# Boosting Private Investments

## What is the issue?

A key priority for the new government taking office after the general elections 2019 would be to revive private investments in the country.

## What is the current growth scenario?

- Currently, growth is largely being powered by consumption and government spending.
- The other two, more powerful engines of growth, namely, private investment and exports, are still sluggish.
- Indeed, if private investment gains momentum, consumption and government spending as well as exports would get a boost.
- When India grew its fastest (2003-08), private investment as a share of GDP was around 36%.
- In contrast, now, it is hovering around the 29% mark.

## What is the need now?

- There has been appreciable government spending, particularly on infrastructure, to make up for the sluggishness of private investment.
- As a short-term strategy, it works.
- However, in the medium term, government capacity to spend productively and speedily is limited.
- To address this and for private investment to be the priority, there has to be structural change within the ministry of finance.
- The balance of power needs to shift away from the departments of revenue and expenditure to the departments of economic affairs and financial services.
- This does not mean the government should adopt austerity.
- But if the challenge is to deliver more jobs and better paid jobs, then priority must be given to reviving private investment.

## What are the priorities in the coming years?

- **Changes** - The new government must commit that it will not apply any policy change with retrospective effect.
- It should also not make any abrupt changes in rules, to ensure the smooth

functioning of the economy and confidence of investors.

- **PSUs** - The government must execute the strategic disinvestment/privatisation plans approved so far.
- A loss-making and inefficient public sector is a burden for the whole economy.
- It causes distortions which deter private participation in several sectors.
- If there are no buyers forthcoming for these PSUs, they must be closed down as they may have undesired effects on the handful of well performing PSUs too.
- **FDI** - Import dependence in the most strategic sectors like defence is growing steadily.
- Also, Indian firms do not have the capacity to take over failing firms in some other critical sector, as in the case of Jet Airways and Air India
- In this context, the government must revisit and rationalise on the FDI caps that remain across sectors.
- **Tax** - The current approach of setting targets for tax officials in tax collections is often counter-productive.
- The system cannot become coercive and extractive and therefore a deterrent to investment.
- A reorientation in strategy is urgently required in this front.
- **Dispute resolution** - There needs to be a dialogue within the government on alternative (to courts) methods of dispute resolution.
- There is not likely to be any immediate solution to the massive backlog at various levels of the judiciary.
- So the government should take efforts to resolve disputes in a different forum, like arbitration.

**Source: Business Standard**

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