

Indivjal Dhasmana | New Delhi January 28, 2013 Last Updated at 18:54 IST

Chidambaram has been more focused than Pranab on fiscal deficit: Gita Gopinath

Q&A with professor of economics at Harvard University



Amid a debate over the super rich tax, **Gita Gopinath**, professor of economics at Harvard University, does not find it utmost necessary to raise taxes. She tells *Indivjal Dhasmana* on an email interview that rather there is an ample scope of narrowing down fiscal deficit from curbing wasteful expenditure and mopping up revenues from disinvestment and plugging tax avoidance. *Edited interview:*

Prime Minister's Economic Advisory Council chairman C Rangarajan has mooted the idea of higher tax for super rich. Do you support the idea?

Empirical evidence suggests that fiscal adjustments brought about through spending cuts rather than tax increases are more effective in reducing fiscal deficits and have a less recessionary effect on the economy. Given that in India there is still a lot of scope to reduce wasteful government spending and for the government to earn revenue from disinvestment and from cracking down on tax avoidance, I do not see a compelling argument to raise taxes.

In the budget for 2013-14, Finance Minister P Chidambaram will be under a lot of pressure from the Congress to go for food security bill. Given the exchequer's dwindling position, do you think the estimate of 4.8% for fiscal deficit for 2013-14 as is given in the fiscal roadmap by Finance Minister is realistic?

The recent track record of the government in meeting budget projections has been quite poor and I take any such announcements with a pinch of salt. I am heartened though to see concrete measures being undertaken to deregulate fuel prices and reduce fuel subsidies. These reforms with regard to diesel and cooking gas are positive steps that will reduce the size of the structural deficit.

The food security bill is likely to be incorporated in some form though at this point it is unclear what the coverage and cost will be. The problem with the bill is not just the cost but the lack of a serious debate on who should be the beneficiaries, how will the additional food grains be made available and stored, should it instead be a cash transfer, among others. Creating a new entitlement has very long term effects on the budget which makes it all the more important that it should be seriously debated.

What is your assessment, will the Finance Minister be able to avoid the demands of election year budget? (This will be the last budget of the UPA II, the 2014-15 budget would be the interim one).

The current Finance Minister P Chidambaram has exhibited a lot more resolve in containing the deficit than Pranab Mukherjee, which makes me optimistic that this will not be a typical election year budget.

India's current account deficit (CAD) is at a record 5.4% in the second quarter of the current fiscal

against 4.2% in the corresponding period of last fiscal. Which of the twin deficits--CAD or fiscal-- is a bigger threat?

The two are closely related. The CAD is the excess of national investment over national saving. In recent years investment rates have come down but savings rates have declined even more. The increase in fiscal deficit, or in other words a decline in public sector savings is therefore an important contributor to the CAD and this is worrisome. If the CAD was being driven by higher investment rates that would be a different matter and a lesser source of concern.

Do you think curbing gold imports through a raise in customs duty to narrow down CAD is a good idea? Will it not lead to smuggling?

The idea of raising revenues through a customs duty on gold imports is appealing to me. I am not aware of how quantitatively important the loss in revenue from smuggling will be.

Indian economy grew just 5.4% in the first half of this fiscal against 7.3% in the corresponding period of last fiscal and is headed towards a decade-low growth for this fiscal. The finance ministry expects the growth to be in the range of 5.7-5.9% for 2012-13, do you think it is a realistic estimate?

It is hard to tell. Importantly though the recent round of reforms is a break from the last couple of years when it appeared all progress on reforms had stalled. The outlook is positive and I hope bigger steps to revive Indian manufacturing will be undertaken. If serious land and labour reforms are undertaken it will be the seed that generates several years of high and inclusive growth.