

THE TIMES OF INDIA

No deficit of fiscal wisdom

During the recent global economic turmoil, India has turned in an enviable performance: it has sustained financial stability and high growth even while some of the biggest economies have succumbed. There is hope that India may now do even better. Pranab Mukherjee's latest budget is a reassurance that India will not only improve its growth record but also do a lot more to economically empower millions of poor and disadvantaged Indians.

Easily the most heartening feature of the budget is the continuation of fiscal stimulus imparted in 2008-09. This budget builds on lessons learnt from economic policy failures while

tackling the great depression of the 1930s to reassert that it is wise not to withdraw fiscal stimulus early in the recovery process. Premature focus on reducing fiscal deficit can abort recovery. The bold move to increase fiscal deficit by another 0.8% of GDP, on top of the 3.5% stimulus injected last year, ensures that growth will accelerate.

The FM has rightly chosen to sustain the tax concessions extended in 2008-09. The continuation of a moderate indirect tax regime should nurture the recovery of India's indus-

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trial sector that is still some distance away from realizing its potential of double-digit growth to create millions of new jobs. Simplification and reduction in rates of personal income-tax would also speed up economic revival. Both Indian and foreign businesses would be greatly encouraged by the finance minister's April 2010 deadline of implementing a goods and services tax (GST). This is a fundamental reform that would place India's indirect tax system at par with those prevalent in the world's

most advanced economies.

Enhanced expenditure on programmes aimed at including the poor in the growth process does justify the higher deficit. Mukherjee has correctly assessed that in any slowdown, it is the poor who suffer the most. The increased expenditure on NREGS, rural infrastructure, agriculture and irrigation, coupled with the focus on women and children in rural areas, adds up to a comprehensive programme for economic empowerment and poverty reduction. But for this promise to be meaningfully fulfilled, India needs a major overhaul of its system of governance to ensure efficient delivery of budgetary schemes.