

## **“DECCAN HERALD”**

### **“ON BUDGETS-UNION AND STATES”**

**BY S L Rao for March 28 2015**

**What must Annual government Budget speeches tell us besides giving a statement of revenue and expenditures? Rarely, both at central and state levels, do budget speeches tell us the vision of the government for the coming year and beyond. They do not say how the vision is to be achieved. What changes in organizationally and working methods are proposed to ensure achievement of desired outcomes? The 1991 Union budget envisioned reducing constraints on enterprise. Neither the 2015-16 Union Budget of Mr Jaitley nor the Karnataka Budget by Chief Minister Siddharamiah of Karnataka (other state budgets are no different), tell us much.**

**Both had figures of GDP, revenues, expenditures and deficits. State governments have less scope for crossing deficit limits (as there is for the Centre) because of limitations imposed on state governments. This time the Centre's GDP figure was a 'puzzle' (the Chief Economic Advisor's word). Even the RBI after tenaciously refusing to lower interest rates was now satisfied that enough was done in the Union Budget to control the deficit (despite the GDP 'puzzle' and hence the unreliability of the deficit percentage to GDP. RBI reduced interest rates. There is no announced attempt to curtail ballooning expenditures on subsidies and social welfare expenditures. There will be reduction on social schemes because many are now transferred to state governments.**

**Government Budgets should paint a vision of a proposed future for the economy which the Budget will enable. Neither of the two budgets does so. Mr Modi's appeal is that he is different from previous**

**governments. The Budget for the first full year of the Modi government should have painted a picture of how it is different from past governments. So also should the state government have explained how they would tighten up the administration to improve delivery.**

**Modi represents a shift from a statist and state controlled economy into one that would allow economic forces free play. There needed to be mention of how regulation would be made tight and laws, rules, licenses, etc, reduced substantially. Ways to make government implementation of projects and schemes consistently efficient, honest and with timely completion should have been mentioned. Mr Jaitley ignored administrative reform-officers' individual accountability, their tenures in assignments, time lines for decisions, penalties for non-performance, etc.**

**Neither Budgets talked about efficiency and effectiveness in the activities of government and government owned enterprises. Such enterprises are a major drain on state government revenues. This drain is less visible than with central government owned enterprises whose size is much larger. State owned enterprises escape public scrutiny. In fact their performance is much worse than of those owned by the Centre. Management in state government enterprises is invariably with bureaucrats and not with career managers for who the enterprise is their life's work. Mr Siddharamiah like other state Finance Ministers did not recognize their drain on state revenues and its administrative talent. State governments should without second thought sell off all their enterprises. The proceeds could add to scarce educational faculty, facilities for faculty and general skills development, professional education and health services.**

**The Modi government which "is different" should have had a time bound plan to get out of managing and controlling enterprises owned by government. Preferably there should be a plan to sell them to private parties. However corrupt the private sector is held to be, by**

**“socialist” politicians, private owners are less likely to allow rampant inefficiency and losses in their enterprises. An alternative is to keep them out of legislative oversight, introduce career professional management and tough audits. However, so long as government has ownership, politicians and bureaucrats will always find a way to interfere with enterprise autonomy.**

**The Central Budget takes credit for substantial proceeds from “disinvestment”. However, selling some share in enterprises is only a revenue raising exercise. It does nothing to alter management and control. It does not improve the efficient running of the enterprise, essential if the economy is to benefit. Control will remain with government and its officers. Government departments will interfere. Instead, these enterprises must have the freedom to innovate, restructure, reorganize and refocus their businesses. They cannot do these things today without government approval. “Disinvestment” does nothing to eliminate government control.**

**India [n 2014 has a preponderance of literate young people. Urbanization is progressing rapidly. Their desire is to be upwardly mobile. They are not looking for charity from government, but opportunities for self development for better livelihoods. The 67 year legacy of the state as “*anna data*” which was ingrained into the policies of the Gandhi family (Indira and Sonya). They gave freebies as social welfare. These do not add to the self-respect of recipients. Further, the innumerable government schemes are badly administered. A substantial part of the allocated funds are stolen or miss the people they are meant for. A radical restructuring of these programmes was expected in the 2015-16 Budget from a tough talking management oriented government led by Mr Modi. It did not happen. Bur many schemes are now transferred to state governments. State budgets must provide funds and direct benefits transfers to implement them with minimum waste and leakage.**

**Central and state budget speeches are uninformative on these issues. The 20115 central budget will stimulate growth because of infrastructure investments. State budgets may not achieve anything new.**

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