

Back to school for some, to first principles for others

Should the budget be about simple allocations? PARTH J. SHAH allows himself a libertarian fantasy

The Indian Express, 2 March 2006

From libertarian first principles, Budget 2006 shows hardly any improvement. The Outcome Budget and Performance Budget are still just ideas on the coffee table, they do not inform allocation of funds or assessment of schemes. A government should be judged not by how much it spends but by what it achieves. The finance minister, however, still feels more proud in announcing increases in expenditures and exemptions in tariffs and taxes.

On the UPA's eight flagship social programmes, the outlays have been increased from Rs 34,927 crore to Rs 50,015 crore. One-fifth of this is for Sarva Siksha Abhiyan. "Two independent surveys show that 93 per cent of the children in the age group 6-14 years are in school, and the number of children not in school has come down to about one crore. Recognising good performance, I propose to increase the outlay for SSA from Rs 7,156 crore to Rs 10,041 crore in 2006-07," says the finance minister. Does SSA deserve the credit for rising enrollments?

Depending on the area, 10 to 40 per cent of our students are in private un-recognised schools. Government enrollment data that count only government and private recognised schools show almost two, not one, crore children as out of school. If the FM were to be true to his commitment to outcomes, he should have given this money to private un-recognised schools. And there is a perfectly good way to transfer this money: education vouchers. Give only the increase in the allocation, which keeps the current government schools going, through education vouchers or scholarships to poor students. The students would then choose the school they want to attend.

This genuine empowerment of poor students would break the government's monopoly on the education of the poor. Monopoly busting should be the first task of the FM: monopoly means higher outlays and poorer outcomes. And this would have addressed the other problem that he did not highlight: the quality of education. The same independent surveys show that the quality of education across all schools leave much to be desired but the government schools are particularly appalling. Giving choice to poor students would have increased competition among schools leading to improved overall quality of education.

Consumer choice and producer competition have delivered great results in telecom, airlines, banking and insurance. The same can happen in education. The FM has made the commitment to increase the outlays for education, he can still think through how the extra funds should be put to use.

I discussed the issue of education budget in detail since similar logic applies to most other social programmes receiving higher support in this budget. Out of the box thinking is imperative in delivering these services. The FM had shown tremendous courage last year in proposing food vouchers in place of the rotten PDS. He should take that further to education vouchers and health and disability insurance vouchers.

That's the first principles view of social programmes. On subsidies the guiding principle should be to move away from indirect input or output subsidies to direct income support. Instead of subsidising fertilisers or electricity (inputs) or guaranteeing minimum support price for agricultural produce (output), the government should assure minimum income through cash grants. Not just for farmers but to all low income workers. Under the e-governance initiative, every BPL family would have a unique ID. As suggested by the FM, through the department of posts and banks, each such family could have a bank account to make cash transfers easy and efficient. Certainly