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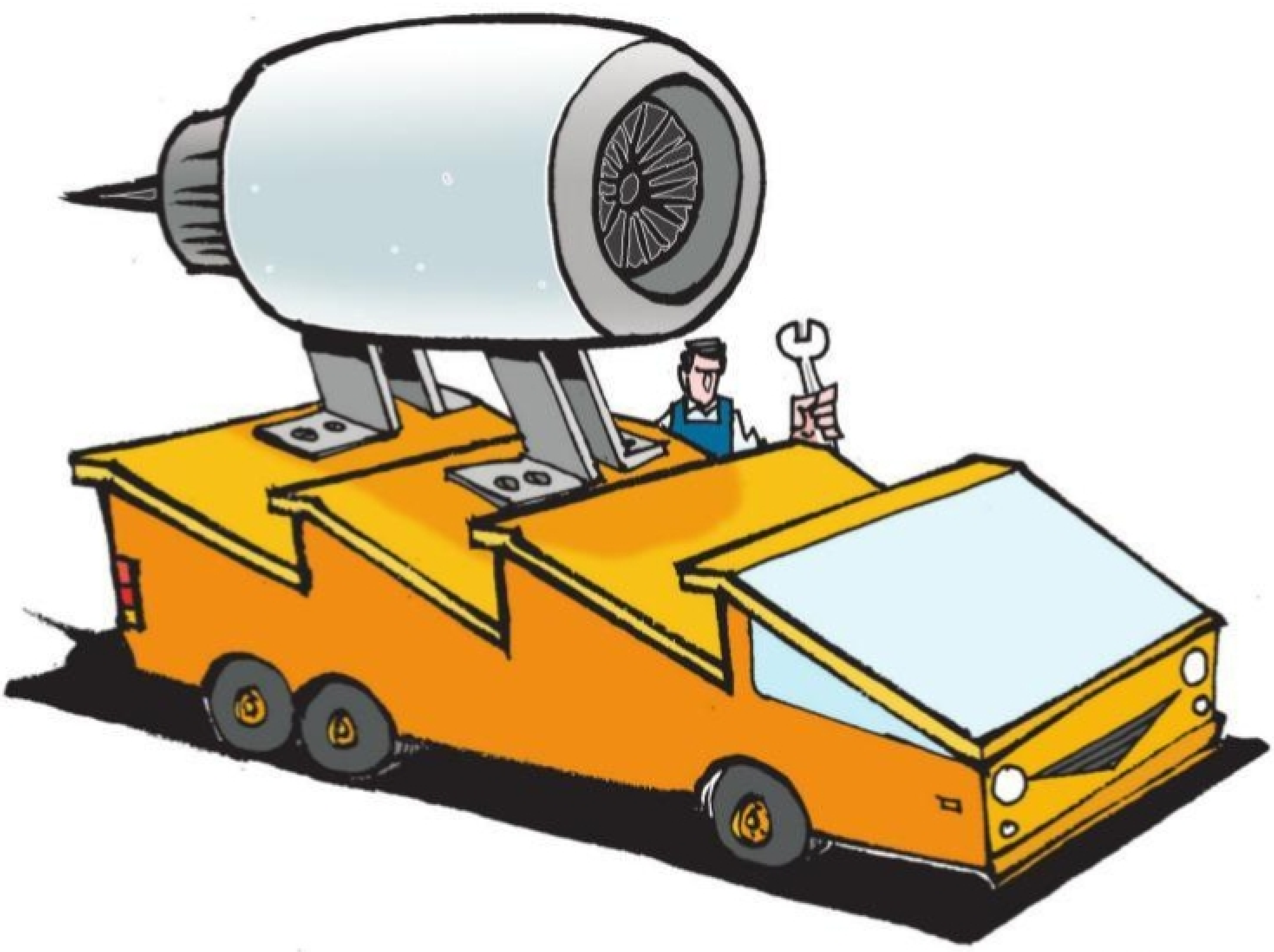

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BUDGET & BEYOND

Biting the hard reforms bullet

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IN ORDER TO truly transform India, there is no way out but sustained growth. We have seen this transformation in the case of South Korea, Taiwan and more recently, China. South Korea grew at an average rate of 9.6% in the three decades between 1960 and 1990. China, between 1980 and 2010, grew at a rate of 10%. Whilst India has witnessed a substantial transformation since the 1990s, our average growth rate for the past 30 years has been 6.5%. Our service sector took off, and so did capital-intensive manufacturing. Yet, it became increasingly clear that the Indian economy marched ahead at two distinct speeds. The formal and organised sector marched ahead. The informal and unorganised sector played catch up.

