

Guest Column

# FM Takes Leaf Out of Eisenhower's New Deal



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FM Arun Jaitley might not have faced brickbats for his recent Budget, but kudos has not been coming his way either. A common refrain among analysts who have tried to look at the bigger picture seems to be that the Budget is competent and workmanlike but unlikely to change the course of the economy. This assessment is not only unfair to the FM but reveals a somewhat skewed understanding of what the Budget should be.

The Budget is neither meant to be a crisp mission statement of the government nor is it a compendium of all policies it is likely to implement over the next fiscal year. Governance and economic management involve a continuum of policies across ministries and over time. The Budget is only a part of this continuum and contains policies and initiatives that are largely in the finance ministry's domain. What 'makes or breaks' the economy is not a 2-hour speech on the last working day of February but the combined effect of the diverse efforts in different domains. On that count, the government seems to be faring rather well.

To start with, critics of what the Budget is lacking should take a careful look at policy initiatives in infrastructure. From US President Eisenhower's New Deal in the 1930s that pulled America out of the Great Depression to President Obama's demand stimulus in the wake of the 2008 financial crisis, history has pointed to the efficacy of infrastructure spending on reviving an economy.

Infrastructure building involves labour-intensive projects that quickly put money in the hands of those at the bottom of the income ladder and stimulates demand. The impact on the supply-side in terms of the gains in productivity and efficiency are well-known.

The performance of key infrastructure has been commendable to say the least. The national highway programme has seen enormous traction with quicker clearances. New construction per day has climbed from the low-single digits when this government took over to the high teens. The rural roads programme (Pradhan

Mantri Gram Sadak Yojana) is being revived. The PPP model is being reworked to align project risks with the appetite of the public sector.

Indian Railways has seen a paradigm shift. From being a pulpit of competitive populism, the focus is on making it a viable operation that focuses on the needs of the customer, be it passengers or transporters. There is an effort to make it safer, quicker and to diversify revenues through various measures like monetising hard and soft assets to coach and track manufacture.

Most private and public sector companies that work with the railways attest to the fact that the speed and efficiency of awarding contracts for railway projects are unprecedented. Railways could be the next engine of growth. Again, while it is easy to be cynical about any initiative to revamp the power sector, the Uday programme of restructuring state discoms seems to have the right structure to effect meaningful change.

## WHAT CRITICS SAY

**The Budget is competent and workmanlike but unlikely to change the course of the economy, say critics**

A sensible way to assess the Budget is to ask if it helps to retain the momentum in these critical areas. The answer is a categorical yes. The Budget has allocated substantial resources to these sectors and aligned the expenditure mix to the areas that will serve the dual purpose of reviving demand and removing key supply bottlenecks.

The rural economy has been suffering from a multitude of short and long-term problems including excessive dependence on rainfall and dwindling yield. The poor monsoons of the last two years have again brought this sector back on the policy radar. Instead of a knee-jerk reaction, the Budget uses a judicious combination of short-term relief programmes like MNREGA and a long-term strategy to de-risk this sector.

This spans a range of schemes from crop insurance to large investments in mechanised irrigation and the repair and maintenance of water bodies to a thrust on full rural electrification. Thus the govern-

ment's promise to help double farmer incomes over the next five years does not seem like an empty slogan but is backed by concrete measures and allocations.

It is legitimate to ask if the FM's plan to raise resources to fund these expenditures is credible. Or are they based on grandiose assumptions that are likely to crumble as the year progresses? To begin with the FM has been extremely conservative about nominal GDP growth and the gross tax collection increase for next year and he is unlikely to fall short. One could argue that the Budget depends somewhat heavily on divestments and spectrum auctions penciling receipts of over ₹1.5 lakh crore.

The divestment targets (₹36,000 crore from regular disinvestment and ₹20,000 crore from strategic sales) might seem a little stretched given current market conditions, but markets are known to change dramatically. Besides, strategic sales are back on the table and if the government were to put some profitable PSUs on the block, the target of ₹20,000 crore does not seem entirely out of reach.

Spectrum receipts might not appear too aggressive if one factors in deferred payments from last year, the expiry of licences that need to be bid for again and the new auction of 700 MHz licences.

It is also important to recognise that the finance minister has recognised the risks of not collecting the targeted amounts under these heads.

Thus, he has put explicit buffers in place in the form of a tax amnesty scheme, procedural changes in tax litigation that will lead to quicker resolutions and fetch more funds for the exchequer.

Let us be fair to the FM and recognise the fact that he has laid out his expenditure and resource raising plans without reneging on his medium-term fiscal consolidation. But it is not the fiscal deficit alone but a range of other macroeconomic parameters ranging from the current account balance to inflation that have shown a dramatic improvement under this finance minister's tenure.

This is not to deny that external factors, particularly low oil prices have helped but credit must be given to Jaitley and his team for not squandering this windfall but using it to put the economy back on track. This is India's decade. Let's all work together and grab it!