A transformative budget?

EXPERT VIEW
SUDIPTO MUNDLE
Respond to this column at **feedback@livemint.com**

Budget speeches are all about messaging. You play up what you want your constituents to notice. You play down what is less appealing. A sober assessment of the budget requires that we get beyond the messaging to the actual numbers and the substance. In my earlier piece, following a quick scan of the macro numbers immediately after the budget presentation, I had described the budget as predictable but unrealistic (published in *Mint* on 1 March).

Unrealistic because the widely applauded adherence to the 3.5% fiscal deficit target is just a sound bite without credible substance, based on heroic assumptions about realizations from spectrum sale and disinvestment. Predictable because all the hype about focus on farmers notwithstanding, this government's well known tilt in favour of infrastructure has been sustained. The allocation for agriculture and rural development, including "irrigation and flood control" amounts to a mere 3.28% of the Plan outlay!

Apart from the priorities reflected in the broad numbers, the budget speech also announced several reform proposals and schemes as is customary. Here, I review some of these to assess whether the budget is indeed transformative as the finance minister (FM) has claimed. I do this following what he called the nine pillars of his budget.

Not much money has been allocated to the first pillar, agriculture and farmers welfare. But FM has announced the setting up of a Unified Agricultural Marketing E-Platform that requires states to amend their Agricultural Produce Marketing Committee (APMC) Acts. This is potentially a far reaching pro-farmer reform. APMC Acts have severely restricted competition in agricultural markets, thereby enabling traders to enrich themselves at the cost of our hapless farmers.

Among other initiatives for agriculture, the push to irrigation, especially completion of many languishing projects, is welcome. So is the proposed use of MNREGA (Mahatma Gandhi National Rural Employment Guarantee Act) employment for digging ponds and wells, extremely valuable for water storage in rain-fed agriculture. However, the long-term irrigation fund could be at odds with the programme for ground water management. It will finance private irrigation projects, mostly wells and tube wells that are primarily responsible for over exploitation of ground water.

For the rural sector pillar, the budget speech refers to a grant of ₹2.87 trillion to gram panchayats and municipalities that may significantly strengthen local governments. However, this is a mandatory grant by the 14th Finance Commission under article 280(b) and not a discretionary grant by the Union government. This apart, the most significant rural intervention is a unified digital national land record system. Eventually this could completely reform a highly distorted land market. The big push to the Pradhan Mantri Gram Sadak Yojana rural roads programme, listed under agriculture, is also welcome. First introduced by Atal Bihari Vajpayee, it has emerged as the most successful rural infrastructure programme.

The social sector and healthcare pillar offers little. The reference to a "new" health insurance scheme of ₹1 lakh per family is a re-packaging of the labour ministry's erstwhile Rashtriya Swasthya Bima Yojna scheme with no commitment of additional resources. The education, skill and job creation pillar is also woefully inadequate. To address the huge challenge of poor school quality only a few new Navodaya Vidyalayas are proposed. To address India's poor performance in quality of higher education, a regulatory architecture is promised for the top twenty public and private institutions. Is poor regulation the main weakness of our institutions of higher learning? And if so, then what should the hundreds of other institutions continue to languish in mediocrity? The National Skill Development Mission is to be leveraged with an entrepreneur incubation programme (Pradhan Mantri Kaushal Vikas Yojana). How can this possibly enable massive productive job creation when the quality of our primary and secondary education, the basic foundation for skill development, remains so weak?

> The govt saying that it will stick to the 3.5% fiscal deficit target is just a sound bite without credible substance

It has to be noted here that the foregoing pillars, agriculture, the rural sector, and social sectors like education and health are mostly in the states' domain, the State List, in the Constitution. Hence, low priority given to these sectors in the Union budget spending proposals. However, there are many challenges under these pillars that need to addressed nationally. The Union government alone can coordinate such national initiatives. It would serve national interest best if it did so in partnership with states through the Inter-State Council, a constitutionally mandated institution for cooperative federalism, instead of top-down, micro-designed, "one size fits all" centrally sponsored schemes.

