumers, particularly those whose wages are not indexed to inlation."*

Sir, so let us not underestimate the challenges facing us and effort required to get our economy growing again.

Before I say anything further, I want to bring to your attention the need to harmonize the way various people in Government are talking about our economy.

C. Rangarajan, Chairman, Prime Minister's Economic Advisory Council (PMEAC), stated in an event in Chennai, on 01 February, 2013 – *"Actions of Government have started showing change in bid sentiment. 2013-14 is expected to be better than 2012-13 and we need to get back to 8-9% growth rate."*

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Later in February 2013, he then wrote – "*It is pertinent to note that stagflationary tendencies have already reared their head in emerging markets, like India, where financial intermediation was never a problem.*"

Similar bullishness from the Deputy Chairman of Planning commission who has - in my research team's count - on over 11 occasions since 2010, predicted that Food Inflation will 'soon' be brought under control and almost everyday trots out rosy predictions of the Economy. In February last year, he predicted blithely that in 2013-2014, the economy would grow at 7% and we would 'soon' be back to 9%.

We also have a recent admission by the Hon'ble Prime Minister on 13 March, that he expected the economy to get back to a *"robust growth path"* only in two or three years, and on 14th March, by the Chief Economic Advisor, Raghuram Rajan that "*Indian Economy is not facing stagflation, and that growth is picking up.*"

Sir, before I focus on the real challenges and solutions to get us out of the current near stagflation – let me make an earnest and sincere request. There are too many people talking all over the place about our economy. I wouldn't mind this if they were not all contradicting each other and confusing participants in our economy. This is increasingly helping the perception that there is a lot of shooting in the dark going on in terms of our economic strategy, rather than a smart, coherent, well-thought-through medium term plan.

I am no economist, but as someone who has been an entrepreneur and understands the difficulties of persuading long term investors to put capital into India, I can tell you this – this kind of confused messaging will not help your cause in boosting investor confidence and substantially increasing capital flows.

Sir, I have had the privilege of speaking on every budget discussion since I was first elected to this august House in 2006, and if you go through my speeches, I have consistently tried to draw your attention to the dangers of hubris and the consequent lack of focus on the real Governance issues.

But being an Independent MP, whilst it has some advantages, has the disadvantage of being easily ignored. But for what it's worth, I have been right on almost all my economic predictions.

I said way back in 2008 in this House, that our Inflation trends are all to do with capacity constraints and that the Government must focus on boosting investments, and not just consumption. This year's Economic Survey confirms that the economic stimulus package of 2008 - whilst necessary - was flawed in its design and short term in its focus – maybe because of the elections around the corner in 2009.

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In his column in Business Standard dated 04 July, 2012, Dharmakriti Joshi of CRISIL had also said *"Growth has been suffering owing to sagging investment sentiment, tardy decision-making and global headwinds."*

I have repeatedly said that unless you address the core structural concerns about Investors, i.e., Governance and regulatory reforms – our economy will not see the large FDI capital flows that we need, and will continue to be plagued by and dependent on FII flows to fund our Current Account. Ignoring this real reforms and focusing instead on reforms as defined by FDI limits and road shows and rhetoric, has caused the chickens to come to roost. As Dr. Rangarajan wrote recently, *"The first lesson to be derived from the policy response to the current crisis in advanced economies is that while monetary policy is a powerful macroeconomic tool for stabilizing business cycles, it cannot revive growth by sweeping structural problems under the carpet".*

The Deputy Chairman of the Planning Commission said in January 2012 - *"I think there is a very good chance that in next 20 years you will see the Indian Economy grow somewhere between 8-9 per cent per year",* and in March 2013 this year, predicted that growth will be 7-8% in next four to five years.

First, let's accept that misguided, blithe, over the top and baseless optimism in Government don't make for a good formula for economic recovery of any sort as long as there is excessive pessimism in Industry and investors – least of all, a sustainable one over a medium term which is what we need if we are to effectively address our issues of poverty and deprivation.

Rangarajan says - *"India may need to cool consumption and clear supply side bottlenecks by switching public expenditure from subsidies to more of investment. This would help growth and lower inflation over the medium term."*

So sir, while this Government has one more year to go, let's focus on what is really needed to be done i.e. Boost investments and make our Economy more efficient.

Steps for Boosting Investments

These are not just red-tape issues, but rather a deep structural set of reforms required to address squarely the issue of Governance risks and public policy quality:

1. Address the issue of increasing concentration of risk in the banking sector – where 10-11 corporate sector borrowings account for almost 95% of the net worth of the Indian Banking sector. This is unprecedented and far worse than any comparable emerging economy.

