C. Fred Bergsten: We apologize for the late start, but the Minister has been deeply engaged at meetings at the IMF, and partly because of that traffic is even worse than usual, but we're under way. As most of you know, here at the Institute, we have a very active program on India; we have hosted former Finance Minister Chidambaram, the current and former governors of the Reserve Bank of India, Montek Ahluwalia, Nandan Nilekani, who was a member of our board of directors before he joined the government, and so we're delighted Minister Mukherjee that you can join us today.

We look forward to hearing from you on events in the Indian economy and what the prospects are. We're delighted to be co-hosting this meeting today with our friends from the Confederation of Indian Industry, whose director general will add a word of welcome in a moment. I will also be joined on the podium, subsequently, by Ambassador Rao and my own colleague here at the institute, our own senior fellow, Arvind Subramanian, who of course is Indian and has been voted by Foreign Policy magazine as one of the top hundred global thinkers and by India Today as one of the 35 masters of the mind of the last 35 years in India. So we are delighted to have that capability on India here at the Institute.

Minister Mukherjee has an incredibly distinguished career in government and elsewhere after having begun his career as a college professor and later as a journalist. He has been in the Parliament in India since 1969, having been re-elected a number of times and voted Outstanding Parliamentarian in 1997. His first cabinet post occurred in 1973; he's not that old, as you can see, but his first cabinet post occurred in 1973. He has been minister of ten different portfolios during that period, was Finance Minister back in 1982 to 84 before attaining that position again more recently. He was External Affairs Minister in the 1990s and has had a succession of responsible positions in the government. We're delighted to welcome you to our podium here at the Institute. I’ll turn to our colleague Mr. Banerjee from the CII, who will then pass the podium to the minister. Mr. Banerjee.

Chandrajit Banerjee: Thank you very much for that introduction and also thanks for partnering CII for this very special event. Honorable Finance Minister of India, Mr. Pranab Mukherjee; Mrs. Nirupama Rao, our Ambassador to the United States; distinguished members of the Delegation of the Finance Minister; and ladies and gentleman, it’s great to be here for CII, the Confederation in this institution, institution that we really value, in terms of our partnership, which has been growing over several years and for this very special event with our Finance Minister. We couldn't have had a more appropriate partner today.

We have been working in several areas, be it the private secretary advisory group on the trade policy forum and several other initiatives and really working on this particular event when we hear our Finance Minister today, this evening, we hope to deepen our linkage in the business front and of course, more importantly, on the track to diplomacy.
It was just a few weeks back that we had our Finance Minister presenting the union budget in India for the Indian fiscal year of April/March 2012-2013 and when he talked—when he presented his budget, in one of his opening remarks, he talked about the previous year being that of interrupted development, interrupted growth.

And just a few days back, earlier this week on Tuesday, we had the honor and privilege of having the Finance Minister, which he always very graceful does come to the CII’s annual session, which was on Tuesday and he said, and I quote, “Let the year of uninterrupted development be a story of the past and let us move on on the story of turning around this year.” And it was just half an hour after he spoke at the CII’s annual session we saw the Reserve Bank of India, the federal bank of India, cut interest rates, of almost after two years, to by 50 basis points.

And I must say that as we left the hall, and as the Finance Minister left the hall, we have seen (and he left that evening for the United States) and since then till today, we have seen a sort of mood coming back into India. We’ve seen an issue, which has been of very critical importance to us, and that is sentiments and mood that we have kept talking about lot influenced by, of course, the global happenings been addressed to an extent. And we have seen again a lot of hope, a lot of positivity, which really came around.

For us in India, it’s really a challenge and indeed, just after that session as I mentioned on Tuesday, CII started its new year, too, and we gave in our team, for this year, is getting growth back through reforms and through governance and through business and that is industry and a government partnership. And that’s really the creed that we see in India that emerges as to how the business, the industry can work with the government in partnership in getting growth back for the simple reason that it’s become extremely important for us because if we don’t have growth, and we have got used to staying at growth rate of about 8.5 percent to 9 percent plus, Just going back a few years to 2008, we saw the Finance Minister, this Finance Minister really taking us away from what could have been a major crisis in India, an economic crisis.

We averted it; we saw it in the back of a huge global challenge, we saw very tactical measures without really hurting the finances of the country. So to say he was measured in the type of—in the way he really helped the Indian industry that time come out of a deep downturn that it was expected to go through and I think with his excise duty cuts, so to say, at that point in time and various other measures he took very diligently in seeing as to how he could really infuse back the momentum, the growth into the Indian economy.