Growth can only be unleashed through biting the tough bullet of reforms. The FY22 Budget has reinforced growth as the driver of India's transformation. The expansion in capital expenditure reiterates the government's commitment to promoting investment-led growth. This commitment has been demonstrated by a 34.5% increase in capital expenditure, with provision for a further ₹2 lakh crore of capital expenditure for states and autonomous bodies to utilise. By announcing the privatisation of two banks and one insurance company, the government has sent a strong signal that it is willing to make tough decisions in the nation's larger interest. By announcing the Asset Monetisation Programme (AMP), innovative funding tools have been utilised to raise revenues, without having to tinker with the direct tax rates. The creation of the Asset Monetisation Pipeline and dashboard, a major impetus has now been given to raising non-tax revenues. The move to allow 74% FDI in insurance will further strengthen FDI inflows. It is also important to recognise that the Budget announcements are a continuation of a series of structural reforms that have been undertaken over the past few years.

At the same time, due focus has also been paid to human capital, through the launch of the *Pradhan Mantri Atmanirbhar Swasth Bharat Yojana*, with an outlay of ₹64,180 crore over six years to develop capacities in primary, secondary, and tertiary health systems. Investments have also been increased in waste management, reduction of air pollution, and provision of drinking water supply. The implementation of the Higher Education Commission and the National Research Foundation will ensure the strengthening of India's tertiary education and research ecosystem. Fifteen thousand schools will be strengthened to include all components of the National Education Policy.

Reforms can take two forms: they can be 'soft' reforms, which are easier to pass as they encounter mild opposition, at best. The other type are 'hard' reforms, which require a dismantling of old systems, and are often fiercely contested. However, it is these hard reforms that structurally alter an economy, and hence are often called structural reforms, given the long-lasting impact they have on the economy. More importantly, these structural reforms boost growth across the economy, making the size of the economic pie bigger.

A reluctance to undertake these 'hard' reforms resulted in this two-paced nature of growth witnessed in India. This reluctance meant that our labour laws remained archaic and encouraged informal employment rather than formal. Coal remained a national monopoly. Agriculture marketing did not figure on the reform agenda. Direct taxes remained uncompetitive in global markets. Indirect taxes were cascading and varied across states.

The effect was that despite a more open trade environment, Indian manufacturing failed to gain a foothold in domestic and international markets, evidenced by the share of manufacturing in GDP and employment remaining stagnant over the past three decades. This meant that India could not create large scale jobs in labour-intensive manufacturing, which would have pulled our per-capita incomes up even further. Whilst the *licence raj* was dismantled, government processes hardly promoted ease of doing business. A large part of the economy remained in the informal and unorganised sector, with lower productivity.

We saw independent India's biggest tax reform with the introduction of the goods & services tax (GST) in 2017. In 2019, corporate taxes were slashed to 22% for all companies and 15% for new manufacturing companies, making India's corporate taxes competitive with peer nations. We finally had a modern bankruptcy law with the Insolvency and Bankruptcy Code. This was accompanied by concerted efforts to improve the business environment, as evidenced by our 79 position improvement in the World Bank's Ease of Doing Business Index over the past five years.

In 2020, the reform agenda gathered further steam and ambition. The latest in the set of structural reforms was the introduction of the production linked incentives (PLI) schemes. Scale has long been the binding constraint in increasing the competitiveness of Indian manufacturing. These PLI schemes, rather than providing input based incentives, incentivise production. The total budgetary outlay for these schemes is ₹1.96 lakh crores or \$26 billion, and assuming a 5% incentive on production value, this translates to a potential production of \$520 billion, across a range of sectors, going a long way towards making India a global manufacturing hub.

We also saw reforms in agriculture marketing, being discussed with state governments for the best part of 20 years now. The intent behind these reforms was to provide multiple avenues for farmers to sell their produce, promote integration with the food processing and export industry, through backward linkages and investments in the cold-chain. Coal mining was demonopolised after 50 years and the mining sector thrown open to competition from the private sector. The definition of MSME was raised upwards. Twenty-nine Central labour laws were rationalised and codified into four codes. The PLI schemes, MSME norm revision and labour law rationalisation, have the potential to drive labour-intensive manufacturing in India.

The announcements in the Budget have built over a strong foundation laid through structural reforms in the past and the *Atmanirbhar Bharat* initiative. Combined with the moves in the past, these announcements will no doubt boost India's long term growth prospects. Importantly, this Budget has ensured that this boost in growth potential will be shared by the whole of India, through focusing on investment and employment. Rather than using short-term antidotes to boost a section of the economy, as has been done in the past, this Budget has reiterated the government's stance of taking a long-term and broad-based view of growth. Importantly, the Budget has sent all the right signals and reiterated the fact that the government is willing to bite the tough bullet of reforms in the nation's larger interest.