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Budget y2k1: An Irreverent View

J P Singh

**Indian Institute of Management, Ahmedabad
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Abstract

Based on an analysis of the budget 2001, the paper highlights assumptions underlying the proposals that are expected to lead to national growth. It suggests that the budget should be evaluated in terms of the net outcome to the nation rather than on the promise it makes for the future. It further suggests that the future planning for development should be a result of an open debate with the government sharing with the nation its goals, priorities and means to achieve those goals.

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Industry, the Financiers, the Market-men, and politico-economic advisers are all reported to be happy with the Budget 2001. Few contrary voices have been lost in the din.

The Disclosure

But unknown to the folks that turned away from live coverage,

The car and two wheeler prices were being lowered, as were the prices of the home supply of aerated soft drinks.

Processed fruits and vegetables were being promised to be within an easy reach, compliments zero excise.

Education abroad was being made easy.

The power program was being accelerated and the SEB's were being exhorted to put their house in order.

Also unknown to them,

The prices of edible oils were increasing as were that of biscuits and sundry other items. The funds for domestic education were being reduced despite a booster shot for technical education. Other infrastructure was getting out of sight, not being of immediate importance.

The Growth Model

Perhaps underlying the budget proposals is a model of growth that needs to be spelled.

The proposals assume that if automobile industry grows, industry grows. If fruits and vegetables are processed, the agriculture grows. And if power projects are programmed, the nation grows. This I am sure many will agree and will support whole-heartedly.

But what is good for a country with vast open spaces and a comparatively small citizenry may or may not be good for the congested cities and a large population.

The Alternative Model

So let us look at the con side of the pro.

Cars, including the second hand wide-bodied variety, need wider roads, more petroleum, more CNG conversion and more technology to combat pollution.

Today, an average Delhiite or a Mumbaikar spends approximately 3 hours in compressed condition just to go to work and return home.

Assume that on a circular rail-track in a city a train plies every 15-20 minutes; after duly paying rent if privately run. And for the time being only in one direction due to a single track. Further assume that most areas adjoining the track are declared a commercial zone.

Similarly assume that in another city, on a new rail line a luxury suburban train plies enabling top & senior executives to leave their cars behind and hold meetings over breakfast to be met by the office car on arrival. Or a marine conveyor to supplement the quick-rail.

Further assume that industrial units are enabled to set up plants for not only own consumption but also to sell surplus to neighbourhood after paying excise. Also assume projects varying in size from micro to mega and varying in venture from private to joint, are allowed to operate free of shackles. Will the nation not have the project funds, technology, market, manpower, management or what?

But then all this requires changes that go beyond numbers.

The Savings

Swaying, tantalizing models apart, one still needs investment that fuels growth. On this count the FM cannot be faulted.

The multi-pronged attempt in the budget to transfer savings and gains to the capital market is an obvious indicator of government's faith in the market economy. The evident assumption is that if citizens put their savings in the capital market, the market will launch major projects and growth will follow.

One hopes that this faith does not become another tide that killed the golden goose for the fifth successive time since 1992. If so, the government would have succeeded in enriching the trickster at the cost of unhappy Defense Officer and the old age pensioner.

Perhaps the government and the regulators have a plan to ensure increase in shareholder value and a change of heart of the Market Maker. Perhaps there is also a plan to differentiate between the speculators, and the short, medium and the long-term investors. Perhaps there is also a plan to distinguish between the income from work, games of skill and gambling.

If so, a peep in the future will be highly appreciated.

The Debate

Some debates refuse to go away, even after judicial intervention. Disinvestment of PSU's is one such, even though the village poor did not pay any taxes to build them.

Assume that the government did not need the 12K Crore to reduce deficit. Also assume that these Units were being allowed to operate efficiently, competitively, profitably. Would there still be need to sell?

If the sale is only to avoid bankruptcy, the nation has a right to know not just the second highest bid, as reluctantly shared with the parliament, but a lot more. After all, these units are not the private property of cabinet to be sold at will.

The Transparency

Nation has a right to know full details of the evaluation process, the consultant's report and access to management information in case of challenge to the conclusions. It also has a right to know the opinion of various decision influencers, the management, the bureaucrats, the advisers, apart from the minutes of the cabinet that justify decision, and the source of funds for purchase. In other words, nothing less than full transparency in decision making.

The nation also has a right to know why the alternative to make these units efficient can not be tried, like giving autonomy to the management and a wholesale change in the Board of Directors.

Figures and Estimates

It is interesting to watch the industry captains talk of reducing national debt through the PSU sale. This when payment on interest account is approximately 112 K crore, an approximate 70% of the total tax revenue, while the sale of PSU's is expected to yield a measly 12 K crore. In case one forgets, the budget proposes a 27% borrowing just to be able to pay back 26% of expenditure on Interest count. If there were no fresh borrowings and the interest due was paid as scheduled, the balance available would be only 47% of the proposed budget, inclusive of all sources of income.

Obviously, the industry enthu, Dear Watson, is for something else.

Consequently, one must ask the FM: what shall we sell next? When?

The Outcome

Since simple folks do not understand inflation, fiscal deficit, wholesale price index and rates of growth, one may overlook these estimates. In any case most of these calculations will soon fade away to surface again next year for a casual dismissal. What will survive are the actions and results.

Thus, at the end of three successive budgets one needs to ask about the net result in terms of:

Total growth in the GDP

Reduction in the Total Debt

Change in the Rupee-\$ Rate of Exchange

Cumulative Inflation, and

Numbers Below the Poverty Line using a consistent criterion.

The Questions

One also needs to ask: when will the Finance Minister address the issues of Parallel Economy, the Unrecovered Taxes and the NPA's, since bank bailouts come from the budget.

Also, when can the consumers expect a change from the MRP to FPP to ensure equity between the buyer and the seller, an equity that goes beyond the one between domestic and international producer?

And when can simple folks expect to change their status from a debtor to a creditor nation.

The Future Planning

Growth, Reforms, Efficiency and Equity are all laudable goals. But an open debate on the means to goals is essential.

As a nation we need to know what is the government's proposed model of growth that provides a better quality of life, particularly to the low-end citizens. And what are the alternatives. We need the Media for an open debate. Unfortunately, the Parliament can, at best, devote only a limited time to the issues of poverty and development.

In a democracy, one expects Future Planning to be an open process rather than an act of magic with leading luminaries seated around round tables waiting for a rabbit. Since such openness may not be possible during the pendency of the present government one is driven to make a request, a la mode prevailing planning process.

Will the Finance Minister consider Zero Excise for the Grain and Flour based Non-Cream, Non-Chocolate, Non-nutty Biscuits, an occasional luxury for those Below the Poverty Line and a Ready-to-Eat Meal for those Marginally Above the Poverty Line. Such an act may also help agriculture, just like the fruits and vegetables and may even reduce the accumulated stocks of FCI.

Even desirable rationalization needs a human touch.

Dr J P Singh is Professor, International Management &
Organizational Behaviour at the Indian Institute of Management,
Ahmedabad.