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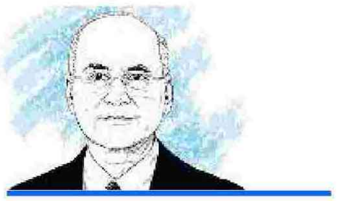
Not shying away from tough reforms

Implementing RERA, Indian Bankruptcy Code and GST reflects Modi govt's political will and courage



GN BAJPAI

The other day on the golf course, one of the players in our group was lamenting that even with absolute majority in the Lok Sabha the Modi government has not addressed some of the pending (difficult) reforms. He runs a medium-size company and understands the impact of liberated economies in improving factor productivity, greater wealth creation and building a prosperous society. He was not very specific about the expected reforms.

The factors of production are land, labour and capital. Truly, India started its journey of reform with capital. In a vibrant democracy like India, social and political issues influence decision-making and economics get subordinated to political compulsions. Possibly it was this perspective that prompted the Narasimha Rao government, which started reforming the Indian economy in an organised manner, to commence its journey with the easiest of the factors — capital. Abolition of the Controller of Capital Issues is a sterling example; and if one analyses the trail of events even in the area of capital some of the hardcore facets were left undone or half-done.

The Modi government picked up the challenge of unaddressed reforms with a vision and started optimistically. Nine ordinances (issued one after the other) to bring about (minimal) changes in land acquisition for building infrastructure, in the absence of majority in the Rajya Sabha lapsed and had to eventually be consigned to the back-burner. However, some of the difficult reforms have been picked up in right earnest, and let me illustrate a few of the major ones.

Leg-up for realty

India's real estate industry has been the most customer-unfriendly. This industry ingrains vested interests who are capable of influencing policy-making. JLL's GRETI – 2016 report, in the introduction, observes: "For real estate to effectively compete as an asset class, it needs the highest level of transparency". Enactment of RERA and its implementation with zeal and vigour are bound to outwit the non-serious actors and convert real estate into an organised, transparent and customer-friendly industry.

This reform needed political capital and courage. It has disrupted the industry, led to temporary loss of jobs (second biggest employer after agriculture) and created transitional challenges impacting even the economic growth. However, it had to be done for optimising the output ratio; and sooner the better.

The unfolding messages from the industry are indicating that the pain of RERA seems to be slowly coming to an end. And coupled with a vibrant REITS market, five years down the linereal estate will hopefully turn into a modern, vibrant and responsive industry on par with those in developed economies.

IBC will pay off

India did not have an exit policy. Now, the Indian Bankruptcy Code (IBC) provides the answer. François Gianviti, General Counsel of the World Bank, in the foreword to the 'Orderly & Effective Insolvency Procedure' document (1999), stated, "Experience has demonstrated that reforms in this area can play a major role in strengthening a country's economic and financial system."

Strong base RERA will convert real estate into a transparent and customer-friendly industry RAMESH SHARMA

A very thoughtful legislation enacted with clearly outlined time-lines and segregated (commercially oriented) judicial process has earned the appreciation of many economic thinkers and opinion makers. It will have an impact in significantly reducing, if not elimination of crony capitalism, gold plating, irresponsible lending, cyclical high tide of NPAs (non-performing assets) and better risk management.

Some of the opinion makers are vociferous in their criticism of the slow delivery of the initiative. Independent judiciary and absence of regulatory jurisprudence are bound to create speed-breakers in otherwise an express path paved by the legislation, which unfortunately is not being appreciated adequately.

The IBC has hurt rent-seekers and irresponsible entrepreneurs. Their overzealousness to disrupt the judicial processes bespeak of the discomfort this major reform is causing them. The recently promulgated ordinance and the proposed re-engineering of rules are bound to smoothen some of the barriers to success created by the inter scripts. Eventually, five years down the line, when the IBC would have stabilised, capital will find avenues of greater wealth creation, choking holes of seepage and evaporation of capital.

GST push

India has been a fragmented market along State lines which, by one estimate, was pushing up logistics and inventory costs by 20-30 per cent. Goods and Services Tax (GST), seeking to create a common market, has been work-in-progress for over a decade and a half and successive governments found it politically untenable to implement — to avoid disruption, economic slowdown and political backlash.

GST enhances transparency, eliminates double taxation, reduces tax evasion, increases revenues of the State and improves 'ease of doing' business. In effect, it leads to higher GDP growth. The Modi government had the courage to get the GST law enacted and implement it with alacrity.

The fact that smaller economies faced much more serious challenges and greater pain, while India, of the size of many nations, is coming out much less scathed in just about a year and a half is testimony to the efficacy of implementation. Those adversely impacted and more so the political opponents are bound to magnify the impact disproportionately.

These reforms have, however, sucked a significant amount of political capital out of the Modi government, which it has chosen to let go consciously. The courage will be admired more by the generations to come when the impact of these reforms begin to benefit the economy with higher factor productivity, better tax compliance, higher public revenues and faster growth.

A democracy needs political foresight and a large number of statesmen for building economic prosperity.

Hopefully, politicians of all hues will consider reform as a necessary endeavour to mitigate the miseries of the economically deprived and prefer it to 'competitive populism'.

The writer is a former chairman of SEBI and LIC.