

# Decoding India's Budget 2018: Hope and promise sans reality?



*Budgets in India have often suffered from a hope versus reality conundrum. **Deepanshu Mohan** uses the examples of Minimum Support Price, the healthcare scheme, and wage inequality to illustrate how when hope does not necessarily translate into reality.*

*The uniform, constant, and uninterrupted effort of every (wo)man to better her/his condition, the principles from which public and national, as well as private opulence is originally derived, is frequently powerful enough to maintain the natural progress of things toward improvement..." – Adam Smith in Wealth of Nations (II.iii.31)*

For Smith, a "good" government was seen to be one which acts in the interests and security of the people while promoting a greater division of labor, labor productivity and a higher per capita income, which were seen as the key determinants for the wealth of a nation.

Early February, India's Union Budget presented by Finance Minister Arun Jaitley evoked mixed responses from analysts and commentators across the board. Questions on the actual increase in outlays of public expenditure on existing schemes as against the announcement of new schemes in rural agriculture and healthcare have already **raised** concerns of **implementation** of these schemes and their impact on the fiscal consolidation roadmap.

Given that the outlays are matched with timely disbursements, the Budget allocations in areas of agri-culture, infrastructure, MSME sector, and healthcare insurance reflect the current government's attempt to address some structural macroeconomic woes that affect the economy's aggregate growth capabilities. The rhetoric for increasing government spending for social welfare enact significant agency costs on the executive accompanied with delayed implementation.

Nevertheless, budgets in India have often suffered from a *hope versus reality* conundrum. The rhetoric for increasing government spending for social welfare enact significant agency costs on the executive accompanied with delayed implementation.

## The Minimum Support Price

The finance minister announced that having fulfilled their election promise of ensuring an MSP of 50 per cent more than the overall costs for the case of rabi crops, the same principle will now be followed for other crops too. Here, one has to examine the cost structure the Finance Minister is referring to when he says MSPs of a 50 per cent margin over the total cost.

As per the cost concepts accounted by the Commission for Agricultural Costs and Prices (CACP), there are at least three different cost structures involved while recommending MSPs of 23 crops. This includes:

1. **A2 cost:** Actual costs incurred by the farmer in purchasing inputs for agricultural production (including fertilisers, seeds, hired labour, etc)
2. **A2+FI cost:** The additional cost (to A2) which also includes the imputed value of family labour involved in the activity of farm production; and
3. **C2 cost:** The Comprehensive cost which (in addition to A2 +FI) also includes the imputed value of owned land the imputed interest on owned capital.

Most farmers (across states) have demanded for a 50 per cent increase in MSP on the C2 cost (also recommended by the MS Swaminathan Commission). However, the Finance Minister's promise is to give at least 50 per cent margin in rabi crops with reference to A2 (or A2+FI) cost structure.

The *hope* here, was to see MSPs increase in relation to the C2 cost; the *reality* however, presents a different picture. As a result, it becomes prudent to carefully monitor, assess and empirically evaluate each outlay and announcement.

## The healthcare scheme

Based on past memory of the Government's experience of implementing large scale healthcare measures, a similar observation can be made for the recently announced National Health Care Protection Scheme (famously cited as "ModiCare"). While the government's announcement to provide healthcare insurance of Rs 5,00,000 per annum to 10 crore households is a welcome move in order to reduce the [rising](#) out-of-pocket healthcare expenditure (across rural-urban areas) of lower income groups, there remains some serious concerns that [question](#) the state's agility, expertise and regulatory capacity to implement the scheme at a national level.

There remains a lot of information asymmetry about the scheme and how it is likely to be played out (later this year). Public healthcare insurance must not cannibalise the public healthcare delivery system and till the time the scheme ensures a competitive practice between private insurers and public trusts, healthcare outcomes may improve.

## Wage levels

One of the other vital areas which requires careful monitoring in the year(s) to come is the aggregate wage levels across (domestic) sectors in India. Figure 1 highlights how wage inequality has disproportionately increased from the 1990s across sectors in India, and the trend continues. The service sector, with the highest contribution to the overall GDP levels in India, here, reflects the highest wage disparity. Further, the [gendered distribution of labour](#) (female-male labour force participation rate) in the organised sector remains heavily skewed as well.

