The reform agenda

Pushing disinvestment will be crucial

The Goods and Services Tax (GST) Council last week made significant changes to the indirect tax structure. The council decided to move to, principally, a two-rate structure — 5 and 18 per cent — with a higher slab for a few sin and luxury goods. The council also amicably addressed the issue of compensation cess. Cess will be collected only on some sin goods till the time the debt raised to compensate the states for revenue shortfall during the pandemic is fully repaid, which is likely to be completed in the coming few months. Taken together, these measures will make the GST system much simpler and cleaner than what India has had for over eight years. Rate changes will be effective from September 22.

However, simplifying the GST structure is not the only reform on the government's agenda. In an interview with this newspaper, published on Monday, Union Finance Minister Nirmala Sitharaman touched on some of these areas. Prime Minister Narendra Modi spoke about next-generation reforms in his Independence Day speech. The government has formed committees to suggest such reforms. As Ms Sitharaman said, if the month-by-month reports give actionable points, the government will implement them. She further said, within the finance ministry, among other things, the pedal needed to be pressed on disinvestment. This is not a new agenda but an existing one, which went into slow motion because of a variety of reasons. The renewed focus on disinvestment must be welcomed. It is worth noting that the government had announced a strategic disinvestment policy during the pandemic, and the policy was presented in the Union Budget 2021-22.

According to the policy, the government will minimise the presence of central public-sector enterprises (CPSEs). In this regard, four strategic sectors were identified — atomic energy, space and defence; transport and telecommunications; power, petroleum, coal, and other minerals; and banking, insurance, and financial services. The policy envisaged a bare minimum CPSE presence in strategic sectors. In the non-strategic sectors, CPSEs are to be privatised or closed. However, not much happened on this front thereafter. It will help the government and the economy if the policy is implemented as intended.

The government has stopped giving annual Budget targets explicitly for disinvestment, which, in a way, is a good decision. Annual targets tend to reduce the disinvestment process to merely a revenue-raising exercise, mainly to achieve the fiscal-deficit target. This is not how it should be approached. Revenue is one aspect of the exercise. It must be approached with a broader objective of creating space for the private sector and improving efficiency in the system. It will also free up state capacity engaged in managing CPSEs. However, this is not to suggest that receipts are not important. Strategic disinvestment can unlock plenty of value, and receipts can be used to sustain the government's capital expenditure for years to come, which will help boost medium-term growth. Part of the flows can also be used to repay public debt, which can open up fiscal space by reducing interest-payment obligations. Given that annual flows may not be even and will depend on the kind and number of firms selected for disinvestment, the government can report the fiscal-deficit number both with and without disinvestment to give a clearer and comparable picture of the fiscal position. In sum, there are enough arguments in favour of implementing the stated policy on disinvestment, but it has always been difficult to manage politically. Hopefully, the government will overcome such hurdles this time around.