

Has the Curtain Lifted?

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Ever since it was sworn in, the NDA government has been keenly watched for clues about its economic strategy. The markets and corporates had a wish list that included the slashing of UPA subsidy programs, roll-back of retrospective tax obligations, the privatization of nationalized banks, removal of labour regulations and an increase in the caps on FDI in insurance and defence.

On the other side, the NGOs and their backers feared the dismantling of MGNREGA and the National Food Security Act (NFSA). As he introduced the budget, the Finance Minister promised that his speech would “lay down a broad policy indicator of the direction in which we wish to take this country”. So the curtains were about to be lifted.

As it happened, in a long rambling speech, quite the opposite of his TV persona, Mr. Jaitley put us all to sleep. The speech offered few decisive directions as the minor and the major were all strewn in with no special emphasis and no grand strategy.

The budget allocations do, however, suggest that the emphasis is on infrastructure and urbanization: smart cities, funds for municipalities, safe drinking water, highways, ports, rural roads, warehousing for agriculture, and rural infrastructure.

All of this is welcome; yet even if the money is there, will these projects be executed without cost and time overruns? What will the government do differently this time? Mr. Jaitley announced budgetary support to set up an institution to develop better models of contracting. This may be the most important initiative in the infrastructure sector.

Urban improvement programs run into another difficulty: how can municipalities and cities be incentivized to make best use of funds? How does one draw the line between overbearing regulation and a helpful prod? We have wait to see if the NDA government has better ideas than its predecessor.

On subsidies, the Finance Minister announced an intent to “overhaul the subsidy regime” to make them more targeted. While some scope for targeting might exist for petroleum subsidies, it is not clear what the government proposes to do for food subsidies. The expansion of uniform but limited entitlements (of 5 kg of grain per person) to 75% of rural population and 50% of urban population in the NFSA came about after evidence mounted that targeting excluded much of the poor. Most of the non-poor who receive subsidies are not super-wealthy either.

The government can do better by thinking of better ways of delivering subsidies. On this, the budget speech was silent. There was no mention of PDS reforms, UID or direct benefits transfer.

No major initiatives were announced for health and education either except for high end hospitals and higher education institutes. Funds are not the only constraint for expansion of such institutions. The big hole in higher education is the lack of quality faculty. This has to be addressed first.

The Finance Minister had a difficult job in putting together a budget in less than two months. What his speech shows is that a coherent policy and world view is yet to emerge. While Mr. Jaitley announced his government would work closely with State government to promote competition with regulated markets, this contradicted the pre-budget stance of trying to stem food prices by regulations and laws. His speech also announced a price stabilization fund even though elsewhere it is declared that FCI will have to be restructured. It is not clear how the principle of “Minimum Government, Maximum Governance” guides the multitude of allocations ranging from sports, handicrafts, indigenous cattle breeds, and film and television institutions. The curtain has not lifted fully.