Much has already been said about the high priority assigned to the fifth pillar, infrastructure and investment. To this must be added a whole slew of proposed reforms relating to foreign direct investment; a dispute resolution framework for contracts in infrastructure construction, PPP (Public-Private Partnership) and public utilities; a credit rating system for infrastructure projects; and a new policy framework for public enterprise asset management. Infrastructure and investment is in fact the main pillar of the budget, and of this government's economic policy, the Gujarat model projected on a national scale. Revival of the private investment cycle, maintenance of high growth, employment generation, "Make in India" and exports, all depend on how effectively the government delivers on this agenda.

Several reforms are also proposed under the financial sector pillar. An amended Reserve Bank Of India Act will fundamentally change the way monetary policy is conducted. A code on resolution of financial firms will address bankruptcy challenges for domestic financial institutions. The Insolvency and Bankruptcy Code for other firms will help develop the corporate bond market. An amended SARFAESI Act to encourage establishment of asset reconstruction companies will ease the stressed assets burden of public sector banks, the main challenge in the financial sector.

The additional injection of ₹25,000 crore to recapitalize public sector banks under the Indradhanush programme is only a fraction of what is required. But will such capital injection not amount to pouring more public money into a bottomless pit without drastic reforms, including share dilution, to ensure that their balance sheets are not again eroded in future?

The focus of the "governance and ease of doing business" pillar is process reforms, especially progressive recourse to IT-enabled processes to reduce irritants in public interface with government agencies. Parliament has just legislated an Act establishing Aadhaar as a platform for transparent, leakage protected, direct benefit transfers to vulnerable citizens. Already initiated with cooking gas subsidy, this will be gradually extended to fertilizer subsidy and other transfer payments. Transactions in fair price shops and government procurement will also be placed on IT-enabled platforms.

Under the fiscal discipline pillar, the proposed review of Fiscal Responsibility and Budget Management Act is most welcome. As pointed out in my previous budget article, fixing the fiscal deficit target as a percentage of gross domestic product (GDP) as at present is dysfunctional, forcing a pro-cyclical fiscal policy stance when in fact fiscal policy should be counter-cyclical. Eliminating this dysfunction, and targeting a structural deficit, is all the more important when normal business cycles are replaced by highly volatile nominal growth fluctuations as in India. Eliminating the priority distorting distinction between Plan and Non-Plan expenditure is effective 2017-18 is another useful fiscal improvement. So is the intention to introduce a sunset date and outcome review for every new scheme that is approved.

The last pillar, tax reform, is the most disappointing. Barring some useful initiatives to reduce litigation, there is little positive movement under this pillar. Reform of the indirect tax system is on hold with the Goods and Services Tax (GST) bill stalled in the Rajya Sabha. The code intended to simplify and reform direct taxes has now completely gone off the radar screen. Meanwhile, ad hoc rate adjustments and new cesses have been added that make the tax system more complex. Several exemptions and concessions have been withdrawn, but a whole range of new concessions and exemptions have been introduced. Moreover, a budget document that detailed the revenue foregone on account of tax exemptions and concessions has been withdrawn, making it impossible to verify the claimed net impact of all this tinkering. FM expects the GST bill to be enacted in this budget session. But until that happens, we are clearly moving backwards on the agenda of tax reforms.

Returning to the original question of whether or not the budget is transformative, the forgoing review reveals a mixed picture. There is backtracking on tax reform. There are also no significant reform proposals or schemes of great significance for the social sector, health and education, skilling and job creation. But there are several significant reform proposals or schemes under agriculture, rural development and fiscal reforms. The strongest suit of reforms and investments are proposed for infrastructure and investment, the financial sector and ease of doing business. Does that add up to a transformative budget?

Budgets are statements of intent. Revenue and expenditure targets, reform proposals and individual schemes are all intentions. The reform proposals and major schemes discussed above constitute a significant package of intentions. Whether or not they are transformative depends on how effectively the Union government translates these intentions into results on the ground. We shall just have to wait and see.

The author is emeritus professor at the National Institute of Public Finance and Policy and a senior visiting fellow at the Centre for Public Affairs and Critical Theory, Shiv Nadar University, New Delhi.