So it is with the expectation that we have been turning to him once again to see in the background of what’s happening globally, how we can work together, how industry can work together with him. How we could see to it that we are able to really come out of a growth cycle, which as you know was 6.9 last year we’re expecting a 7.6 percent growth, but in India, as I said, we need to move ahead with a much stronger growth rate. We need it for the situation as it is in India, with about 10 to 12 million people who would look for livelihoods every year, year-on-year, with the type of inclusivity, which is required with the type of, the number of poor that we still have in the country, we need the growth, we need that growth, not only just for sentiments for India, for India to again, really see it can have the rest of the world included in its growth story, as the Indian story is one of the most benign growth stories of the world, which can be so much, so inclusive that taking the rest of the world as we grow along.

So it could be no other person better from India who could really talk at an institute of this kind, which can really give answers to the questions that you have on the economic
story of India, on the political story of India, on the growth story of India, a person who has actually been leading all of us from the front. With that ladies and gentleman, may I have the pleasure and honor of presenting to you the Finance Minister of India, Sri Pranab Mukherjee.

Pranab Mukherjee: Good evening. At the very outset, let me tender my apology to all of you for my delayed arrival and causing inconvenience to you. Mr. Fred Bergsten, Director of Peterson Institute, Ambassador Nirupama Rao, Mr. Chandrjit Banerjee, Director General CII, Mr. Arvind Subramanian, distinguished guests, ladies and gentleman, it is pleasure to join you at the Peterson Institute of International Economics. This is a preeminent, nonpartisan think-tank that has made a mark in the area of international economic analysis.

Your eclectic and pragmatic thinking has contributed to a better understanding of global economic developments and, more importantly, in evolving appropriate policy response. I am indeed happy to have this opportunity to share some thoughts with you. I would like to thank Mr. Bergsten and the Director General CII for inviting me to speak before this distinguished audience.

India’s engagement with the world has increased considerably over the past two decades. This has been reflected not just in the economic arena, but in various walks of life like art and culture, literature and including cuisine, the popularity of which can be gauged from the crowds that throng Indian restaurants in many parts of the world. However, though I would love to hold forth on Indian culture and cuisines, the focus of my address today is on economic issues, the short and the medium term prospects of India in a globalized world.

Let me start with the global prospects and challenges. There have been repeated economic crises since 2007. It is different from the earlier bouts in that it started in the advanced economies, spreading through the financial markets to the other parts of the world and has now turned into sovereign debt crises in some of these economies. Initially there were problems in the United States economy and in some specific countries like Iceland. These become more generalized, affecting several European countries, such as Greece, Ireland and Portugal and threatening many others in the EU zone. There are other nations that may not face the risk of immediate fallout but where stagnation is evident. Japan, for instance, grew at negative rates for the better part of 2011.

When a crisis occurs, each country has a tendency to treat the event as a special problem and administer appropriate policies; sometimes without regard to the consequences those actions may have in other parts of an increasingly globalized world. But the occurrence of repeated crises should alert us to the possibility that there is perhaps something more structural also happening today.

I believe, and I am not alone in this, that there is a structural change ongoing in the world. The crises that we see all around are manifestations of this common structural change namely the rise of emerging economies all over the world, but especially in Asia. The huge resource of human capital in countries like China, India, Indonesia, the Philippines, Thailand, Malaysia, and other nations which earlier could not join the global work-force are now a part of the world, because of new technology.

Whether a skilled person happens to be in New Delhi, Bangkok or Manila, by use of modern technology a person's skill can be put to use in New York, London or Tokyo. It is this that is changing the world. To gain from this change, the advanced countries have to work harder in trading their skill and knowledge base with Asia and the emerging economies. Indeed, there remains enormous potential, but it has to be brought about by policies that help these economies to remain open to trade and doing what is sustainable in the long run, including shifting to higher savings and investments rates.
The rise of the emerging economies is evident. Roughly fifteen years ago, emerging and developing economies accounted for 35.5 percent of the total world output. They now account for almost 50 percent of the total world output. Such a big shift in less than two decades has rarely been witnessed in the world. This rapid change has also been accompanied by a gradual shift in global economic power from the developed to the emerging and developing countries.

Indeed, we are witnessing an emerging new world order, where there is a higher degree of interdependence among nations and, hopefully, there is also a more dynamic and equitable arrangement for global prosperity. I would go a step forward and like to suggest that such an arrangement for global policy making and governance is vital for the well-being and progress of this critical juncture in the history of our world.

Just as the rise of Europe and North America and, subsequently, Japan was a great human achievement, so is it going to be with the rise of Asia. Far from taking away anything from the rest of the world, the emergence of Asia and other emerging market economies brings a renewed momentum into the global economy. But this process is not going to be automatic. Individually and collectively we need to build on this momentum as we put together our thinking and policy response to address the current uncertainty in the global economy. While engineering a rapid and durable recovery in the developed world, we need to strengthen the new and potential growth drivers of the global economy.

