

# Opinion | An unimpressive budget after the massive electoral mandate

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India had an opportunity to take major initiatives but what the bureaucracy gave us is just another incremental budget

Topics: Budget 2019

The Bharatiya Janata Party's massive electoral mandate provided a great opportunity for introducing major fiscal and other initiatives through the budget. Unfortunately, that opportunity has been missed.

Following her meteoric political rise, finance minister Nirmala Sitharaman had barely a few weeks to come to grips with her enormously complex portfolio before the budget was presented. Much of the detailed work on the budget had probably been completed by the time she took charge. Prime Minister Narendra Modi's penchant for game-changing schemes notwithstanding, that is not in the DNA of bureaucrats. Hence, the North Block mandarins have given us a largely incremental and pedestrian budget. That said, there are features of the budget that need discussion.

Regarding the fiscal stance, most others and I had assumed that the government would go on a spending spree prior to elections and breach the 2018-19 fiscal deficit (FD) target. It was breached, but only marginally, at 3.4% of gross domestic product (GDP), as against the target of 3.3%. This was despite tax revenue growth (Centre's share) of only 6%, down from 12.8% in 2017-18. The deficit was mainly contained due to significant expenditure compression. Revenue expenditure, in particular, grew by 6.9% in 2018-19, down from 11.1% a year earlier, quite remarkable for an election year. But it is also one of the factors that contributed to the growth slowdown in 2018-19.

For 2019-20, the FD target has been set at 3.3%. But tax revenue (Centre's share) has been assumed to grow by 11.1%, way higher than the 6% growth achieved in 2018-19. Hence, the FD target is likely to be breached again. Not necessarily a bad thing when headline inflation is low, there is a positive output gap with high unemployment, and the yield on government securities has seen a sharp decline. Alternatively, we could again have significant expenditure compression with a further adverse impact on growth.

On the receipts side, non-tax revenues are budgeted to grow by over 27%, similar to what was achieved in 2018-19. This includes a whopping 37% increase in dividends and profits from public institutions, mainly the Reserve Bank of India (RBI). Hopefully, it does not entail dipping into past RBI surpluses, pending submission of the Jalan Committee report.

The target for capital receipts from public sector disinvestment is ₹1.05 trillion. This figure may be achievable, given the successful disinvestment record of 2017-18 and 2018-19. But selling public sector assets to mostly finance current expenditure is like selling property to meet daily household expenses. The central government's finances are surely not in such a parlous state.

Planned capital receipts will also include market borrowings of over ₹4.48 trillion, of which about 10% is proposed to be raised as foreign currency loans. This is an unprecedented and bold move, but also risky. I wonder why the government did not opt for rupee-denominated foreign borrowing, or so called masala bonds, which would have reduced domestic crowding-out without incurring any exchange rate risk.

Turning to tax receipts, income tax and goods and services tax, which account for about half of total tax revenue, are projected to grow at modest rates of 7% to 8%. But the other half—mainly corporation tax, customs duties and central excise—are expected to grow at much higher rates of between 14% and 20%. The basis of these asymmetric buoyancy assumptions is not clear.

One very disappointing aspect of the budget not much commented upon is the continuing reversal of hard-won tariff reforms and the return to discretionary annual tampering with tariff rates. Import duties have been changed for 45 different tariff lines, along with further changes in export duties, cesses, etc.

On the expenditure side, the structure of spending remains heavily skewed in favour of infrastructure (22%) as compared to social services (below 5%), and it is still thinly spread over a huge number of central and centrally sponsored schemes. The reform urgently required here is to strip it down to just a few high-priority schemes and fund them generously. In this regard, the integration of all water-related departments, including drinking water and sanitation, in the Jal Shakti ministry is an excellent move. It enables a comprehensive policy response to India's most urgent natural resource crisis, namely water.

Another priority scheme is Pradhan Mantri Kisan Samman Nidhi (PM-Kisan), now extended to all farmers with a budget allocation of ₹75,000 crore. Though the income support per farmer-household is small at ₹6,000 per year, it is a very important beginning. In a paper presented at the National Council of Applied Economic Research (NCAER) India Policy Forum on 8 July, Maitreesh Ghatak and Karthik Muralidharan argued that building on this programme India could move towards an unconditional universal income transfer scheme that would directly reduce poverty, eliminate the administrative burden and high cost of targeting, and plug leakages, as well as errors of inclusion or exclusion, among other benefits.

Proposing such a programme, called the Inclusive Growth Dividend (IGD) programme, they say it may be anchored at 1% of GDP. As such, per capita income support would rise in a fiscally sustainable manner as the economy grows. Can India afford such a programme? As I had explained in an earlier column in this paper on 19 April, unwarranted "non-merit" subsidies currently eat up nearly 6% of our GDP. Appendix 7 of this year's receipts budget confirms that revenue forgone on tax exemptions and concessions eat up another 5% of GDP. Merely tweaking them would yield the 1% of GDP required for IGD.

Clearly, there are no political, administrative or fiscal constraints for expanding PM-Kisan into a flagship IGD programme, which could set a global standard for welfare programmes in developing and emerging market economies.

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