

NOTE

Welfare Mafia Needs Surgery

Bharat Jhunjhunwala writes :

THE ECONOMY IS UNDER pressure from three sources. First, global price of oil is increasing. It was around \$100 per barrel at the time of presentation of the budget. Now it is around \$110-115. The amount paid by the Government towards oil subsidy increases because price of diesel and LPG have remained unchanged for many years. This is leading to increase of fiscal deficit of the Government. Second, there is a decline in the growth rate. Budget estimates were based on growth rate of 9 percent for the year. Present estimates are around 8 percent. Accordingly revenue receipts will be less. Third, the UPA Government has embarked on policy of increasing expenditures on welfare schemes. The proposed Food Security Act will add to the financial burden. The fiscal deficit is likely to increase hugely. The Government will have to print notes to meet this deficit. That will lead to increase in prices and undo the relief provided to the common man through the welfare schemes.

There is an additional danger that increasing fiscal deficit may lead to a price spiral. Government may have to print more notes to meet its targets in the face of rising prices. That will create economic instability and can even derail the long term growth trajectory.

The Planning Commission has proposed a four-point agenda to face this situation. First suggestion is that subsidies on oil, LPG and food may be reduced. Problem is that this will directly lead to increase in prices of these items and the common man will be impacted adversely. Second suggestion made by the Commission is that pension payments to government servants may be cut. But it is difficult to implement this prescription. The Government has made a huge increase in the salaries and benefits of government servants so that they remain royal and are willing to repress the people, should that be necessary. For example, many policemen who lathi-charged sleeping people at Baba Ramdev's camp would not be agreeable to this. But they killed the voice of their inner-self due to the attraction of huge salaries and pensions provided by the government. Therefore, reduction in these benefits will be like the government digging its own grave. Third suggestion is to cut defense expenditures. Countries with high levels of defense expenditures also had high rates of economic growth. It seems that high defense expenditures are a proxy for a people's self respect. This self-respect is what drives economic growth. Fourth suggestion is to invite private sector in the building of infrastructure. Airports at Delhi and few other cities have been developed by private companies. Many highways are being built on Build-Operate-Transfer system. But private sector will bite only those projects that are financially profitable. Other projects such as distribution of water or making of rural roads will continue to need budgetary support. An additional point suggested by former Finance Minister P Chidambaram is to impose a consumption tax. An additional tax may be imposed on items of luxury consumption such as air-conditioners, flat-screen TVs and luxury cars. This suggestion is welcome but the revenue receipts from this will be small. In the result, all these suggestions are grossly inadequate to face the problem at hand.

If anything the Planning Commission has failed to identify the problem correctly. It has accepted the Government's view that increase in welfare expenditures is the way to secure good of the common man. The Commission is mainly concerned with raising the revenues to meet these expenditures. However, as explained above, this is difficult. Need is to reexamine the premise that welfare expenditures will beget people's welfare. Few years ago Digvijay Singh was given the boot at the polls in Madhya Pradesh though he spent a lot on such schemes. Recently, Karunanidhi has been shown the door despite implementing populist schemes like distribution of free TVs. On the other hand Tarun Gogoi of Assam and

Narendra Modi of Gujarat have been reelected despite implementing few such populist measures. Reason is that the benefit of government schemes does not quite reach the people. Most money is spent in maintaining a huge government welfare bureaucracy that bleeds the revenue in name of helping the people.

Expenditures presently being made on welfare schemes-food and oil subsidies, MNREGA, and health, education and others can be diverted and the amount paid in cash directly to the beneficiaries. All these schemes may be scrapped. A back of the envelope calculation shows that every family can be paid about Rs 2,500 per month from this money. This is sufficient for the people to meet their basic needs. Cash payment will also empower them. They will be able to buy education from the provider of their choice. This will put purchasing power in hands of the people and rev up the economy.

The economy is under pressure due to inflationary pressures. But fire fighting will not do. Need is to adopt structural solutions. Most important is to reduce welfare expenditures. □□□