Ladies and gentlemen, let me now turn to the problem in Europe. The world economy is presently passing through turbulent times. The lingering aftereffects of the global financial crisis have of late become more pronounced. Over the past months, deep and widespread economic concerns with a complex mix of real and financial problems have surfaced in Europe. The incremental nature of the sovereign debt crisis in the Euro zone, with events including sovereign and bank rating downgrades and risk on-off strategies of international investors have led to a significant rise in overall macroeconomic risks that threaten the stability of the global economy.

The high fiscal deficit and unsustainable public debt levels in advanced countries continue to limit the ability of the policy makers to respond. Growth would continue to slow because the emphasis is on fiscal correction and lowering public debt. Greater emphasis on reducing public expenditure and raising taxes in euro zone economies would pull euro zone growth further down. There are other factors that seem to be dampening the underlying growth momentum in the Euro area. They include moderate global demand growth, weak business and consumer confidence in the Euro area as well as the process of balance sheet adjustment in the financial and non-financial sectors.

Given the depth of the crisis in Europe and heterogeneity of factors that have led to it, achieving a political consensus on its resolution seems particularly challenging. While measures, including the announcement of the European Central Bank to extend loans to banks up to three years have calmed markets for the time being, a decisive resolution to Euro zone crisis will require greater coordination and policy consensus and has to be the immediate priority.

Ladies and gentlemen, I now turn to India. As the Indian economy gets increasingly integrated into the global economy, it too cannot escape developments abroad, notwithstanding its relative resilience. The unfolding of the Euro zone crisis has already impacted the economy through lower growth, falling business sentiments, declining capital inflows and exchange rate and stock market volatility with attendant implications of investor confidence. Moreover, the slowdown in external demand has led to deceleration in the growth of exports in the recent months leading to widening of the current account deficit.
India’s Gross Domestic Product (GDP) is estimated to have grown at just under 7 percent in 2011-12, precisely 6.9. After the crisis impacted slowdown year of 2008-09, India succeeded in engineering a rapid recovery with GDP growth of 8.4 percent per annum in 2009-10 and 2010-11. However, for the better part of this period, we have also been grappling with near double digit headline inflation and with high food and commodity prices. Along with adverse global economic developments and weak business sentiments, it hindered the consolidation of our growth recovery.

Our monetary and fiscal policy response during this period has been therefore geared towards taming the domestic inflationary pressures. A tight monetary policy impacted investment and consumption growth through higher cost of credit. The fiscal policy had to absorb expanded outlays on subsidies and some duty reduction to moderate the pass-through of higher fuel prices to consumers, at a time when domestic inflation was already high. As a result, the year 2011-12 saw a moderation in GDP growth and deterioration in fiscal balance.

We are now at a juncture when it is inevitable to take some hard decisions. And this has been our approach, as I outlined in the proposals of the Union Budget 2012-13 recently. We have tried to address the short-term challenge of regaining the growth momentum while seeking to capitalize on the opportunities in an otherwise difficult global environment. We have focused on strengthening domestic growth drivers, encouraging private investment to regain its pre-2008 crisis growth momentum and addressing supply constraints in infrastructure, agriculture and energy sector.

The initiative on improving the employability and opportunities for livelihood has been further strengthened to create more inclusive outcomes in both rural and urban areas. A critical element of this strategy is to implement an ambitious but realistic fiscal consolidation road map, and leveraging technology to give effect to a quantum improvement in Government’s expenditure management.

The process of fiscal consolidation is expected to help in the moderation of inflationary pressures, which in the coming months could help maintain a more supportive monetary policy stance for growth. After nearly two and a half years, the monetary authority in India has reversed the policy rates for the first time in its annual policy statement for the fiscal year 2012-13. The growth outlook, which has weakened in these past months, should now improve. It should help in investment revival and contribute to strengthening of business sentiments.

While there can be no denying that, thanks to the pressures of the coalition democracy, some reform measures had slowed down over the last year. But we have taken several steps in the past months to shore-up the short and medium term growth prospects. This includes a gradual liberalization of the capital market and encouraging capital inflows including through Foreign Institutional Investors, Foreign Direct Investment and in the area of External Commercial Borrowings, especially for infrastructure financing.

The investment requirements for the infrastructure sector are very large, estimated at about USD 1 trillion, for the period covering India’s Twelfth Five Year Plan (2012 to 17) and of this, nearly half has to come from the private sector. We have recently enabled the mechanism to enable access to the Indian debt markets through a mechanism of Infrastructure Debt Funds. These are regulated entities, which envision sustained long-term interest of the dedicated long horizon investing entities like pension and insurance funds.

