

Gainers & Losers
 Fri Aug 25 2023 13:04:53

TOP GAINERS	TOP LOSERS
Bajaj Finserv share price	1,501.8 2.23%
Bajaj Finance share price	7,199.8 0.9%
Asian Paints share price	3,246 0.26%
Kotak Mahindra Bank share price	1,787 0.4%
Tata Motors share price	613 0.35%

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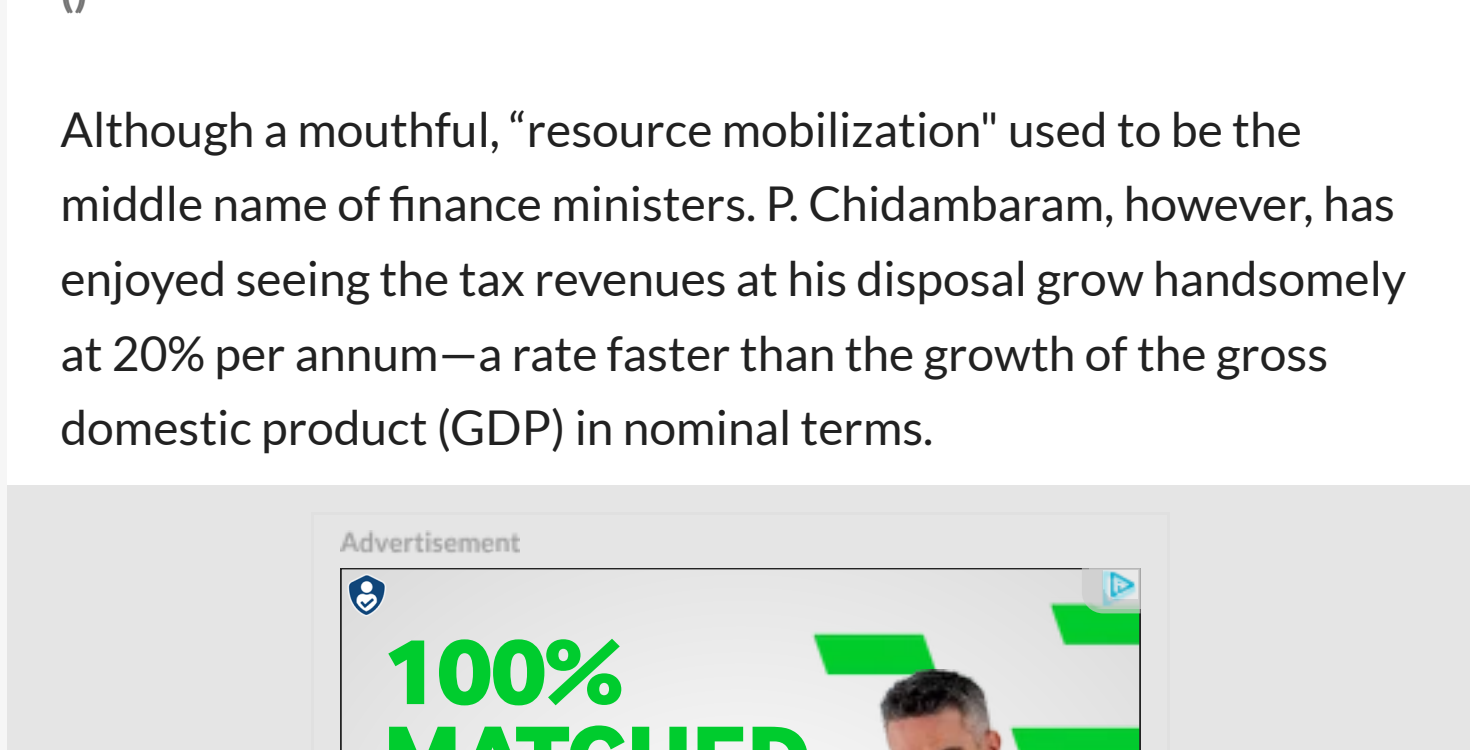
Adani Power share price	323 -1.78%
Bharat Electronics share price	133.95 -0.26%
Tata Steel share price	117.3 -0.8%
State Bank Of India share price	572.35 -0.75%
Zee Entertainment EnterprL	268.7 -1.32%

