NITI Aayog and Union Budget

Charan Singh

On February 8, 2015 the Prime Minister has convened the first meeting of the National Institution for Transforming India (NITI Aayog) where Chief Ministers of all states and Lt. Governors of the union territories are expected to deliberate on major economic issues. The Prime Minister has also met eminent economists at NITI Aayog on February 6 to discuss about the economy and sought suggestions for the forthcoming Union Budget. Therefore, it would be useful to understand the rationale, structure and objectives of recently constituted NITI Aayog.

On January 1, 2015, the Government of India announced the creation of NITI Aayog in replacement of the Planning Commission (PC). The paradigm shift was clearly emerging with the new government establishing its Bharatiya ideology in the corridors of important institutions in Delhi. More importantly, there was a complete revamp of the functions and working of the new institution as compared to the erstwhile PC. The most significant evolutionary change between the two institutions is the replacement of “centre-to-state one-way flow of policy” with a genuine partnership with states.

NITI Aayog, a think tank set up by the Cabinet Secretariat resolution, seeks to provide a critical directional and strategic input into the developmental process through its commitment to cooperative federalism. A shared vision of growth and development with active involvement of states has to be based on human dignity, national self-respect, inclusive approach, equal opportunity to youth, transparency in government’s activities and sustainable development path. To reap the benefits of the creative energy across the country that emerges from states, regions and localities, the development model has to become more consensual and co-operative. In addition, the core mission of NITI Aayog is to serve as an incubator of ideas for development.

There are a number of important issues that are transforming India and need to be addressed with strategic policy on which NITI Aayog would focus. Industry and services sector which are operating at a global scale have to be provided with enabling legislation, policy making and regulation. India given its strategic positioning also needs to be an active player in global debates and deliberations. The middle class in India is rising and needs to be provided with opportunities to help realize its potential. Similarly, the immense pool of talent, and human and social capital, given demographic dividend, needs to be leveraged through appropriate policy initiatives. Issues related to sustainable economic development, poverty elimination, empowering women, and inclusive growth have also to be addressed. In India, despite all the development, villages continue to be the bedrock of our society and despite the 73rd amendment, are still not well integrated with the development process. Similarly, micro, medium and small enterprises (MSMEs) which would offer employment to our increasing number of youth seek support for skill development, technological up gradation and access to financial resources.

The key objectives of NITI Aayog are to evolve a shared vision of national developmental priorities, sectors and strategies, considering national objectives, with state participation; foster cooperative federalism; adopt bottoms-up approach to planning; ensure national security interests are incorporated in economic strategy and policy; give special attention to weaker sections of the society; and create

---

1 RBI Chair Professor of Economics, IIM Bangalore. Views are personal.
knowledge, innovation and entrepreneurial support system. NITI Aayog will also offer a platform for resolution of inter-sectoral and inter-departmental issues in order to accelerate the implementation of the development agenda.

Historically, though formally constituted in 1950, the origins of the PC can be traced to pre-independence days. The Indian National Congress created the National Planning Committee in 1938 with Pandit Jawaharlal Nehru as the chairman. In Independent India, PC was initially envisaged as an advisory body but became stronger over a period of time and significantly contributed in not only designing the Plans but also in allocation of resources and prioritization of government developmental expenditure. In fact, after the 73rd and 74th Amendments in 1993, PC should have been wound up as the two amendments indicated preference for a bottoms-up approach to planning in sharp contrast to the top-down approach of the PC. NITI Aayog corrects that situation and seeks to strengthen the panchayati raj institutions.

In view of the press reports on the first meeting of the NITI Aayog, amongst the first few tasks, NITI Aayog would be expected to provide inputs for the first Union Budget of the new Government. The hopes from the Budget are high as it is being prepared in the backdrop of low oil prices, and low current account deficit, providing space in both fiscal and external sector accounts. The policy paralysis is over, given the thumping majority of a single party in the Parliament and there is new objectivity prevailing both in government and business, especially given that Make in India debate has just received a boost from the successful visit of the US President.

