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The budget India missed

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"Budget has no immediate measures to stimulate the economy, address the slowdown."

Finance Minister Nirmala Sitharaman had an unenviable task on February 1. The Indian economy is now growing at its lowest rate in years. Employment is more stressed now than in decades. The need for a stimulus has been overtaken by a ballooning deficit.

When companies are in trouble, they tend to flail around and do too much. This is almost always disastrous. Instead, a stressed company should do less. Doing less requires focus — using one's resources for only a few essential things, leaving the rest for happier times. This need to focus also helps concentrate the limited management bandwidth. So, we end up with a multiplier effect — directed resources with better implementation.

Getting out of trouble by doing less was not in evidence in this year's Union Budget. A marathon speech was tiring enough to listen to — and, visibly exhausting to deliver. Part A rambled around three themes, each with three subjects, each of which have up to 16 points. The first point was useful: Incentivise states to implement the three model agricultural laws passed by the Union government over the last three years. So was the last: List the Life Insurance Corporation on the stock exchange. The rest, in my view, could have been left for happier times.

Part B, on the tax changes, was more focused and useful — this includes the section on simplifying personal income tax by lowering rates and removing exemptions, reducing one level of the treble taxation of dividends, extending tax concessions for employee share purchases and attempting to reduce tax litigation. So the Budget had some positives, but it was not the Budget we needed. There are four reasons for this criticism.

First, and most importantly, the seriousness of the current slowdown needed to be addressed directly. In private meetings with industrialists, the finance minister and prime minister have shown strong awareness of the current economic crisis and an openness to hear inputs on what can be done. That was not apparent in the Budget speech. Perhaps the government believes its own Economic Survey — that the slowdown is only cyclical, the corner has been turned, and things will get better on their own from now on. Or, it believes that a public recognition of our economic stress will spoil the narrative of a vibrant Indian economy. A clear public recognition of the current economic distress would have been a huge enabler of radical steps to set things right. That should have been the message of the first few of the 160 minutes of the finance minister's speech.

Second, the Budget should have focused on two immediate measures to stimulate the economy. To contain the official deficit, the government has delayed paying its dues. The Union government owes some Rs 3,00,000 crore (1.5 per cent of GDP) to private and public enterprises, beneficiaries of social sector schemes (MGNREGA beneficiaries for example), and state governments. Recognising these liabilities, letting the deficit expand by this amount through extra borrowing, and paying them in full would have pumped liquidity into the economy and been a stimulus like no other. Besides, this is money the government will have to pay at some point; paying it in this financial year will make containing next year's deficit simple.

The other immediate challenge in the economy pertains to Non-Bank Financial Companies (NBFCs) and is directly connected with the real-estate sector. Rampant unfinished and unsold inventory is choking the wider economy, and NBFC woes are affecting consumption more generally. Some action has been taken, but it is too little and too tentative to keep the wider economy from dragging down.

Third, this Budget comprises some genuinely bad things. Chief among them is a further increase in protectionism. Import tariffs on many items have been increased. Imports under the purview of FTAs are to be reviewed for adherence to the rules of origin — with the threat of higher duties. In order to protect products made by MSMEs, which are of "good quality", import tariffs have been increased. This may seem logical, but it is not. Who will decide if the quality is good? How will such products be selected? Who will judge adherence to rules of origin? The authors of the Budget seem to have not read their own Economic Survey, which makes a strong case for free trade and shows that India has clearly benefited from FTAs. Every major exporter is a major importer. We should learn from our own history since 1991 — engaging with the world leads to a bright future. After progressively opening up from 1991 to 2016, we appear to have decisively reversed course. The Budget continues this retrograde direction.

Fourth, the Budget's arithmetic rests on doubling the budgeted revenue from disinvestment from Rs 1 lakh crore to Rs 2 lakh crore. Half of this is to come from "strategic sales" — we still hesitate to use the word privatisation. Listing LIC could also raise a big part of the target — and, this will probably happen. But at the end of 10 months this year, we have raised only Rs 18,000 crore, less than the 20 per cent of the Rs 1 lakh crore target. No mention was made of what will change to result in such an increase in revenues.

This brings me to my final point. A great new book by Vijay Kelkar and Ajay Shah, In Service of the Republic, says we must build the institutional infrastructure for the complex economy we are.But we rely on the discretion of politicians and bureaucrats. If we judge the Budget from this standpoint, it fails on most counts. One hundred and twenty minutes of the 160-minute speech were all about programmes — a scheme for solar pumps here, a National Forensic University there, five tourist areas to be developed somewhere else. All this requires government capacity to implement, a capacity that has been demonstrably absent. The few improvements — reducing exemptions in income tax, for example — have been outweighed by many increases in discretionary power. This amounts to an increase in bureaucratic power — more government, not more governance.

The last page of Kelkar and Shah's book has telling sentences: "The private sector is fearful of the arbitrary power wielded by officials, and does not speak up. There is no voice, but there is an exit in the form of reduced investment." This Budget has missed the core issue facing the economy today.

Expected Questions (Prelims Exams)

Q. Consider the following statements.

1. A forensic university will be built as per the budget 2020-21.

2. 'In Service of Republic' is a book written by D. Subbarao.

3. Excess borrowing expands debt and its full payment brings liquidity into the economy.

Which of the above statements are correct?

(a) 1 and 2 (b) 2 and 3

(c) 1 and 3 (d) All of the above

Note: Answer of Prelims Expected Question given on 4 Feb., is 1 (a)

Expected Questions (Mains Exams)

'Union Budget 2019-20 does not reflect a positive budget both in terms of data and prospects' Critically analyze this statement. (250 words)

Note: - The question of the main examination given for practice is designed keeping in mind the upcoming UPSC main examination. Therefore, to get an answer to this question, you can take the help of this source as well as other sources related to this topic.