

Economic Agenda of the New Government



Results of the recently-held general elections are out. Shri Narendra Modi, our Prime Minister now, and his team have come out victorious. The people of India have submitted their hope and support, and now all they want the new Government to do is to take care of the plunging economy of the nation by bringing in some drastic changes and major reforms. Inflation at the moment is high, especially in the food and fuel sectors. Other sectors have also not performed well and in fact in some way added to the grim economic condition of the nation. Now, the new Government needs to perform and do so fast and quick. It already has realised its responsibility. It has, in fact, made this clear by publishing their agenda for the coming months. In this article, the author who is a political leader himself, tries to explore the agenda of the new Government and address the hopes and expectations of the people of India. Read on...



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The recent general elections have resulted in a major victory for the NDA led by Shri Narendra Modi. Clearly, this verdict was on account of the existing high inflation and low economic growth leading to large unemployment and hardships for all sections of society. It is obvious that the campaign focusing on development carried out by Shri Modi struck a chord with the voters. The impressive majority given to the NDA coalition—highest since 1984—has also given


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them the necessary leeway to put through policies and programs without having to compromise with pressure groups that may have their own agenda and sectarian interests in opposing them.

Large majority given to this new Government means that tremendous hope has been unleashed, and the level of expectation that things will change for the better is pervasive. In this context, it is important to discuss the economic agenda of the new Government. Obviously the Agenda has to have as its basis in the problems that presently are in the system and the agenda should provide strategies and solutions. The Agenda is most likely to have a short-term plan and a long-term strategy. It is often said a good manager chooses to attack the urgent problems first and the important ones next. So to start with let us examine what are the short-term priorities which the Government is likely to have.

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The first priority is to get the industrial production back on track and, through that route, get the GDP once again to the levels we are accustomed to since the reforms started in 1991. In the last two years the economy has collapsed and the index of industrial production (IIP) which used to be 8 % plus is now hovering around the zero mark, and the impact is visible for everybody to see—fallen tax collections of the Government, tax to GDP ratio perilously below the 10 % mark, and a consequent worsening of the Central finances. Collapse of growth means more people will not have job opportunities, that too

in a country where there is no social security; this will have major consequences. When the young are without work, social unrest follows.

To get the industrial production back on track the Government has to unblock the bottlenecks that are holding up projects half way and thereby defreeze many thousands of crores of production capital. This really low-hanging fruit needs to be plucked immediately. A study has shown that a major portion of these bottlenecks relate to issues like environmental clearance, nature resource allocation, land acquisition and finance. The new Government has already started giving deadlines for these clearances. Unfortunately, some of these matters fall partly under the purview of the State Governments, therefore it is going to be a Herculean task to get them on track. Prime Minister Shri Narendra Modi has his task cut out as he tries to get the State Governments, some of which are politically opposed to him, to work at his pace. He may have to follow a carrot and stick policy and also appeal to the shared broader objectives of improvement in economy. He has a job to get the system to deliver on time-bound basis.

The second short-term priority before the new Government is to rein in inflation which has been destroying the national economy for quite some time in the past. Because of the inflation, pensioners and other fixed-income citizens are having difficult times. Due to that, the RBI is keeping interest rates high, which has a disastrous impact. Due to high interest rates, people are not buying cars, homes, etc., and that has a cascading effect leading to less demand in the entire economy affecting many industries and creating unemployment. So, the Government will have to *tame the inflation* if it wants to bring the economy back on track. No country can prosper where the inflation is more than 5 % and, in our case, it has been running at 8 to 9 % for the last couple of years.

High inflation in India is on account of that in food products and fuel. Rest of the inflation, what economists call *core* inflation, is fairly benign at 2 to 3 % per annum. Inflation is mainly on account of two reasons. There are supply-related issues, one of which related to free market and seamless movement of food products, especially fruits and vegetables, is that in spite of being one of the world's largest producers of fruits and vegetables, inflation in these products is in excess of 12 % per annum for the last few years. To reduce this, the Government will have to dismantle

New Government

key provisions of the Agricultural Produce Markets Committee (APMC) Act, under which farmers are limited to selling their produce to registered *Mandis* that have now degenerated into monopolies. The complication is that APMC is under the purview of States and, therefore, the new Government may have to deal strictly with the States in this regard. This will be a key economic reform—*national market in food products*, which the new Government will have to do. The second solution is to build up cold storage capacities for the perishable vegetables and fruits where they are produced. It is strange that 40 % of the fruits and vegetables produced in our country are wasted. Through tax incentives and public-private partnerships, the Government will have to create this capacity very soon. If both these efforts are successful, there will be an enormous improvement in the supply chain that may resolve this perennial problem of the country. It will also help consumers in a big way.

The third immediate issue is to keep the business sentiment high. In the last few years due to various scams, private Indian business has just stopped investing. Of course, the Government does not have the resources to make huge investments and will have to ask private sector to invest in long-term productive assets. For this, enormous work is required to bring back and restore the lost confidence of private sector. Fortunately, we have got off to a good start with foreigners taking the lead. This has to be followed by actual steps so that the business confidence turns in investments. Then one can dream of freight corridors, all cities having metro services, inter linking of rivers, etc.

So far, after outlining the short-term measures that the new Government plans to undertake in the coming days, there are bigger issues in the social sector which cannot be ignored and require long-term solutions. Whether it is health, education or sanitation, India is quite behind the rest of the world. It is regrettable that the maximum poor people live

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in our country, literacy rate is among the worst, child mortality is terrible and one can go on and on. So, in order to have better life for its people, the Government will have to step up the investments in primary health and education sectors. More importantly, it needs to ensure that the money is spent correctly. In the heat of the coal scam and the 2G scam, people have not talked about the syphoning of money in Government schools and hospitals, etc. Government has to improve the delivery of these public services and involve private sector in a big way. The situation in the case of sanitation is no better. Lack of proper toilets apart from compromising on the dignity of the citizens is also a big health hazard. The government needs to invest heavily on sanitation.

The list is long and we have not even covered the complete landscape. Redevelopment of slums in our cities, congestion at our ports, low productivity in agriculture, high degrees of unemployment, etc., are some of the equally-important issues. Given the sincere and industrious nature of Shri Narendra Modi and tremendous trust and support his team has received, the whole nation now expect them to take fast and giant steps to resolve these issues at hand and wishes them the very best for their tenure. ■