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Bharat Ramaswami

How to spend a million bucks



Although a mouthful, "resource mobilization" used to be the middle name of finance ministers. P.Chidambaram, however, has enjoyed seeing the tax revenues at his disposal grow handsomely at 20% per annum—a rate faster than the growth of the gross domestic product (GDP) in nominal terms.

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As a result, the Union government now receives more than one-tenth of GDP as tax revenue—a ratio at its highest in many years. Strong economic growth on the back of sustained tax reforms has delivered this bounty to the government.

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Manmohan Singh's government came to power seemingly determined not to repeat the mistakes of previous regimes—either the National Democratic Alliance (NDA) or his own Congress-led government of the 1990s. The mantra is "inclusive growth"—a catchy way of saying that incomes must grow all the way down the line.

Between 1999 and 2004, aggregate GDP of the non-farm sector grew at more than 7% per annum. In other words, per capita incomes in this sector must have risen at 5% or more every year. Meanwhile, agricultural labour—the bulk of the rural poor—wasn't getting very much by way of a raise. Their wages grew by 3% for the entire period, i.e., annual growth rate of 0.6% or so per annum.

It is hard to know whether it was the economic stagnation of these toiling masses that led the NDA to its surprise defeat. But surely the politicians remember. And now, because of the revenue boom, this government can match resources to rhetoric. The employment guarantee scheme received the most press, but there are others too—literacy, rural health, urban renewal and rural infrastructure through Bharat Nirman.

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It has been much harder though to make sure that social services and infrastructure—employment, health, education, and sanitation—are delivered efficiently. In one of his earlier budgets, Chidambaram coined the phrase "from outlays to outcomes" to highlight the problem.

The issue remains. Recent reports about how the employment guarantee programme plays out in the field are not encouraging. Those who advocated this programme believed that social audit and use of the right to information could curb the worst kind of abuses. A team of these activists was violently repulsed from Jhalawar district of Rajasthan for attempting such an exercise. Indeed, the initial reaction of the state government to the incident was anything but sympathetic arguing that independent audit was neither necessary nor desirable. Most people would agree that this is an enormously complex problem possibly beyond the scope of any single set of economy managers. Yet, progress can be made. Here is one example.

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The public distribution system (PDS) is the mother of all these social programmes. With the food subsidy touching Rs30,000 crore, the system is not cheap. Neither is it effective in most places.

There are two problems. First, the subsidies are not well targeted. Many of the poor do not get it, while many of the not-so-deserving receive it. The second problem is that the system is poorly administered. On their way, grain supplies vanish and do not reach the consumer. For both these reasons, PDS is expensive.

The NDA government believed that it could lick the first problem. In fact, the targeting that it introduced only served as a formula for transferring subsidies to the state. The targeting criteria on the ground were left to the states. Some of them did a better job than others.

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But in the end, the task is itself thankless because there is no perfect way of classifying one household as poor and another as non-poor. Errors will be made and they have been made. At the end of it, the so-called targeted PDS is not in fact friendlier to the poor.

While it is difficult to resolve the issue of targeting, it is not so hard at all to reform the system for greater efficiency. PDS is a parallel marketing structure with about one-fourth the volumes of the regular marketing system. Costs are higher and with huge gains from illegal arbitrage between the low priced grain of PDS and market supplies, waste is what we will get. Estimates range from 30% to 50% (of what the government spends) at different places and different points in time.

As many observers have realized, it is hardly necessary to deliver subsidies in the present manner. Cash or purchasing power can be directly transferred to those eligible and the normal market channels can be used to move grain. Chidambaram has himself been convinced of its advantages; surely he could have done a little more to persuade his colleagues in the states.