To meet the high hopes from the Union Budget, the government may like to focus on ensuring fiscal stability, creating employment and ensuring growth. The decline in oil prices would imply a reduction in petroleum subsidy. And rationalization of subsidies as recommended by the Expenditure Commission and emphasized by the High Level Committee on Food Corporation of India would lead to reduction in food subsidy. To effectively use available fiscal space, the government could consider liberalising imports of gold and capital goods, which have suffered in previous years because of stress on current account deficit (CAD).

To create employment, MOF could encourage MSMEs by providing tax incentives and holidays. MSMEs in India have a vast potential which needs to be explored. In OECD countries, as well as others like Indonesia and South Africa, MSMEs account for nearly half of GDP of the country. In India, MSMEs can be the harbingers of growth and employment, especially for the young cohort, where nearly 20 percent of our youth are unemployed. In addition, India is expected to add, given its demographic trends, about 15 million workers annually for next 30 years and MSMEs can help create suitable employment opportunities for such young entrants in the workforce.

MSMEs are specialized in their activities and are generally low on technology. Accordingly, innovative activities in such industries are also low which may not augur well if “Make in India” has to successfully complete globally, especially China and other low cost economies. The barriers to innovation could be cost, knowledge infrastructure, lack of market, government policy constraints and uncertainty in demand for innovative goods and services. However, the most significant factor is availability of finance as indicated in numerous research studies. The commercial banks have been reluctant financiers for the MSMEs for various reasons, mainly because of the issue of recovery of loans, due to lack of identification documents as well as standardized recovery procedure. In any case, NITI Aayog and the government could consider some incentives to overcome the barrier of availability of finance to MSMEs.
To inspire growth and employment, a successful strategy could be to encourage housing which involves labour intensive construction and has inter-linkages with nearly 270 industries. In view of the fact that India suffers from a shortage of nearly 20 million houses, pursuing housing treaties with the USA to import technology to build single building housing complexes with 1,000 apartments. Illustratively, such complexes having modern amenities like central air conditioning benefit society and environment through green homes compared to thousand air conditioners guzzling electricity and emitting gases. *NITI Aayog* could help with research on the issue, and the Union Budget by providing tax breaks on such construction and import of technology to help address the issue of increasing urbanisation.

To enhance welfare, *NITI Aayog* and the government could consider two schemes in the Union Budget, given the availability of fiscal space. First, as the mid-day meal scheme in schools has stabilized, breakfast scheme could be introduced which can help address the issue of mal-nutrition more effectively. Second, in a young demographic India, there are nearly 11 crore people who are above the age of 60 years, and most of them live in abject poverty. The problems of elderly are generally neglected because it is assumed that the immediate family is responsible, partly because of prevalent culture. However, given the trend of urbanization, and immigration, the plight of elderly is not encouraging. Therefore, universal old age pension, or subsidized mid-day meal scheme for the elderly, could also be considered, after *NITI Aayog* assesses its viability.

The government could also consider two essential policy issues. First, on the issue of separating debt from monetary management, the Finance Minister (FM) should take a firm decision to separate it, as has been recommended by numerous Committees set up by different governments over the last two decades. The separation of debt management, which is basically a fiscal policy instrument, would provide credibility to both, monetary management and fiscal policy. Second, is the issue of inflation targeting where the government assigns an inflation target to the central bank to pursue. To clear confusion, FM could consider examining the feasibility of inflation targeting in India, a policy tool that was globally in vogue until 2008 but partially blamed for the recent crisis and therefore since then avoided by countries.

In the last few weeks, according to press reports, *NITI Aayog* has also been assigned the task to look into the issues of tribal welfare by the Prime Minister, in addition to the original mandate of poverty elimination. This implies that *NITI Aayog* will have to be strengthened with experts having domain knowledge of anthropology and sociology. This augurs well as *NITI Aayog* should be inter-disciplinary in approach to address complex developmental issues. Further, *NITI Aayog* is expected to prepare strategic plans, and it would be the task of the governments, both at the Centre and States, to implement the same. The government plans to form regional councils to address specific issues and contingencies impacting more than one state or a region. To address the issue of implementation at the grass-root level, it may be necessary to have a state-level *NITI Aayog* (SLNA) to assist the Chief Ministers in analyzing and implementing policy decisions in each state. The SLNAs could help in providing feedback to NITI Aayog and facilitate genuine partnership with states, hopefully.