A major initiative on reforms of both direct and indirect tax regimes is on the policy agenda. The Government has also taken measures to improve the credit flows to activities like skill creations, training and education, which help in strengthening the medium to
long-term growth prospects of the country. The Indian economy is, in some ways, better placed than many other nations to withstand this fresh round of global economic turmoil.

India’s resilience results from the fact that the bulk of India’s GDP is domestic demand driven. India’s External Commercial Borrowings Policy has been successful in maintaining external debt at sustainable levels. India’s banking sector is robust and our regulatory mechanism is mostly in place. There is unwavering commitment to reforms to further consolidate our economic strength. The GDP growth in 2012-13 is expected to be 7.6 percent, plus/minus 0.25, which in the normal course should rise by another percentage point in the fiscal 2013-14. The downside risks of sticky global commodity prices, especially fuel oil remains and could undermine the anticipated growth recovery.

We have shown in the recent past that we have the capacity to grow fast. At the same time, we are stepping up our efforts to create more inclusive outcomes for our developing society. Favorable demographics, resilient economic structure, high savings and investment rates with potential for further growth, stable democratic institutions and continued policy emphasis on improving social and physical infrastructure are factors that can help us in moving forward and even shouldering some of the global responsibilities. Indian enterprise has matured and shown that it has the capacity to compete with the best.

Ladies and gentlemen, one of the important attributes of modern India is that we are the world’s largest functional democracy. Our democratic structures and our systems based on rule of law are fundamental to India’s existence, progress and our role and place on the international stage. The second major attribute is the success of our economic reforms in sustaining high growth. Initiated in 1991, these reforms have supported the creation of a nearly two trillion dollar economy, and made India the second fastest growing major economy in the world today.

Thirdly, India today is a predominantly young country. We have a window of opportunity to reap the benefits of a demographic dividend. It makes it necessary for us to prepare ourselves in terms of building the required infrastructure, physical as well as human capital. At the same time, create opportunities for our people and our goods in the domestic and the global economies.

The strategic imperative for India in the 21st century flow from these attributes. We are committed to ensuring that the international institutions that are responsible for peace, security and socio-economic development, in which we participate willingly and substantially, mirror democratic ethos. We have a constructive engagement with the Bretton Woods institutions, the International Monetary Fund and the World Bank, and our experience in using these financial institutions in our task of nation building extends for over six decades.

Similarly, in the area of international trade, India has been at the center of the current round of multilateral negotiations under the mandate of the Doha Development Agenda to ensure that the World Trade Organization continues to be relevant in creating an equitable, rule-based international trading system. On climate change finance, India is playing a very active and supportive role. Today, as India participates as a partner in the G20, which has become the main forum for dealing with international economic issues, our experience has proved very relevant in putting forward our vision of the future orientation of these institutions.

We desire to make the most of the opportunities that globalization has thrown up through a process of negotiated sustainable liberalization to benefit all, within and across the nations. Our strategic global partnership with the United States is
truly transformational in nature. We are not only discussing issues such as strategic cooperation, counter-terrorism, defense, high technology, civil nuclear and space sector cooperation but also a broad range of development issues that directly and positively impact our citizens.

Ladies and gentlemen, I have touched upon some of the major strategic imperatives and directions for India in the short and medium to long term. Within this broad framework are the initiatives that we have taken in the past several years, including our policy towards our immediate neighbors. In a century widely billed as “Asia’s Century,” India is moving steadily and surely to secure the imperatives of peace and development, of a shared destiny of mankind.

Let me conclude by emphasizing that in the context of the prevailing global scenario, it is imperative that we deliberate on policies that impact increased robustness to economic and strategic ties between the developed and the developing world and find ways to sustain the momentum towards a fuller recovery of global economy. We need to recall the timely and coordinated action of the G-20 member countries that helped in steering the global economy out of the unprecedented economic slowdown, the worst since the Great Depression of the 1930s.

We must have the sagacity to deal with the current turmoil with similar cooperation and a coordinated policy approach. I like to quote one of the architects of the post-world war economic recovery President Franklin D. Roosevelt who said, I quote, “Competition has been shown to be useful up to a certain point and no further, but cooperation, which is the thing we must strive for today, begins where competition leaves off.” Thank you, ladies and gentleman, for the attention.

C. Fred Bergsten: Mr. Minister, thank you very much for covering such a wide range of topics so thoroughly. I know your time is short. Let me start out with a question. You mentioned, at the start of your remarks that the emerging markets now accounted for about one half the world economy. You could have added that they are growing three times as fast as the so-called advanced countries and so their global share will be rising by about 2 percent a year and if we’re here talking about these ten years from now, the emerging markets will be at about two-thirds of the world economy.

