

A Brilliant Holding Operation

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📷 A Brilliant Holding Operation?

Expectedly, the proposals in the budget 2019 presented on Friday, by the Union Finance Minister Piyush Goyal have been presented with an eye on the forthcoming general elections. It attempts to address the key pain points in the economy—agrarian distress, unemployment, recession in the real estate sector and erosion in the real income of the middle class. Of course the new government would, after assuming office get an opportunity to review and revise the budget proposals in the monsoon session of the Parliament. However, experience suggests that sops, once given in a democracy, are seldom withdrawn.

The budgetary proposals seem to have been framed with the objective of providing immediate relief through a set of palliative measures. Long term solutions to the agrarian distress and lack of manufacturing competitiveness, will have to be one of the early tasks for the new government.

The direct income support to small and marginal farmers was long overdue. An 120 million small and marginal farmers stand to benefit from this. However in the long run, this would have to be supplemented by structural changes and regulatory reforms. Agriculture is a state subject. The success of the direct income scheme would depend on the status of digitisation of land records and effectiveness of the delivery mechanism. In the budget speech, there are 13 paragraphs devoted to the Vision for the next Decade. One of these refers to making the country not only sufficient in food, but also exporting food and producing it in the most organic way. Agriculture is a state subject. In order to achieve the vision of high production and productivity by adopting modern agricultural practices and value addition, The Union government will have to incentivise states to free agricultural lands from regulatory restrictions on leasing. This would also be necessary to realise the vision of rural industrialisation using modern digital technologies. Another pre-requisite would be to give farmers freedom to market their produce. Contract farming has to be encouraged. The obstacles in the way of creating a healthy forward market in agricultural commodities have to be removed. This would allow the farmers to hedge their risks and obtain the best possible price for their produce.

While the pension scheme for labourers and workers in the unorganised sector would provide relief, the longer term would require creation of a large number of jobs in the organised sector. The reference to rural industrialisation and an integrated approach towards agro and food processing, preservation, packaging and maintenance of cold chain, grassroots clusterisation and integration into the global manufacturing chain has to be seen in this light. The objective to build one lakh digital villages is laudatory. Its success would depend on the financial health of the telecom sector and the ability and determination to overcome implementation issues. Once again, very close cooperation between the Union and the state governments would be required, since industry is primarily a state subject. Besides requiring factor reforms, industry competitiveness requires world class physical and social infrastructure. Appropriately, this has been treated as the First Dimension of the Vision. Such infrastructure cannot be funded only by the government/ public sector. Conditions conducive to private investment in public investment have to be created. Importantly, learning from experience, a vibrant long term bond market is the need of the hour, so that problems emanating from an asset- liability mismatch are reduced.

The simplification of the Direct Tax Reforms promotes a change in mind set, by emphasising sensitivity towards the concerns of the tax payer. The announcement that all returns will be processed in 24 hours and refunds issued simultaneously will bring major relief to the tax payer.

Before concluding, a word of caution would be in order. The devil lies in detail. Implementation can derail the best policies and upset the best laid out plans. The impact of these budgetary announcements would depend on benefits flowing to the intended beneficiaries as envisaged. The mantle now rests on the bureaucracy.

(The writer was Secretary, Ministry of Petroleum & Natural Gas)