Heeding social sectors

There is a need for the budget to focus on social sectors to reduce inequality; domestic companies need encouragement to invest

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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 be spent on social infrastructure (such as Swachh Bharat mission), physical infrastructure (such as railways, roads, and airports) and transferring funds to the poor and the deprived (through schemes such as MGNREGA, PM Kisan, and PM Shram Yogi Mandhan).

The general assumptions underlying a good budget are: it contains the fiscal deficit, carries on with the necessary reforms, beefs up consumption and investment expenditure, and curtails non-planned government spending while increasing revenue receipts. There are five components of demand, namely, consumption expenditure, investment expenditure, government expenditure, exports, and imports. The most important component, consumption expenditure, accounts for 60 per cent of national income.

There is excess capacity in the manufacturing sector (Representational Image)

Unfortunately, consumption expenditure is not growing because of a lack of jobs and a general slowdown in the economy. The economy grew at 5.8 per cent during the first quarter of 2019. New jobs are hard to come by. There is excess capacity in the manufacturing sector. Agriculture and construction are not performing either. During March 2019, investment as a proportion to GDP stood at 29.8 per cent much lower than the 15 years average of 34.8 per cent. India's trade balance recorded a deficit of $15.4 billion in May 2019. The trade balance is likely to worsen further with the brewing US-Iran tension. Because of the erratic climate, water shortage, and a fall in agricultural productivity, rural consumption is down. Starting in 2013, the real-estate sector, that used to be the mainstay for absorbing agricultural labourers as construction workers, has not performed.

Unlike in China, wherein a major portion of the growth is driven by foreign direct investment (FDI), for India it is domestic consumption. Over the last 20 years, China was able to create some 225 million manufacturing jobs, mostly through FDI inflow, making China the Factory of the World. FDI in manufacturing is a distant reality for India given the problem with land acquisition and labour laws. In recent time FDI has fallen, with a December 2018 number putting it at 1.6 per cent of GDP against long term 15 years average of 2.4 per cent of GDP.

Now all these are bad news and should serve as a recipe for the Finance Minister as to which sectors to intervene, and how to intervene. In the recent past, the government machinery performed well when it came to intervention in the social sector. Apart from Swachh Bharat, schemes such as complete electrification of 6 lakhs rural villages and PM Awas Yojana (housing for all) were able to generate, employment, income and better health for the masses. Reform measures such as introduction of the Goods and Service Tax, and Insolvency and Bankruptcy Code (IBC, 2016) have to a certain extent, reduced the cost of doing business. For instance, IBC, 2016 by consolidating all insolvency related laws applicable for individual, partnership firms, limited liability firms, and company, under one umbrella, has made it easier for banks to recoup bad loans and reduce non-performing assets.

India also performed well in Ease of Doing Business Report 2019, ranking. The World Bank has placed India in the 77th position, which is a marked improvement from its 134th position out of a sample of 190 countries, five years back in 2014. The rise in the composite ranking, however, hides certain sectoral 'unease' effects such as higher logistic costs and delay in enforcing a contract. The logistics cost in India, at 14 per cent of GDP is among one the highest in the world.

These structural hurdles can be reduced by bringing in reforms in labour laws and making land acquisition easier. For instance, various elements related to labour laws such as contract labours, child labours, maternity leave, provident funds, etc., can be simplified by bringing them under one umbrella. Likewise, to prevent agitation and to procure agricultural land for non-agricultural purposes, farmers have to be made stakeholders. Farmers can be given part of the land in a developed form. Alternatively, proceeds from the sale of land can be put in interest-bearing bonds, so that the farmers need not protest against high land prices during subsequent years.

If India wants to take the place of Vietnam, where most part of FDI is flowing thanks to US-China trade war, then these next sets of reforms measures are inevitable. India is also becoming a most unequal society and social sector intervention is required to keep income inequality under check. To reign in fiscal deficit, it is necessary government start liquidating inefficient public sector banks and public sector undertaking. This can happen in a phased manner. The Public Enterprise Survey 2017-18 points out the top ten loss-making PSUs account for 84.71 per cent of the total losses, a signal where to start the privatisation drive. IPA

(The author is with Bennett University. Views expressed are strictly personal)