So my question is the following, are you satisfied that the international institutions that you mentioned, the G-20, the IMF, the others, have moved quickly enough to reflect those changes in economic power that you referred to? Is there enough evolution in global governance to accurately reflect the actual state of today’s world economy?

Pranab Mukherjee: It is moving, but not with the speed we expected and many of others are expecting, but surely it is moving in the right direction. I’ll just give you one example because I was involved in a small way in the evolution of how G-20 came, after the Washington Summit, followed quickly by the London Summit and then by Pittsburg Summit. When a small event, if I be permitted to say so rather in the discretion of subprime lending in the housing mortgage in one institution in USA could engulf the whole world into a major international financial crisis.

The world leaders at that point of time failed to—did not fail to recognize the definite intensity of the crisis and the quick response, which came. Initiative was taken by the then US President Bush and quickly got—organized the world leaders, including the emerging economies. It was not a conference of the G-8 or G-10. Immediately recognizing the importance of the emerging markets, itself is evidence that world leadership can respond but at the same time I would like to say, particularly the
established institutions, which at 60 years old, or more than 60 years old, the Bretton Woods Institutions, they should move a little faster. Thank you.

C. Fred Bergsten: Let me ask a follow-up question. There was very recently a meeting in Delhi, of the heads of government of the BRIC countries, and I think you and your colleagues from the finance ministries participated in that as well. Do you see the BRICs as an important grouping of countries that will have a significant impact on governance of the global economy and become a force for speeding up that evolution that you would like to see?

Pranab Mukherjee: If you look at the characteristics of BRICs, it represents Asia, it represents Europe, it represents Africa, it represents Latin America in all five countries. It's total contribution in the world output today is substantial. And even as per the latest world outlook by IMF and the forecast, two countries which are being mentioned having the first and second, of course there is a big gap, they also belong to the BRICs. I would not say that they are having a big impact in the decision-making process of the world today but surely they have a place and they cannot be ignored. Thank you.

C. Fred Bergsten: Arvind, would you like to pose a question to the Minister?

Arvind Subramanian: Very briefly. Thank you very much, Mr. Minister, for that excellent speech. The question, I guess, that many of us are wondering is that if you were to choose one or two key areas of reform domestically that had some political hope of getting past in the next one year or so, what would your one or two-key reforms be in India?

Pranab Mukherjee: In fact, we are already—at the legislative fronts, we have already completed the preliminary legislative process: Pension Fund Regulation Act, Insurance Amendment Act and Banking Amendment Act. These three acts, I do hope will get legislated in this calendar year, if not in this session but the next session. Administratively, we can take certain measures through. Of course, we shall have to persuade various stakeholders, including the state governments. If we could do so, perhaps GST and the constitution amendment necessary to implement the GST would be possible to get it past through this session or next session of parliament and thereafter to be ratified by 15, minimum 15 provincial assemblies before the end of the year.

So where the direct taxes are concerned, I’m quite confident that it will be implemented after the laws have been passed in the next session of parliament from the next financial year. Therefore on the tax reforms direct tax codes will be operationalized from the next financial year in respect of indirect taxes. The most important decision to be taken to implement the GST constitutional amendment that may be possible, likely to be possible, within this calendar year and of course for after ratification and doing certain other works, operationalize it maybe a little late because 28 states are involved and three important legislations in the fiscal side—Pension Fund, Insurance, and Banking—would be possible to implement it.

C. Fred Bergsten: Madam Ambassador or Mr. Banerjee, would you like to pose a question to the Minister?

Nirupama Rao: Well, Mr. Minister, from the point of view of being the Indian Ambassador here, I’d like to ask you about what your outlook would be for India-US strategic partnership, especially from the trade and business point of view?

Pranab Mukherjee: In fact, there is the question, which you are putting right now—there is some sense of despondency amongst a section of USA businessmen and particularly because of their apprehension, and I would say misapprehension, about certain legislative amendment, which we have proposed in my fiscal proposal in the budget. And they have some doubts
It is clear it is terrible. Even the current amendments which is being debated, I have explained it, that the nature of the amendment which I have introduced though the finance bill is of clarificatory in nature not substantive amendments in the law, in the contents of the law. One question comes to the mind that when you are giving retrospective effect of the law from the date of enactment, that is 1962, Income Tax Act. Would the income tax cases be opened from 1962? The answer is no.