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2. Cease the practice of using taxpayer money to recapitalize PSU banks repeatedly. It is resulting in inefficient and unaccountable banks and creating a culture of complacency and dependence on taxpayer funds. Strict norms for proportionate asset creations and increases in return of equity should be used as hurdles for additional capital from Government – at a time of scarce capital.

3. The country has crores of rupees locked up in incomplete projects – that are effectively an unproductive waste of capital. These incomplete projects have gone from Rs.10,000 Crores in 1999 to Rs. 7,95,000 Crores currently. This is an unacceptable and terrible waste of capital – locked up as it is without creating any economic activity. The Government must put together an interministerial group or a committee focused on working the details of each of these projects, and unlock the many crores of rupees invested and bring them into economic activity. This will have a seriously positive impact on many many projects that are waiting to contribute to the economy.

4. There is a need to relook at our disinvestment policy – whether this trickle, handful of shares being sold in adverse market conditions is resulting in true returns to the shareholders, i.e., citizens of the country. If we are serious about disinvestment, then we must examine the options that maximixe returns to the nation, and not just look at the least politically controversial options. A 'reluctance' to have a real revenue realization plan for public assets is not in the best interest of the nation.

5. Strengthening our institutions of governance:

   a) Improving the delivery efficiency of the Executive
   b) Capacity building in regulatory bodies

6. The problems of Governance arise from the issue of "unfettered administrative discretion" – in dealing with Public Assets and doling our government contracts and spending with very little oversight and failure / compromise of institutions like independent regulators – leading to repeated instances of public policy and regulatory capture by vested interests.

7. The government should usher in a Value-for-money culture – to reinforce that Government is only a trustee of public money and assets. The spending of this money and handling of public assets must always pass the test of national interest.

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8. Four point strategy for introducing a culture of fiscal responsibility and value for public money within the government:

   a) Statutory disclosures by all government departments on commercial decisions.
   b) More effective oversight by the Finance Ministry on all decisions related to spending, contracts and public assets.
   c) Increased use of technology for ensuring better disclosure and expenditure management. Specially, the TAGUP's recommendations of an Expenditure Information System should be implemented.
   d) A relook at the Independent Regulatory institutions.

9. Focus on reforms of the Independent regulatory framework to ensure long term public policy stability and consistency. A comprehensive review and amendments of laws and creating more independence and development of a new cadre of regulators – that are distinguished by their independence, integrity and competence. Strengthen CCI to ensure that monopolies or cartels are not created in Indian economy either foreign or domestic. Implement the ARC recommendations in this regard.

10. Need for a comprehensive and transparent policy for monetization of public assets like spectrum, mines, oil blocks etc. – to ensure benefit to the exchequer and the citizens, and avoid lopsided PPP deals in the favour of the private investor.

11. The primary area of consensus that needs to be created is around the declining state and state institutional capacity. While the last several years have been years of economic reforms, the next decade must urgently focus on undertaking governance and state institutional reforms.

After straying away from FRBM, which will go down in history as a big mistake, claims of fiscal prudence will always been seen with a 'wait and watch' attitude - because the government's track record in financial terms has been absent of credibility - be it inflation management or spending or growth. But this kind of profligate spending is no longer an academic issue, it is dangerously putting at risk the future direction and options for the country. If there is any doubt of the consequences of profligate spending by Governments, examples of southern Europe countries that, for many years, fostered a social spending/welfare state funding by borrowings and fiscal recklessness, should serve as cautionary lessons to us. And as Dr Rangarajan has himself written "*But quite apart from following a contra-cyclical fiscal policy, another object lesson from advanced countries is that generis social compacts are difficult to renegotiate. It is, therefore, imprudent to put in place generous compacts that are affordable when societies are young and trend growth is high, but become unaffordable as society ages and growth moderates.*"

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Sir, the Finance Minister, in a recent Consultative Committee meeting, referred to my views as cynicism. But sir, you need a few like me to counter this self serving, and sometimes delusional rheoteric of a preordained destiny of an economic superpower headlines. In my last budget speech, I had quoted Andy Grove of Intel, where I worked several years – "*Only the paranoid survive*". So yes, we can meet our destiny of being an economic superpower, but only working hard and in a determined, disciplined, efficient way and implementing real structural changes in Governance and not through sloganeering and profligacy.

Jai Hind.