

Pedestrian Budget, Highway Goals

*Note: A Comment on budget 1999-2000 written for Economic Journalist **

Budget, apart from being an accounting exercise, is also an important policy statement. In a globalising economy it is the policy statement or intent of the Government which attracts substantial attention, both at home and abroad. World capital centres are critically watching the intentions of different Governments across the continents to decide where to invest and from where to withdraw. And it is in this world context, apart from the domestic context, that any budgetary exercise has to fit and is to be evaluated.

Every budget has two basic objectives: (a) to correct any angularities in the economic scheme of things that may be observed at the time of framing the budget; and (b) to lay down the economic and financial framework for future of the economy to be able to move along an accelerated growth path. Budget 1999, attempts to achieve these twin objectives with subtleness and finesse not observed in the earlier budgets, It has, thus, received widespread acceptability both from public and business, with possible political gains for the BJP.

At the time of framing the budget, the economy was observed to be plagued by a few negatives. More important of these were (a) high level of fiscal deficit, much beyond that provided for in the 1998 budget; (b) a flagging industrial growth rate and consequently depressed securities index in desperate need of revival; (c) high interest rates in an economy which, at least in terms of financial markets, is globally well linked to the world financial markets with much lower interest rates; (d) sagging exports bringing the country close to a BOP crisis; and (e) considerable regional imbalances arising from sectoral favours and neglect, sectors which prefer certain locations as against others; these imbalances being more reflected in differing levels of infrastructure as between regions and states.

Budget 1999 attempts, seemingly successfully, to attack these various negatives in the economy as at the time of framing the budget. A package has been provided to the industry, which industry has appreciated and fairly well responded by a smart jackup in the sensex.

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A beginning has been made, albeit through RBI, to reduce the interest rates which, hopefully will also boost infrastructure apart from industry and help industry move towards globalization.

Effort has been made to put in place a package for exports also, though at a lower key the results of which will be known in a few weeks. And regional imbalances are expected to comedown with better infrastructure planning, and greater dispersal of outlays, possibly on private account, to less favoured areas. Part of the correction may also come from improved agricultural and rural development outlays.

One negative feature that budget attempts to correct, that is fiscal deficit, deserves special comment. This is one exercise which commands little faith of the people at large as also of budgetary experts. Here, each year, accounting skills are bought into play to deflate the budgetary gap for the prospective year, at least on paper, and then events are allowed to have their own course with consequences for the budget, and its deficit component, which no Finance Minister cherishes. If story will be different through 1999-2000, time will tell. Symptoms, as well environment, are not at all favourable and do not inspire confidence in what budget wants to say and nation wishes to experience.

The Budget assumes Rs.10,000 crores from disinvestment and over Rs.9000 crores in additional taxation. If these resources do not come through we would have a larger gap than provided for in the budget. More worrying is that if it comes through, will the moneys realised be spent productively to obviate the need for further disinvestment and additional taxation over the coming years just to cover revenue gaps. In a capital starved economy, capital becomes a critical factor in growth. If, however, what is capital in private hands is expended as revenue in public hands, we will be wasting a critical resource. It is now well documented that resources in private hands render a higher yield as compared to resources in public hands. If this be so, should transfer from private to public hands be

encouraged, or should the process be reversed. Reversal of this trend is very important to improve ICOR, a key variable in accelerating growth.

Agricultural and Rural Development

The effort of Budget-99 to focuss on agriculture and rural development is to be lauded. The incremental capital output ratio (ICOR) is much lower in agriculture and rural development sectors, as compared to other competing sectors, and if budget can further activate the rural sector, achieving an improved GDP growth rate will be easier. But this sector is also highly vulnerable to wastages. To ensure productive use of resources transferred to rural areas is an uphill task. Here sums are small and highly dispersed, intermediary cuts in percentage terms are large, intended recipients and actual beneficiaries relatively ignorant, and writ of any vigilance effort non-existent. The Government must urgently look at the administrative structures existing in rural areas, before power and resources are placed at their disposal. It will be unwise to go through the process of development through a status quo system and then report a "system failure". Failure is a failure, no matter now contrived.

To secure increased resources while reducing plan outlays sends out the message of state profligacy-and definite lowering of productivity/efficiency levels of state outlays. There exist, under the Government umbrella, a number of institutions/organisations which have no resources for any consumables or equipments to perform any work after they have paid out the wages of all their employees. Their only output is the carry on of the institution itself. Unless reforms that are currently limited to lands. Specially agricultural lands, deepening of reforms cannot be claimed. Contract farming is the new mantra for raw material supplies to agro/industrial units and it has its problems in a "socialistic" society. How to merge reforms and socialism,- how to make contraries consistent - is a delicate task which will need political will of the level not yet reached by the Government of the day. Could the plan size be maintained through reduced non-plan and non-productive expenditure - or at least size of new resources sought

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from the system be curtailed? Alternatively, increased resources could be used to reduce public debt. This is important for putting the economy on a long - term growth path and take it out of a possible debt trap.

Marginal analysis can not be a basis for modern day Government budgets but it can be a useful reference point. National resources should be so distributed between private and public expenditures that marginal productivity in each sector is approximately equal. So long rate of growth of revenues resources raised each year by Government is higher than the rate of Growth of GDP, the message is that marginal productivity of incremental resources in Government hands is higher than the productivity of such resources in private hands. And in the present day circumstances this is patently untrue. If this be so there is need to bring about a major correction in raising of Government revenues. The rate of growth in revenue resources appropriated by Government system each year should be kept below the annual rate of growth of GDP, if over-all productivity of scarce national resources is to be improved. If appropriation by Government of annual incremental GDP remains high, as at present, we will be soon reaching a point where an unbearably large proportion of GDP will be required to maintain the Government system and not much will be left for people to improve or even maintain their standard of living.

All in all, 1999 budget is a good pedestrian budget, rather slow for the Indian economy to get on to the global highway.

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