Does the Budget deliver on Reforms?

Why in news?

Recently, Finance Minister presented the ninth full Budget of the government under Prime Minister Narendra Modi which was elected to power in 2014 promising to deliver ‘minimum government, maximum governance’.

How well has this Budget delivered on the government’s promise of ‘minimum government, maximum governance’?

- Minimum government, maximum governance means small yet efficient government.
- Some experts cite that it is a difficult objective to achieve in India, where the government is so prevalent at all levels of polity.
- But a great deal of progress has certainly been made by the Modi government to formalise and measure improvements in governance.
- Instead of providing public goods, the government’s emphasis has been to provide private goods more efficiently.
    - For instance, the emphasis has been to provide subsidised LPG and build toilets for certain groups which are not classic public goods.
- There is no major rollback in economic controls.
    - For instance, instead of going to multiple different windows to get clearances, there is a single window now. But that is still very much an attitude of the economics of control.
- The idea of ‘minimum government’ would mean systematically rolling back the footprint of the public sector.
    - But this government has simply not had a good record on disinvestment except the privatisation of Air India.

What will be the impact of repealing or reducing thousands of laws and compliances?

- **Positives**- One of the great pushes that the government has been able to do is to digitise government processes.
- While there are privacy concerns, digitisation does facilitate easier clearances.
- While streamlining and digitisation are great, we need a moment like 1991, with a complete dismantling of government regulation.
- **Negatives**- The consolidation and streamlining of various labour laws into four, have no real change in the content of the labour laws themselves.
- The real problem is the way labour relations are controlled in India.
- The fear of streamlining and digitisation is that the effective control that the government has on private people contracting with each other is just too high.
- There has been a general trend of criminalising civil offences and we don’t have the state capacity to enforce these criminal penalties.

What is the government’s approach towards cryptocurrencies and introduction of digital rupee?

- **Positives**- Digital currency is an efficiency-enhancing mechanism, where the cost of hard cash management and circulation can be reduced.
- The move of the government to tax virtual digital assets portray that it no longer intends to ban it.
- It is good to integrate it with the rest of the economy so that everyone can gain from it instead of driving it underground.
- **Way forward-** The government has capitalised to raise some tax revenue but it needs to have some underlying policy framework because the reason it wanted to ban crypto was that it’s too volatile.
- If the government doesn’t have a coherent policy on the rest of the crypto market, it will kill the digital rupee before it’s born because nobody will invest in just the digital rupee without a thick crypto market.
- It doesn't look like the Indian digital rupee is going to be the global standard in the crypto market.
- If India wants to prevent other countries like China from becoming dominant in that market, it should allow a very thick crypto market with a lot of other cryptocurrencies not controlled by the government.

What can be made out of Budget’s emphasis on Atmanirbhar Bharat?

- Atmanirbhar in its essence is meant to be self-reliance
- A great deal of it right now is just providing domestic protection as an incentive to investors who may want to shift their production processes from other locations in the world to India.
- So, this is not really seeking to enhance competitiveness, which is really the best way of becoming a resilient economy.
- Since Atmanirbhar Bharat is protectionist, it might not be conducive to growth.
- Also, tariffs on capital goods basically increase the cost of everything else that’s produced in the economy.

What about the comment that public expenditure will “crowd in” private investment?

- If public investment was to produce better infrastructure and long gestation projects, that would be wonderful for the private sector.
- But if public investment is going to substitute for private goods production, then it is doubtful.
- Investments in health and education have been completely missing in this Budget but those are the kinds of investments in standard public goods that have a long-run effect of crowding in private investment.
- In infrastructure investment, the multiplier of attracting private investment is not that high.
- When the government is not able to raise enough revenue, and it commits to borrowing, it is in fact crowding out the private sector’s ability to cheaply borrow in the market.
- In gross fixed capital investment as a whole, gross fixed private capital investment is just going to drop.

Reference

1. https://www.thehindu.com/todays-paper/tp-opinion/does-the-budget-deliver-on-reforms/article3837384ece

