

Home » [Opinion](#)


## Limits to what the Budget can achieve PREMIUM

Updated - November 14, 2017 at 03:59 PM.

For Budgetary outlays to have the desired results, they must be supported by proper policy design.

BY NILANJAN BANIK

 COMMENTS [SHARE](#) 

 READ LATER



The Budget deals with allocating money towards areas where the government thinks it is essential to spend, and finding out ways such as taxes, to finance it. The Government primarily requires money to spend on social infrastructure (such as schools, hospitals, water, sanitation, etc.), physical infrastructure (such as railways, roads, airports, etc.) and to transfer funds to the poor and the deprived, so that distribution of income becomes more equal. Too much unequal income distribution can instigate revolt, and in the case of democracy, can vote the government out of power. The Government also needs money for governance.

But there are limits to what the government can achieve through budgetary outlays. The Finance Minister can hope to control the budget deficit (how much to spend over and above the revenue earned). But what he cannot control is how efficiently the money will be spent.

There are two constraints to achieving the desired outcomes. First, when the policing mechanism is inefficient, or when there is corruption in the system. Second, problems can also arise because of faulty policy design, where the target group isn't responding to any specific intervention.

## CORRUPTION AND INFLATION

For instance, to address the perception regarding increase in income inequality, the UPA government started several market interventions. Schemes such as the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) are a classic example of labour market intervention, where a member from a poor household is guaranteed a minimum of 100 days of employment. The National Rural Health Mission (NRHM) is an example of intervention in health for disadvantaged groups, including women and children, by improving access to healthcare facilities. The idea is to reduce the infant mortality rate by at least 50 per cent from the existing levels in the next seven years. Capital market intervention through microfinance has also emerged.

However, merely allocating funds might not achieve the desired result. In Uttar Pradesh (UP), because of corruption, crores of rupees meant to be spent under NRHM scheme got wasted. Last year, the state of UP captured global attention when more than 400 children died of encephalitis.

In fact, the money lost through corruption can have economic repercussions in the form of inflation. For example, for the MGNREGA project, the Centre wants to employ unskilled labour in development works, such as building rural infrastructure. That is a noble idea. Besides generating income, the project hopes to build rural infrastructure, which may also curb fluctuation in agricultural output. However, because of

corruption, the project works seldom get completed. Such unproductive use of resources means money is already spent without any addition to real output, stoking inflation.

In addition, faulty legislation and policy design can make life difficult for the FM. Everyone agrees that India needs to spend more on physical infrastructure. A simple way to measure the poor state of our physical infrastructure is the number of days it takes to ship our produce outside India. Public investment in physical infrastructure in India is only 4.8 per cent of GDP, in comparison to China's figure of around 9.4 per cent.

## **POLICY DESIGN FLAWS**

When it comes to investment in infrastructure, there are two aspects. The first is the money part, and the second is the land where this investment will take place. As is evident, starting from Singur and elsewhere, the bigger problem is to acquire land, be it for industry and/or for infrastructure. To ease the process of land acquisition, the government came out with the new Land Acquisition, Rehabilitation and Resettlement Act, 2011. This is a classic example of a faulty legislation.

As per this legislation, when it comes to acquiring land, the state has to pay two times the market price if the land is in urban areas, and four times the market price if the land is in rural areas. In addition, for rehabilitation, a sum of Rs 1.36 lakh has to be given to the displaced household, and for sustaining livelihood, a job for one member in the household has to be provided, or a one-time payment of Rs 5 lakh has to be made.

To put in some numbers, if a ground of land costs Rs 1 crore in Chennai and the government wants to procure this land, then it has to shell out Rs 2 crore plus Rs 1.36 lakh for rehabilitation, plus Rs 5 lakh as a way towards sustaining livelihood for the displaced household. The calculation gets a little more complicated for the displaced people living in rural areas. As average landholding size varies from one state to the next, the amount of money that the state government has to shell out for

building industry will be far greater when the landholding size is small in comparison to when it is big.

This is because with smaller average size landholding, more people will be entitled to rehabilitation and sustaining livelihood cost, relative to when the average landholding size is higher. The average landholding size for farmers in Punjab is around five times than that of West Bengal, which makes the cost of procuring land more costly in West Bengal relative to Punjab.

Now, this can create problems. If the government wants to build some project on the basis of public-private partnership, then naturally, the cost of the project goes up in West Bengal — a relatively backward state in comparison to Punjab. Quite naturally, private companies might be reluctant to enter into collaboration with the government for nation-building activities in relatively backward states, leading to further regional disparities.

Like faulty legislation, faulty policy design, can also limit the performance of the FM. Take education, for instance. Despite the success in enrolling students in primary education, there is still a vast pool of the population stuck in the agricultural sector. In fact, 75 per cent of unemployment lies in the agriculture sector; 56 per cent of the population with a Master's degree earns only Rs 6,000 per month. Many corporates such as Axis Bank, ICICI Bank, BPCL, to name a few, have set up their own institutions, which offer a 2-year MBA degree. Despite good intentions, the government has failed to provide quality education at the post-secondary level.

## **PACKAGING MATTERS**

There is a need for better policy design. Primary education was successful because of meals given as freebies. Similarly, the children's immunisation programme — initially drawing not enough respondents in rural Rajasthan — all of a sudden become successful when the government decided to give free pulses and rice to the mothers of

children brought for immunisation. In rural Tamil Nadu, thanks to television sets given by the previous DMK government, women developed a fascination for going to beauty parlours. Each time they visited, they were given a free healthcare kit, taking care of unwanted pregnancies, and thereby controlling the population.

What matters isn't just the intent, but even more so a clever policy design and a proper legislative framework, so that the performers can be rewarded during the next budgetary allocation. Only then can the fund allocation through the Budget become effective.

(The author is Associate Professor at Institute for Financial Management and Research, Chennai.)