

Arvind Singhal on Budget 2010: Fundamentally Sound But Visionless

By [ARVIND SINGHAL](#)

Since the first budget presentation of independent India in 1947, the Indian economy has battled its way through different political and economic ideologies.

In 2010, 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 achieve what many in India believe -- that it is their destiny to be in the ranks of a fully developed country -- and if it were to ever have human development indicators comparable to other developed nations, it has to start thinking about making up for the lost decades. This would need radically different approaches for resource mobilization.



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India is deficient in just about every facet of physical and social infrastructure. With the population increasing relentlessly at about 18 million per year, India added over 85 million to its ranks (higher than the entire population of Germany) in the first United Progressive Alliance term, and will add another 90 million by the time the currently ruling coalition completes its term in 2014.

It needs to add more than 4 million hospital beds (needing a minimum investment of over \$300 billion) by 2020 to provide a reasonable level of healthcare access to its estimated 1.32 billion population by then. It needs to triple its current capacity in higher education (needing at least \$100 billion in investment). It needs to train or retrain roughly 450 million adults over the next 10 years if India's so-called demographic dividend does not become a demographic nightmare.

India, therefore, has to think of creating the same quantum of infrastructure (and jobs) in five or 10 years which developed nations like the U.S.A., Germany, France, and the U.K. have done over a century. Budget after budget, and finance minister after finance minister have tinkered with different components of the economy but have very rarely looked at the big picture and then applied a truly visionary approach to tackling the many humongous challenges India faces.

Union Budget 2010-11 may be lauded for bringing into focus the direction the planners of the Indian economy have to take in the year and years to come and for restoring some semblance of fiscal responsibility. Balancing the books, as it were, by bringing the deficit to a more acceptable 5.5% in the coming year and then reducing it further to 4.1% in 2013-14 is a good start.

Setting a more clearly defined road map for implementation of the Direct Tax Code and the Goods and Services Tax (1st April 2011) is acceptable even though it was hoped last year that the implementation would have happened in 2010 itself.

The gradual withdrawal of the stimulus by partially rolling back the excise duty cut is also timed correctly in the context of the current buoyancy in the economy. Increases in allocations for social spending, and fiscal boosts for priority areas such as renewable energy and energy conservation are all welcome.

The finance minister could have done more to enhance the tax base and especially the service tax base while removing different exemptions, and yet rewarded well performing companies by removing the onerous service charge on corporate income entirely rather than just a token reduction.

The reduction of personal taxation in middle income households is again laudable though the need to enhance the base of tax payers itself and especially to bring into the tax net those hundreds of thousands who earn much above 800,000 rupees (about \$18,000) per annum remains paramount. Any success in this effort will directly translate to a quantum jump in direct tax receipts.

Incidentally, while much is being said in the Indian media about the positive thrust these personal tax savings will give to consumer products companies, the impact is going to be insignificant. The estimated savings in the hands of individual taxpayers are just about \$5 billion whereas total private consumption in 2010 will be over \$800 billion. The increase in excise duty will also more than neutralize these tax savings if most manufacturers decide to increase the prices of their goods and services (and some have already announced price increases even more than the direct impact of the increase on account of excise duty).

The biggest disappointment has come from the total lack of ground-breaking thoughts on some of the sectors that need the most innovative solutions since their financial and other resource needs are the most daunting. These include healthcare, education, and energy in particular.

Similarly, there is a need for bold reforms in many sectors but perhaps most in: financial services, especially insurance; agriculture, especially the enhancement of productivity; and retail, especially achieving distribution efficiencies from the farm/producer to the consumer and the minimization of wastage across the supply chain.

Healthcare, education, and even retail deserve the status of infrastructure and in particular both healthcare and education need a policy stimulus to help mobilize the tens of billions of dollars in capital needed year after year for decades for come.

No government in the world can take on the burden of providing easily accessible, universally affordable, appropriate quality, and accountable healthcare and education to such a large population as India's. Private investment not only from within India but from anywhere in the world has to be aggressively sought to add to the spending from the government.

Private investment is also essential in the farming sector to first improve the volume of production itself before efforts are made in making the downstream supply chain more efficient. The finance minister could have taken this opportunity to at least articulate his government's sensitivity to the magnitude of these challenges and prepare his government and then others outside it to start working on developing the appropriate policy framework which can facilitate this capital formation of such daunting magnitudes, and private sector participation in such vital sectors.

India has already paid a huge price for myopia or even a complete lack of vision, and for taking very small, hesitating steps when giant strides are needed. These budget proposals leave India still yearning for some true visionaries and political giants!

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