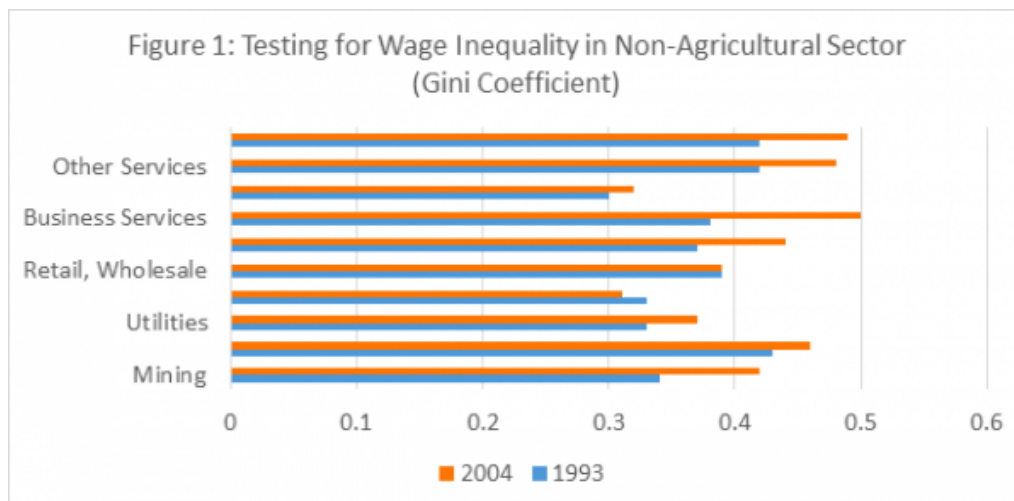


Image credit and calculations: Deepanshu Mohan

While [incentivising private investments](#) in the MSME sector may further help in increasing employment opportunities within the labour-intensive manufacturing sector; it is equally important to see how real wage levels rise over time with the (export-based) incentives offered by the government. The [recent](#) Economic Survey argued how certain export-based incentives for the small and medium scale enterprises are ineffective in either increasing the overall output (for export promotion) or wages for the labour involved.

Further, as noted in an earlier [article](#), increasing credit growth for fuelling domestic private investment remains key for long-term growth in India. The current NPA crisis in public sector banks accompanied by [a low credit growth](#) and rising commodity prices (i.e. [crude oil](#)) are likely to put greater stress on the government's fiscal balance sheet in the future, requiring it to maintain high public investment and bear a higher (fuel) subsidy cost. More than fiscal deficit, it would be interesting to keep a close watch on the overall government debt situation, particularly public debt (as percentage of GDP) levels in the coming year(s). In [2016](#), India recorded a government debt to GDP at 69.50 per cent.

In the likelihood of increasing public spending through public sector undertakings, exit of indebted firms will naturally become a challenge. As pointed [out](#) in the Economic Survey, India's growth narrative (from the 1980s till now) has seen a shift from "*socialism with limited entry to marketism without exit*". This trend is likely to continue unless domestic capital formation levels pick up across sectors with an entry of new firms and exit of old, indebted firms.

Correspondingly, with an increase in public spending the government may push the RBI to keep interest rates higher to keep inflation levels in check. Consumer prices in India increased by 5.21 per cent (year on year) in December 2017 and with oil prices increasing, the RBI may continue to exercise some monetary tightening through the policy tools available.

Two other areas where one couldn't find a substantive focus by the government in the current budget were **a)** educational investments in promoting research and innovation across universities and **b)** investments in promoting renewable energy sources for power production and distribution. Innovations in science and technology remain integral to long-term growth. One would have expected a doubling of R&D spending (as [suggested](#) in the Economic Survey) with focused research-based educational programs on agriculture research, biotechnology, medical sciences etc. in developing India's R&D capabilities.

## Reality

It remains vital for the government to ensure effective implementation of announced measures with a timely disbursement of assigned financial outlays across a bandwidth of socio-economic areas that this year's budget seeks to capture. A perennial [curse of policy implementation](#), witnessed from centrally managed policy measures may make both foreign and domestic investors sceptical in the medium- to long-term, [making](#) the financial markets more fragile and volatile.

*Cover Image Credit: A woman worker at a construction site in India. Flickr/[ILO in Asia and the Pacific](#) /Joydeep Mukherjee/CC BY-NC-ND 2.0*

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