The Hindu Business Line, 7 March 2016

‘Budget lacks political boldness’

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March 7, 2016:

The Union Budget lacks political boldness as the government has frittered away its political capital on issues irrelevant to the economy, said political scientist and president and chief executive of Centre for Policy Research (CPR) Pratap Bhanu Mehta.

“There is no political boldness in the budget. The Government’s political capital has been spent (on) cultural battles,” Mr. Mehta said, addressing select economists and analysts at the Union Budget 2016-17 seminar organised by the CPR along with four other institutions — Indian Council for Research on International Economic Relations (ICRIER), India Development Foundation (IDF), National Council of Applied Economic Research (NCAER) and National Institute of Public Finance and Policy (NIPFP) on Saturday.

Mr. Mehta said that the Budget lacked both investments in and strategies for state capacities. “Do we have the mechanisms for dealing with stuck assets? Where in it is the strategy for basic state functions of police and judiciary and the like? What is the 10-year delivery plan for education and health?” he asked. The fiscal prudence of the budget, he said, was not a strategy or borne out of conviction. “Instead, it is like, the world economy is on an uncertain trajectory, so let’s be prudent.”

NCAER Director Shekhar Shah said that fertiliser and food subsidies that needed a lot of developmental effort, represented the budget’s missed opportunity as it was already late in the political cycle to start on them now.

The Budget made some bold political statements on the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) and, allocations for rural roads and gram panchayats were important steps, Mr. Shah said, adding that the autonomy and capacity in the States were issues to watch out for.

The streamlining achieved in the Budget, with the number of schemes down from 1,500 to 300, was not enough. “We’ve gone from Licence Raj to Scheme Raj. The tendency is to design schemes for everything.” Mr. Shah said that he would have liked to see a clear framework of evaluating who enjoyed the benefits of the new crop insurance scheme. “Insurance markets are not the best markets. They fail — especially in agriculture where risks are highly correlated.”

Mr. Shah also pointed out that one of the ways the Budget had managed to show a big increase in the allocation for farmers was bringing in an interest subsidy scheme that was placed in the last Budget under the Finance Ministry’s spending heads to the Agriculture Ministry. The scheme, he said, had received Rs. 15,000 crore this year, but not all of that was additional allocation, since in the last Budget it had received Rs. 13,000 crore. “The irrigation and water management push is the right direction to move in, but a whole lot more is needed.”

Concurring with Mr. Shah, IDF Director S. K. Shanthi said huge amounts of transfers of Rs.2.87 lakh crore a year had gone to the village panchayats, which had no capacity to build roads and keep books. Efforts and time needed to be invested in capacity-building at those levels, she emphasised. The new crop insurance scheme would be unsustainable for the government, she said, sharing Mr. Shah’s concerns. Since the average number of years of schooling was just about five to five-and-a-half years due to the problem of dropout, the Skill India initiative was likely to face a challenge, Ms. Shanthi said.

The 14th Finance Commission, which recommended the doing away of the distinction between the two types of transfers from the Centre to States — from the divisible pool of the Centre's tax collections and transfers from the Plans — had severely restricted the Centre's spending, she said.

"Fiscal devolution has ultimately led to functional devolution and the capacity constraints could make this a very costly experiment. Social sector services have got devolved to State governments." While school education had got devolved completely to State governments, she said, water and sanitation would go to local bodies.

Expressing relief at the budget announcement regarding the committed fiscal deficit targets being retained unchanged at 3.9 per cent of GDP for the current year and 3.5 per cent for 2016-17, NIPFP Director Rathin Roy said: "When you borrow more to consume, since we don't print money any more, others have less to borrow for investments." He hailed the realistic targets for tax collections. "The Budget doesn't have zamindari-style targets for tax collection." The Budget retains "bad habits" such as the cesses, which, he said, were essentially "thefts" from the divisible pool of taxes shared by the Centre and States. While it was being politically called a budget for farmers, there was no spending boost, developmental or otherwise, he said. There was, in fact, zero per cent change in public investments as a percentage of GDP, he said.

ICRIER Director Rajat Kathuria said that the Budget contained "tinkering" of duties that was in the nature of protectionism. Although external vulnerabilities were present, it could have done enough to boost exports that had been declining for 14 straight months, he said.

(This article first appeared in The Hindu dated March 7, 2016)

(This article was published on March 7, 2016)

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