Because there are other provisions in the Income Tax Act itself that no case can be reopened which is more than six years old. Therefore there is no uncertainty and the attempt has been made to give certainty to the tax law. That this is the intention from the beginning of the enactment. Intention of the legislation is quite clear from the beginning of the enactment.

Secondly, the investment decision is not taken merely to have the tax concessions or not. What is the size of the market of the country? Whether there are systems which are transparent and which are testable. Thirdly, what are the purchasing power of the people there. From all this standpoints in there, appears to be a good investment destination, so therefore there should not be any apprehension.

So far our relationship between our two countries are concerned, it is expanding, it is very much expanding and almost to all comprehensive, hardly there is any area where we are not having interaction with USA. Defense, external relations, security, collective efforts to confront terrorism, to fight against drug narcotics, in all areas our strategic partnership is becoming comprehensive. Therefore I do feel in the coming years, our relationship will move from strength to strength. Thank you.

C. Fred Bergsten: Mr. Minister and Madam Ambassador, let me try to cheer you up a bit on that front. Here at the Peterson Institute, we have just launched a very major study of a possible economic partnership agreement between the United States and India; we tried to build on the strengths that you mentioned and try to lay out a series of steps that could be taken over time to overcome some of the problems that are perceived and mentioned and we try to place our whole relationship on a much more comprehensive basis.

The US-India Business Council working closely with us, supporting our effort. We bring that into the private sector advisory group to the trade ministers that I, chair for the US side, and are friends from CII, work on from the Indian side. So we are hoping to pave the way for the two governments, perhaps next year, after our own elections, to take some pragmatic further steps in the direction of strengthening those economic ties.

Pranab Mukherjee: And I would like to add one more institution that is the strategic dialogue, financial and economic talk between finance ministers and treasury secretary, which has been institutionalized and annually and in fact yesterday when I had interaction with Secretary Geithner. I have invited him and tried to find out the convenient date we are going to be meeting in the month of June and that is very important.

C. Fred Bergsten: It is indeed and at some point we would be happy to present our proposals to you for your consideration.

Pranab Mukherjee: Most welcome.

C. Fred Bergsten: Mr. Banerjee.
Chandrajit Banerjee: Thank you. Just Mr. Minister, sir, two quick questions. One is, post the financial crisis we have seen protectionism on the rise across the world, particularly in the West, are you concerned about this, sir? Does this threaten the multilateral trading order? It appears that the proponents of globalization are more protectionist than probably the others.

That's one and second, I just wanted to talk a bit about our internal front and in the Union Budget which you just presented a few weeks back, you've made comments on some of the most interesting reforms and one of the things that you have really included is on capping off subsidies with 2 percent of GDP this year, would the Minister like to elaborate on what kind of measures he is really looking to achieve this very aggressive cut in subsidies?

Pranab Mukherjee: In fact, in my budget speech also I have broadly given hint that which are the ideas I would like to peg these subsidies, except on food. In all other areas, I’d like to reduce the subsidies and my strategy would be two-pronged. First to prevent the leakage of subsidies by ensuring and taking technological advantage by ensuring that the subsidies reach the targeted beneficiaries and already I have started some measures in that direction, for instance LPG.

All subscribers of LPG are buying LPGs at the market rate but the targeted beneficiaries are receiving the subsidies at their bank accounts. Currently, it is operationalized in pilot project and after sometime when it will be applied universally, substantially the quantum of subsidies on these account will be reduced. Similarly we are trying to add to this another area, two other areas, fertilizer and kerosene where these subsidies are, been misused. Once we take the advantage of technology and ensure availability of subsidy to the targeted beneficiaries through banks than the leakage would be prevented and there will be lot of savings.

Third idea is, of course, that quantum ceiling for that I said that my target is currently I am saying it is 2 percent of GDP but my target is to reach 1.75 in the next three years. And if we, and I’m quite confident that it will be possible to do so because I have seen how the policy response can rise to the occasion at the time of crisis.

In ‘90s, early ‘90s, we had to face a very serious crisis. The ruling party did not have the necessary majority in legislature but all major decisions, radical reforms, industrial policy, investment policy, trade policy, received the universal support from various political parties, as everybody recognized at the same time, this is essential and these are to be done. Therefore, the country has the resilience and capacity to respond to the occasion when the situation so demands. And I think that this is a time where we expect to have the support from almost all stake holders. Thank you.

C. Fred Bergsten: Mr. Minister, thank you, and if you have a few more minutes, I’d like to turn to the audience and see if we would have a couple of question from them for you, so the floor is open, please go to the standing mic in the back or speak to the travelling mic right here. Yes, ma’am. Please identify yourself and then ask your questions.

