

Arvind Singhal: Budgeting for systemic efficiency

Unless the political leadership starts looking at the bigger picture it is unlikely that we can sustain high economic growth rates



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The last few weeks leading to the presentation of Union Budget have been, as always, full of second-guessing of the mind of the finance minister, and advice and suggestions from just about everyone who has access to the financial media even if she has limited or no influence on the Budget-making process. The suspense would be over tomorrow in any case, and hence there is no point in offering even more unsolicited advice to the finance minister today.

However, in recent decades, Budget speeches have also given an increasing insight into the economic ideology of the ruling party (or the coalition) and hence the first part of the Budget speech tomorrow may be more important than the actual proposals for direct and indirect taxations.

Since the first Budget presentation in 1947, the Indian economy has battled its way through different political and economic ideologies. At this juncture, it is only a matter of academic debate as to where India could have been today had it adopted a different approach to its economic and social development. What is more important is that if it were to ever join the ranks of a fully-developed country and have human development indicators comparable to other developed nations, it has to start working on improving the overall systemic efficiency of the nation itself.

It may, therefore, be a good idea if political parties, the bureaucracy, economists, industrialists, industry chambers and the public at large start applying more thought and making more efforts to identify the biggest systemic costs and drags on the Indian economy and then come up with appropriate ideological and policy corrections to give a more systemic stimulus to growth rather than just a slew of short-term fiscal stimuli.

Land probably tops the list of the most glaring areas of high systemic cost for the nation. Political and bureaucratic leaderships just have no understanding of how to make the optimum use of this increasingly scarce resource — needed directly by the billion-plus population and then by different sectors of the economy, including agriculture, industry and services. An antediluvian policy relating to land holding and consolidation, land use, permissible constructed area (FAR / FSI) and inappropriate norms relating to facilities and utilities such as access and parking of vehicles have led to India having among the highest costs in the world for all categories of individual and institutional users of land.

With a very young population, and a nation that is recording over 25 million births per year and a net increase of almost 17 million every year, India should not be seeing significant wage inflation. Yet, in the absence of appropriate and acceptable quality vocational and higher education, raging wage inflation takes a huge toll on the cost efficiency of the economy.

India needs exceptionally innovative solutions to its myriad challenges. Ideas and capital from any part of the world should be welcome. Yet, neither there is an efficient policy to encourage small and medium enterprises and entrepreneurs, especially in the services sector which does not have too many physical assets to offer as collateral, nor any proactive interest in attracting global investment into the country.

And the cost inflicted on the nation on account of the woeful state of physical infrastructure is well known to everyone.

Beyond the systemic costs, there are several systemic drags. The most critical one is that of the misguided populism relating to pricing of basic goods and services, such as railway fares and freight rates, petroleum, water, power and education. In the near term, this may translate into vote banks but in the long term, it hampers resource generation for creating more capacity.

Misdirected subsidies, whether they are (ostensibly) for supporting the farm sector or for exports or otherwise, end up using up scarce financial resources that could be better deployed.

And finally, a misdirected taxation framework, which ends up not only keeping the tax payee's base very low but also drastically reducing the effective tax rates due to a plethora of exemptions, further deprives the nation of the much-needed financial resources.

Unless the political leadership starts looking at the bigger picture and working on making India more resource-efficient — and a fundamentally lower-cost economy — it is unlikely that it can sustain high economic growth rates in the decades to come.

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