



"India Needs Consistent Action towards Revamping Policies for Global Competitiveness"

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India's Economic Imperatives: Required Reforms, Current Challenges, and Future Opportunities

Intro: Did you know that despite the whole world looking at India as a future economic super-power, in reality India's economic landscape is at a pivotal crossroads? Join us as **former Finance and Economic Affairs Secretary, Subhash Chandra Garg**, engages in a thought-provoking conversation with **Indiastat's** senior journalist **Mahima Sharma**. At **socio-economic voices** this week, let's get into how India must create more jobs amid AI's transformative potential and threat to the human workforce. What is the urgent need for policy reforms and what these must be? Read the quick dialogue that unveils the nuances of India's economic future and the imperative for strategic action.

MS: The World Bank has stated that South Asia isn't creating enough jobs to meet the growing population (April 2024 report). Where does India stand amid the advent of burgeoning clasps of AI? And how should India maneuver ahead regarding policies and walk the talk?

SG: AI revolution is going to be as epoch-defining, if not more, as the machine and automation revolution was, which brought about the industrial revolution. There are three dimensions of AI revolution- the hardware, which is semiconductors, chips, tools etc, which mimic or better the human brain (and can do better other animals as well in times to come), the models, which defines the contours of intelligence and the training, which makes the artificial intelligence really deliver intelligent outputs. **I don't see India in the hardware game at all. Indian engineers and designers can do meaningful and path breaking work on model building and if they can successfully do so, they can really train the models for delivering cutting edge** and GDP accretive products and services. India is still a long way from the AI launchpad.

MS: Amid the geo-political turmoil on the rise, which national and international economic policies India must relook at, give up and why? State the few that need immediate attention.

SG: More than geo-political turmoil (**we have not taken advantage of global opportunity when it was available; that opportunity is anyway shrinking now except for services**), it is the domestic economic policies which India has to reform. There is a vast agenda in reforming India's agriculture - getting 3/4th of the bloated labour out, de-governmentalise agriculture by replacing the inputs and output programmes with cash/in-kind transfers and introducing the market in agriculture. **India's biggest opportunity lies in services- both personal and non-personal.** We must become the most trusted services supplier of the world. Of course, our environmental, especially pollution, track record is horrible. We have to get our act right to make the lives of our people better and more productive.

MS: How can India leverage its demographic dividend to foster innovation, entrepreneurship, and human capital development in key sectors of the economy?

SG: There is considerable **misconception about the so-called demographic dividend**. This concept relates to the pre-industrial economy where every additional labour could be deployed for producing something. Today, machines and artificial intelligence have and are relieving humans of the most of the repetitive and labour oriented jobs. More labour does not mean more output now. **We have to focus on reorienting and developing our vast human resources** towards services as workers, entrepreneurs and suppliers.

MS: What reforms are needed in India's fiscal policy framework to enhance revenue mobilization, improve public expenditure management, and ensure fiscal sustainability in the long run?

SG: The government must introduce tax on wealth (financial and real estate together) of more than Rs. 1 crore per person, **with wealth in excess of Rs. 100 crore being subjected to 10% tax on incremental growth in wealth**. Likewise, we need a negative value added tax on carbon and pollutants. On public expenditure, our biggest imperative is to get the government out of spending scarce funds on investment and production of private goods and services and increase investments on public goods and services. **Our FRBM Act institutes right fiscal sustainability for India- not more than 3% of GDP as fiscal deficit and not more than 40% of GDP as central government debt and liabilities**. We must get back to those goals immediately.

MS: In the context of emerging geopolitical dynamics, such as shifting power structures and geopolitical rivalries, how can India leverage fiscal incentives and investment promotion strategies to deepen economic ties with key partners and diversify its investor base?

SG: Recent FDI data must have disappointed you. China lost a big share of FDI. Others gained but India also lost its share instead of gaining anything. This tells you a lot about what is wrong with our investment promotion strategies. The PLIs bring very little investment. Lack of profitability in many infrastructure sectors- railways, roads, electricity distribution, hydro-power, industrial estates and so on ensure that no private investment comes in these sectors except as contract suppliers to the government for budgetary and public sector investment. **India has the most intrusive policy regime in most industrial and infrastructure sectors which is compounded by the large presence of inefficient public sector enterprises**. Serious and deeper reforms are needed across the board.

MS: Given the uncertainties and volatilities in global financial markets, what strategies should India adopt to manage its public debt prudently and mitigate the risks associated with external borrowing in the next decade?

SG: I think global finance and capital markets were never more benign than today. What uncertainty and volatility? Of course, no one will invest or lend if they do not see a profit in it. That should be perfectly fine as **global finance has to be win-win for both**. We gain employment and value addition. Global financier also earns his return. **Public investment at the cost of building up public deficit and debt to fund financially non-viable projects instead of reforming the sectors for making these interesting for the foreign and domestic investment is a short-sighted approach**.

MS: How can India balance the short-term need for economic stimulus with the imperative of maintaining fiscal sustainability over the next decade?

SG: There is no need for the government to provide any short-term economic stimulus to the industry. The government needs to take care of the poor and vulnerable only; by providing them cash and in-kind transfers. Our fisc is out of sync. It needs to be put on a sustainable path sooner.

MS: Last question for our University Level Students: What NEP reforms are essential in the next decade to ensure that youth are equipped with a deeper understanding of the national financial structure, fostering their active participation and contribution to the evolving digital economy?

SG: The education is all about letting the students know and understand about themselves, their society and the world they live in (the knowledge function) and getting the skills and technology, suiting their interest and genius, to make them earn for themselves and their families (economic abilities function). Our national education system does many things but does not ensure these two vital educations for most students.

About Subhash Chandra Garg

Mr Garg is Former Finance and Economic Affairs Secretary, Government of India.

He is an Economy, Finance & Fiscal Policy Strategist. In his own words he states: "Those interested in economy, budgets and policy making, may read my three books- The \$10 Trillion Dream, Subhash Chandra Garg's **Explanation and Commentary on Budget 2023-24** and **We Also Make Policy.**"

About the Interviewer

Mahima Sharma is an Independent Journalist based in Delhi NCR. She has been in the field of TV, Print & Online Journalism since 2005 and previously an additional three years in allied media. In her span of work she has been associated with CNN-News18, ANI - Asian News International (A collaboration with Reuters), Voice of India, Hindustan Times and various other top media brands of their times. In recent times, she has diversified her work as a Digital Media Marketing Consultant & Content Strategist as well. Starting March 2021, she is also a pan-India Entrepreneurship Education Mentor at Women Will - An Entrepreneurship Program by Google in Collaboration with SHEROES. Mahima can be reached at media@indiastat.com

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