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30 January, 2012

Respected Shri Mukherjee

This is with reference to the Meeting of the Consultative Committee for the Ministry of Finance on 19 January, 2012, on the subject "Pre-budget Consultations".

Owing to a sudden family emergency, I had to travel back to Bangalore that day, and therefore, regret that I couldn't attend the meeting in person and share my views and ideas with you.

Sir, there are various scenarios about our economy – some of which are on balance troubling. The next few years are critical for our economy and country. It will require real political leadership to ensure the economy remains stable, strong and offers opportunity to more and more of our countrymen / women.

I enclose herewith for your perusal, a brief note and annexure which could form a part of the deliberations leading up to the finalization of the Union Budget 2012-13. I hope you will look into this.

Yours Sincerely,

RAJEEV CHANDRASEKHAR

Shri Pranab Mukherjee
Hon'ble Minister of Finance
Government of India
New Delhi



POINTS FOR CONSIDERATION FOR UNION BUDGET 2012-13

A. Boost Government Revenue

1. Gold Monetization

The Indian economy is currently witnessing a slowdown as a result of global and domestic factors, and needs a powerful stimulus to regain confidence and growth, which can come from domestic reserve energies, to regain confidence and growth. Gold is an invaluable asset which can be used by the Government to stem the external stress and also reboot the hanging domestic growth, as it has the potential to release equal amount of investible resources for domestic economy. Despite India being the biggest gold buyer and importer, it has not been able to influence or control the global gold prices because its import is not strategized by a national policy. This can be achieved by transforming idle gold into a strategic forex asset and active capital, as elucidated in the attached note and paper (*Annexure I*).

2. Taxation on Derivatives

The idea of taxing derivatives is completely unexplored in India. Introduction of transaction taxes on all equity, forex and commodity derivatives would be an innovative and bold measure, which has the potential of raising thousands of crores of revenue for the Government, and also contain speculation which destabilizes the financial market.

3. Windfall Taxes for Windfall Gains for Private Investors in recent Telecom Licenses

The Government should recover the money swindled in the recent 2G spectrum scam, by imposing windfall taxes on companies who have gained by resale of their licenses / spectrum - since these licenses were obtained cheaply in 2008 at 2001 prices, and without auctions for spectrum (and therefore foregoing potential revenue for the Government). Also, the rules and percentage on how the windfall gains will be divided between the Exchequer and operator / investor should be clearly articulated.

4. Long Term Stability in Taxation Policy

There is a need for a more stable and long-term taxation policy to achieve higher economic growth and stability, efficient resource allocation and equitable distribution of income.



B. Boost in Investments

Our Economy can only grow on a sustained basis, IF there is a CONSISTENT AND SUSTAINED FLOW OF INVESTMENT CAPITAL (both Foreign and Domestic) into ALL sectors of our economy. This potential for significant investment flows is being held back by several structural impediments in our Public policy and approach.

The suggested solution set to unleash investment flows is as follows:

1. The Government must have a renewed focus on FDI to increase strategic capital flows into our economy in all sectors.
2. Failure/ compromise of institutions like independent regulators are leading to repeated instances of public policy and regulatory capture of vested interests – in turn, leading to a perception amongst investors that our country is fraught with policy volatility and unpredictability and therefore high risk for investors. Reforms of the Independent regulatory framework are needed to ensure long term public policy stability and consistency and give confidence to investors.
3. The Government must also strengthen the Competition Commission of India (CCI) to ensure that monopolies or cartels are not created in Indian economy, either foreign or domestic.

C. Reforms in Government spending – Creating a Value for Money Culture within the Government

Public spending in our country is notoriously leaky and fosters corruption / nepotism, with only a small percentage of spending reaching the targeted audience. Fundamental reforms in this area are necessary and long overdue. To address this, a value for money culture / fiscal responsibility needs to be ushered into the Government – a culture that reinforces the truth that the Government is only a trustee of public money and assets. The spending of this money and the handling of public assets must always pass the test of national good. This can be done through the following measures:

1. The Budget should ensure detailed statutory disclosures of public spending through increased use of technology. Fiscal transparency generates significant benefits, as it is an important precondition for better governance, improved economic performance and prudent fiscal policy, resulting in lower deficits and debt accumulation.
2. Make citizens more involved in their national budget by simplifying the budget document and making it more readable with simple summaries etc.



3. Introduce into the budget a discipline and rigor of ensuring that all spending / programs are linked to clear outcomes.
4. Unveil and roll-out multi-year subsidy delivery reform architecture.
5. A new effective oversight and monitoring mechanism of all decisions relating to big-spending Government programs, contracts and public assets.
6. A completely from basics relook at Central spending programs with a move to restructure central programs, remove overlap to make this form of spending more efficient. A bi-annual report card of all public spending programs to be introduced.
7. Introduce a six-month plan to trim all wasteful Government plans and expenditure.