The Indian EXPRESS COLUMNISTS

N K SINGH

Sunday , October 17, 2004

FROM THE RINGSIDE

The economically illiterate populism of manifestoes

By the time this article appears, the electoral verdict in Maharashtra would be known. Whatever be the political complexion of the new Government, the focus would sooner or later shift from government formation to governance. The far-reaching promises made in the two joint election manifestoes would be staring at the new Government which assumes office. Do the finances of Maharashtra enable their implementation? There is a growing cynicism about the value and credibility of the promises made in election manifestoes. Incumbent Chief Ministers increasingly believe that if voted to power they will imperceptibly wriggle out of promises made and in case voted out of power are indifferent to the deluge that may follow thereafter! The principal party in Opposition invariably makes even taller promises in a bid to acquire power, and if successful, can heap the blame on the pathetic state of finances which in all probability they will inherit for resiling from electoral promises. All this increasingly makes election manifestoes more and more meaningless.

Let us for a moment examine the contents of the two joint manifestoes. The Congress-NCP have inter alia promised 30% subsidy to farmers to bring infertile land under cultivation; a Plan to reclaim 30% of 32 lakh hectares of infertile land; increase of Rs 200 in the cotton price under Monopoly Procurement Scheme to Rs 2,700; loans at 6% for purchase of seeds, fertilizers; free electricity for pumps upto 5HP from July 1, 2004; dues and penal interest waived to the extent of 59%; creation of 1 crore jobs; a Special Financial Incentives of Rs 2400 crores for Vidarbha, North Maharashtra, Marathwada, Konkan and Western Maharashtra.

Similarly, the BJP-Shiv Sena, in their manifesto which they describe as their Vachanama, have inter alia committed special assistance for paddy-producing farmers; free power to farmers for agricultural purposes; complete waiver of loans taken by farmers for agricultural purposes; remunerative prices for agricultural products; cotton cultivators to receive three per cent of their deducted amount; a special financial package for workers, till alternative employment; removal of development deficit of Vidarbha, Marathwada and Konkan; a Draupadi Annapurna scheme — providing foodgrain to poor at Rs 3 per kg and construction of pucca roads for each village.

The cost of implementing these commitments are staggering and estimates could vary significantly depending on how these are calculated.

Contrast these with the state of Maharashtra's finances. I had the privilege of co-ordinating the Maharashtra Development Report (MDR) which clearly brings out that the development of the State has lagged behind and its finances are in a perilous state. The growth of Gross State Domestic Product (GSDP) has fallen from 7.3% during the last 15 years to 6.8%, 6.2% and 5.2% during the last 12, 8, and 4 years respectively and its ranking among the States during the period 1993-'94-

2000-'01 has also slipped sharply. Gross fiscal deficit as a percentage of State Domestic Product (SDP) deteriorated close to 6% during 1995-2000 compared to 2.8% in the earlier five-year period. Maharashtra borrowed primarily to finance its current consumption to pay for salaries and pensions and fund losses in its PSUs including the Electricity Board.

Maharashtra also contracted large stock of debt during the period of high interest rates which has led to a steady increase in its interest payments. Special Purpose Vehicles were created and many of the State PSUs raised money in the capital market on the unconditional and irrevocable guarantee of the Government of Maharashtra. The larger issue of capping State Government guarantees through Special Purpose Vehicle and parasital entities, defeating the broader objectives of limiting the borrowing programme of State Governments within prudent limits, deserves the separate attention of the Planning Commission and the Finance Ministry. The total outstanding guarantees alone constitute 15% of the SDP. The expenditure on interest payment which was Rs 100 crore in 1980-81 and rose to Rs 880 crore in 1990, crossed Rs 7200 crore in 2002-03! The expenditure on interest payment as a percentage of revenue receipts rose from 5.4% to the unsustainable level of 21% in 2002-03. This is notwithstanding the warning contained in the White Paper on the state of finances of the Government of Maharashtra in 1999 which had stated that ''the proportion of productive expenditure showed a declining trend, the capacity of the government to service the mounting debt without resorting to even larger borrowing is undermined. The situation has further compounded in recent years with growing resort to borrowings through bonds floated by State-sponsored corporations but with debt servicing (including interest and payment of principal) being assumed by the State Government.''

Clearly, the State of Maharashtra's finances should be a source of anxiety to the new Government. A leading Merchant Banker recently enquired from me on whether there was ''any recourse'' — clearly the recourse could not be the Churchgate Station or Mantralaya! Over the next two years, other States like Bihar, Jharkhand and Haryana, Tamil Nadu, Kerala, West Bengal and Assam will be going to polls. There will be fresh competitive populism in the run up to the elections. They will also be in disregard of the financial capabilities of these States to implement these programmes. Unfortunately, electoral penalties for disregarding electoral pledges are tardy and come after a long time. In the meantime, there is growing disconnect between electoral commitments and governance realities. Surely, it is not intended that while elections should be contested on party manifestoes, governance should be based on the Common Minimum Programmes. The electoral rhetoric pays scant heed to the saner advice that it is better to under-promise and over-perform.

In the instant case of Maharashtra, one of the first tasks of the new Government would be to repair the finances of the State, retire high cost debt and work towards a sustainable debt servicing profile. Beyond that is the larger responsibility of restoring Maharashtra's pre-eminent position for enabling the State to grow at rates of 7-8% achieved earlier. These will require difficult decisions. While both Chidambaram and Montek can help, the State Government would need to exhibit both administrative responsibility and political will to bring prosperity to Maharashtra, which, notwithstanding pockets of high affluence, has large regions mired in poverty and underdevelopment. Electoral promises hastily made cannot inspire trust and one cannot take the cynical view in believing what Lord Keynes had said that ''in the long run we are all dead''. One must be cautious in making commitments because to quote Keynes again he had said that ‘‘I do not know which makes a man more conservative — to know nothing but the present or nothing but the past’’. In this case, ‘‘the past’’ will haunt ‘‘the present’’ as a new Government grapples with many complex challenges to convert the daunting promises into reality of the election manifesto. Maharashtra needs all our support in realising its development potential to once again become an engine of growth for the Indian economy.

*Write to **nksingh@expressindia.com***