XIth Plan: Going beyond platitudes

N K Singh

Posted online: Sunday, August 13, 2006 at 0000 hrs IST

Parliament has been preoccupied with issues like the leakage of the Pathak report and a privilege motion to consider our multiple economic challenges. Last week I had written about some preconditions necessary for a successful Eleventh Five year Plan. I realise that not of all these can be met but there are some on which concerted action can make a difference, like re-classification of accounts, and a vastly improved design for centrally sponsored schemes. In this piece I propose to deal with some critical choices which need to be made by the Planning Commission before presenting the Approach Paper to the National Development Council.

First, for an 8-9 per cent rate of growth, the domestic rate of savings must increase from around 27.1 per cent to 32.3 per cent. This has been predicated on a marginal increase in household savings but substantial increase in government savings from a negative figure to a positive 2.6 per cent. Where are the government savings expected to come from, especially as privatisation has come to a halt? There is mention of increasing tax ratio but this could adversely impact private savings with an uncertain impact on the overall savings rate. Besides, the assumed elasticity of private savings to net income has not been explained.

Second, there has been considerable controversy surrounding the Fiscal Responsibility and Budget Management (FRBM) Act. What are the assumptions underlying the discussion about the timing of priority expenditures versus enforcement of the FRBM—how could we know that delaying the FRBM targets by X years would be enough time to begin accomplishing these goals? What about implementation difficulties? What would be a credible time for resuming attention on fiscal responsibility targets? What would reassure international investors that the relaxation was temporary?

I doubt many would argue that India should NOT invest in infrastructure and social services, but some kind of credible plan for implementation, and for a time-bound return to fiscal discipline is essential, especially in light of the investment requirements.

The statement about shifting the targets to be ''cyclically adjusted in keeping with international best practices'' is a little misleading here, as the implication is that relaxing the FRBM targets for a few years to enable expenditure on infrastructure and social priorities would be consistent with ''best practices''. These ''best practice'' cyclically adjusted budget rules, however, typically vary the target according to a transparent formula linked to overall macro indicators.

Third, the Plan is somewhat vague on the macro fundamentals. Some clarification on the feasibility of the targets and assumptions outlined here:

• Where do the investment rates and domestic savings rates required for different growth targets come from? What kind of macro-economic model and what kind of assumptions?

• What is the strategy for increasing the private sector's willingness to invest? Some essential investments are mentioned—infrastructure, education, among them—but what about specific ways to increase the private sector's willingness? The discussion on enabling programmes for PPP in the Plan is vague; recommendations that the process ''be seen to provide services at reasonable cost and in a transparent manner'' are easier said than done.

• What would be the strategy for addressing an endogenous business cycle? Wouldn't early recognition, with fiscal and monetary response, further affect expectations? Besides, what does endogenous mean? Does it mean politically induced business cycles?

• Fourth, the introduction makes the valuable point that "the private sector, including farming, small scale enterprises, and the corporate sector" would need to play an even more important role. But there is no discussion of what might be the comparative advantages of the public vs private sectors, or what might be the complementarities or, most importantly, what might be the most effective way to use public resources to leverage private resources.

As part of this framework, we also need to be realistic in our expectations of what the private sector will and will not do. For example, the private sector can be relied upon to finance some infrastructure, but the political risk premium for projects located in some lawless areas may just be too high for private companies and these might be areas to which public resources would need to be directed. There are other areas where we need to be more explicit in our recommendations, like:

A clearer enunciation of policies to attract direct foreign investment, for instance merely to say that foreign investors have shown strong interest in playing a larger role in multi-branded retail stores is not enough. Removal of sector caps, particularly in insurance, banking and some others, enabling legislation in key areas like coal and mines, remains critical. Engaging states for greater diversification, including market linkage supported by modern marketing process, and abolition of the Agriculture Produce Marketing Act needs proactive action. Similarly, merely to say that to retain competitive advantage we need greater flexibility in labour laws is not enough. Can we at least recommend that the flexibility should be available prospectively on that it would not apply to SPVs or to empower the states to devise policy configurations best suited to their needs?

The Planning Commission must be complemented on putting contentious issues in the domain of public discussion. However at some point discussions must be replaced by decisions. Hopefully the final documents will make more categorical recommendations than platitudes in carefully balanced formulations. Ambiguity, particularly in coalition polities, may have some advantages but implementation must go beyond such ambiguities.