Inclusive growth is not a matter of financial allocations alone. To align individual incentives so that the system delivers services to the poor is not that hard, provided we are pragmatic about the means.

Bharat Ramaswami is professor, Indian Statistical Institute, New Delhi. Comments are welcome at theirview@livemint.com

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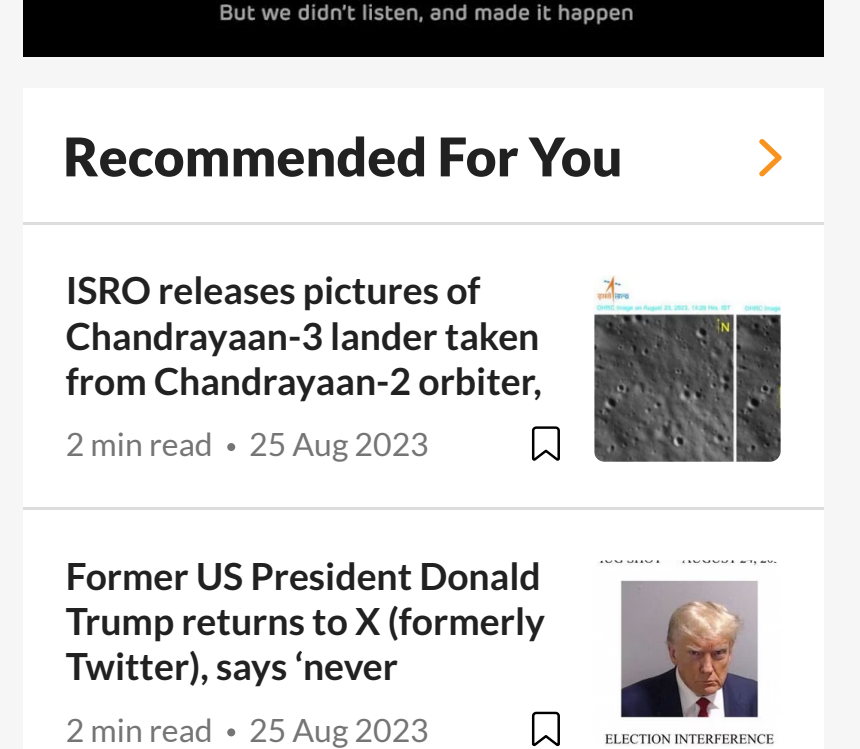
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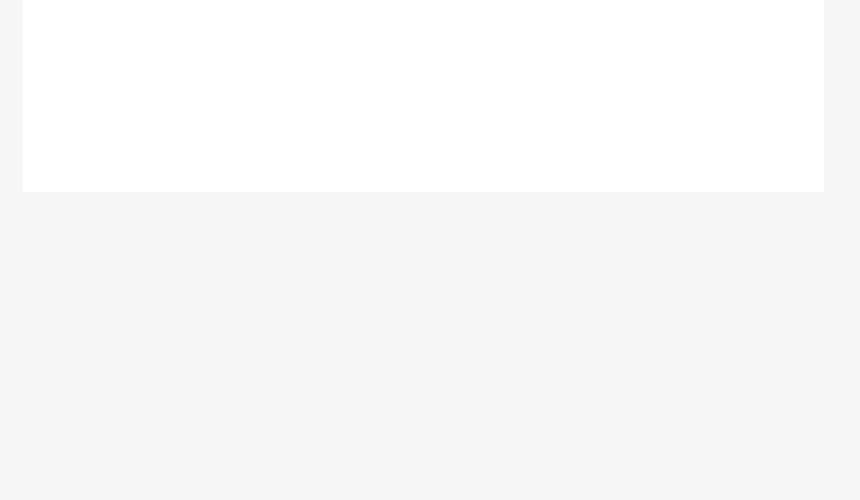
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