Diane Farrell: Good evening, Mr. Minister, it is so wonderful to see you again and we are so pleased that you are here in the Unites States participating in these very important meetings. My name is Diane Farrell. I am the Executive Vice President at the US-India Business Council and I’m probably one of those despondent members of the business community that you were just describing a few moments ago.

We very much appreciate your comment in response to the question that was posed by Ambassador Rao and I don't want to belabor the point other than to say that we
appreciate the conversation that you had with Secretary Geithner yesterday, regarding the concerns that have been conveyed to both the secretary as well as to your offices. It goes without saying that the members of the business community who have invested in India are passionately committed to all of the objectives that you’ve outlined when you talk about the opportunities there.

The concern that we have is of course, that we want to make sure it is a welcoming environment to investment, since as you point out, with the commitment that’s been made in the most recent five-year plan, one trillion dollars in infrastructure investment where you’re looking for 50 percent public, private participation where our companies are wanting to bring the kinds of technologies where they want to. See more markets open so that they can be both competitive and cooperative as I think you wisely point out when you quote President Roosevelt.

So that is our perspective. That is the position that we come from. The concern, particularly about retrospectivity has to do with the amount of work required, that companies now feel they have, in order to justify what taxes have been paid in the past and also a concern that agreements that have been understood, whether it’s our tax treaty with Mauritius, for example, is now subject to perhaps change without negotiation and participation in negotiation. These are uncertainties that have an impact on the investment community and it isn’t just to the United States as you certainly know. The British have expressed their concerns when their finance minister who was visiting India recently.

So it is within that context that we’re interested in your perspective and your insights and any assuring statements that you would like to make specifically to the business and investment community as it relates to some of these changes that have been most recently proposed and how there is an assurance that going forward, that there’s clarity, that there’s transparency, that there’s an understanding as to where both parties are at the beginning of a transaction so that there’s no concern about pulling back.

The other question I have for you does have to do specifically with fuel and I would be interested to know your thoughts, as that’s a global concern right now and I’m sure it’ll be part of the discussions that you’ll be having this weekend with your colleagues, as to how India will handle fluctuations in fuel pricing as it relates to the projections that you have for GDP growth in this coming year. Thank you very much, Fred.

Pranab Mukherjee: In fact, what you have explained, it does not require further elaborations. The only point I would like to submit, that our policies are transparent and always we are subjected to, whenever we have discussions with our partners and if there be any apprehension in respect to any policies, we are ready to listen to them and to adjust it as and when it is necessary. Therefore, it is not that we are having any fixed mind in respect of any particular issue, but what is to be done, is to be done within the legal system and the legal framework, which is in operation.

But if there be any contradiction or there be any lacking of learning, we do not hesitate to amend it or to change it but we must be convinced that it requires to be changed. As they explained in one case, particularly which is being debated now, because I do know when I find that it is, it cannot be retrospective from the date of enactment our law does not permit it. I do not request to make any changes there. Thank you.

C. Fred Bergsten: Okay, other questions? In the back, John.

John Williamson: John Williamson of the Institute. One thing or fact that you haven’t mentioned is the size of the budget deficit, I think, believe this is about 8 percent or 9 percent of GMP
that, the overall deficit of the federal and the provincial governments and I would like, state governments. I would like to ask whether you think that’s consistent with achieving, once again, the high growth rates of India accomplished in the years when the budget deficit was somewhat smaller, and whether you think in particular, allowing the subsidies to continue at still quite a high level is consistent with that?

Pranab Mukherjee: In fact, you are correct that I shall have to contend the—not only budget deficit, fiscal deficit, both states and center taken together and if we can contend the fiscal deficit and bring back the part of fiscal deconsolidation then our growth will be ensured. Keeping that objective in view, I have fixed the target of fiscal deficit for the current year from 5.9 percent to 5.1 percent of GDP.

States and center taken together, it will have around 7.5 percent to 8 percent and I’m advising all the state governments also, fortunately some of the states are doing well as a result the cumulative impact of all the states collectively, fiscal deficit is varying between 2.5 percent to 3 percent. That is being added to 5 percent of center and it is becoming 8 percent plus. But target is to bring it down to 5 points, 1 percent this year and subsequently at least 0.6 percentage points less in the next year.

Unfortunately, what happened—and we were going in the correct directions, I'll just give you three years fiscal deficit position before the financial crisis came in 2008-09 our fiscal deficit was less than 3 percent. In 2007-08, it was less than 3 percent. Because of the fiscal 2008 crisis, as many other countries injected huge amounts of money as stimulus package; we also did so to prevent further deceleration of growth.

National fiscal deficit increased to 6.6 percent of GDP, but we brought it down to 4.7 percent in 2010-11. Because of high oil prices and quantum of subsidies being increased and because of slow growth there has been a slow down in the revenue realization these two factors combined together, the fiscal deficit of the current year has increased. But we cannot maintain level of fiscal deficit we must bring it back. That’s why we are coming down from 5.9 percent to 5.1 percent and the next year, it will be another 0.6-7 percent less. Thank you.

C. Fred Bergsten: I think we have time for one more question, so let me go to the gentleman here. The mic is coming. Identify yourself and then ask your question.

Sadanand Dhume: My name is Sadanand Dhume. I’m with the American Enterprise Institute. Thank you, Mr. Minister, for your speech and for answering our questions quite candidly. I want to return to the question of retroactive tax but take a somewhat different angle. You said that the taxes are not going to be reopened to 1962 and that’s a very welcome clarification, but there is another concern which has been expressed, which is that this new law has taken place in the context of a supreme court judgment and the criticism that has occurred is that what this signals to the investor community is that when the courts go against the government, instead of simply respecting the courts, the government will amend the laws. How would you address this concern?

Pranab Mukherjee: It’s a very intelligent and interesting question, but it is not only in India, in every democracy where the separation of power is there, conflict between legislature and judiciary is almost perennial. As for the scheme of the constitution it is the right of the legislature to make laws. It is the right of the court and judiciary to interpret the law. But interpretation of law does not prevent the right of the judiciary to amend the law.

You’ll be surprised to know, the First Amendment of Indian Constitution was made as a result of a judicial pronouncement. Even then the entire constitutional body was not constituted but the First Amendment in the Indian Constitution itself was made out of
the judicial pronouncement because the outcome of the judicial pronouncement went against the intention of the legislature. Therefore the legislature reiterated their intention in a modified form and that was enacted. Therefore, not only in Indian Constitution or Indian system but many other countries where this system is there it prevails.

Secondly, many of times the judgment of the courts defer in the current case the supreme court gave a judgment in a tax case recently for which I had to go to an amendment in an earlier case which is known as a Magdwell case. The judgment was completely reversed. Different high courts are giving different judgments but why the latest judgment is prevailing because that is the law, the last judgment will prevail, previous judgment will not prevail, but that does not mean that judgment has no relevance.

Secondly, the prospective amendment has been done in the taxation laws not only in India but even recently in the UK. Section 58 of the Finance Sector of 2010 was amended and a retrospective effect was given from 1987. And British Court of Appeal offered that Amendment of Section 58 of the Finance Act of 2010 would give a better retrospective from 1987 is valid because somebody made his tax planning in such a way to avoid the taxes that is at the cost of the general tax payers is not acceptable.

Thirdly, that number of times and it is quite obvious in any growing society and system it is bound to happen that court will interpret in a way, taking the interpretation of the court into view, the legislature will express their rules, adjusting it either accommodating or rejecting, but adjusting it and it will get reflected in the legislatures. And if you allow me, I will just expand a little more, from 1950 when Indian Constitution was amended. It was introduced 1950 to 1968; 18 years, Indian judiciary accepted the position that the Indian Parliament has all the power to amend any part of the constitution. 1968 for the first time supreme court say no, Indian Parliament has no power to amend the fundamental right parts of the Indian Constitution.

Then a series of court cases took place. At that point of time, the then Prime Minister dissolved Parliament, went to the electorate and said that, “I request special majority to amend the constitution to vest Indian Parliament with constituent power so that the judiciary cannot interfere with the laws passed by parliament in its capacity as constituent power,” exercising constituent power. Indian Electorate gave their verdict. Constitution was amended, 24th Amendment, 1971.

Again, Supreme Court gave that verdict in 1975 in another case that, “Well, you have constituent power, but you cannot change the basic character of the constitution.” And what is basic character? Supreme Court said, “Are you determine what is basic character? I will not define what is basic character, but I can give illustration. Parliamentary to the system is basic character. You cannot switch form parliamentary system to any other.”

Therefore, the short point which I’m trying to drive at, that this is nothing new in any living society, any dynamic society. The differences between interpreter of the law and the law makers would continue and it will have its own way of resolution by both staying side by side, having peaceful coexistence, therefore nothing wrong in it. Thank you.

C. Fred Bergsten: Mr. Minister, we thank you for that formidable analysis of the constitutional system in India and we thank you for your very precise, very specific, and very thoughtful responses as well as your candor. I want to thank our colleagues from the Confederation of Indian Industry for cosponsoring this session, I want to thank all of our audience and I want to invite all of you to the reception that we are hosting on our patio out back, we have food and drink, we invite you to join us there for further discussion of all this. Mr. Minister, we deeply appreciate your coming. We wish you the best of success with your meetings for the rest of the weekend. Thank you very much.