Choosing the long view

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This article is related to General Studies-Paper III (Indian Economy)
The Hindu
6 July, 2019

"The Budget is part of the longer-term creation of a new India, and continues with the vision of the previous tenure."

The first Budget of the new government in the 17th Lok Sabha powerfully recommits to the vision guiding the last term emphasising continuity, individual empowerment and infrastructure for nation building, fiscal consolidation, discipline, and process improvements. The rural sector comes in for special attention, but even there the focus is on value addition and transformation rather than income transfers as the means to double farmer incomes.

Jarring note

But in choosing the long view, there is hardly any discussion of the current growth slowdown, and how the Budget can contribute to alleviating it. This is a pity, because this is expected of the major macroeconomic policy statement of the government. Markets are looking for a big spending boost from the government to revive growth. But there are many aspects of the Budget that will contribute to reviving growth but unfortunately they are not brought out explicitly. The Budget is presented as part of the longer-term creation of a new India.

The standard idea of macroeconomic stimulus is to announce a large increase in government spending without raising taxes. This raises deficits. There has been an active debate in the run-up to the Budget that given the slowdown some rise in deficits is acceptable in order to provide a boost to the economy. But the government is committed to a long-term macroeconomic framework and a path of deficit reduction. A deviation will hurt its credibility. As we see below, there are other ways of stimulating the economy. Moreover forward-looking agents know short-term indulgence comes at the expense of long-term pain. They are likely to become more confident and spend more with a government that is able to keep its word. India has had a long battle to escape from macroeconomic fragility and high inflation due to over spending and over stimulus by past governments.

Macroeconomic stimulus

The Budget gives many examples of this government's faster speed of delivery in infrastructure, such as road building or construction of low-income housing. Since the same government is back, it will be able to front-load expenditure on ready projects. The spending comes before taxes are raised and, therefore, is stimulatory. Apart from creating incomes it boosts demand for the cement and steel industries. Moreover, although the fiscal deficit ratio has come down from 3.4 in the interim Budget to 3.3, a larger share of resources are to be raised by privatisation. Since this does not reduce private demand as taxation does, there is a larger net expenditure stimulus which supports demand and growth. Completed schemes are being built upon, as some funds from Swachh Bharat are being re-allocated to piped water and to obtaining energy from solid waste management. The substitution of LED bulbs under the Unnat Jyoti by Affordable LEDs for All (UJALA) Yojana for earlier energy guzzlers led to an estimated cost saving of ₹18,341 crore per year. Now solar stoves and battery chargers will be promoted.

Faster privatisation as well as monetisation of other assets such as brown field projects and government land banks will encourage private activity. The ₹ 70,000 crore to be pumped into public sector banks coming after the asset clean-up has started yielding results, together with a series of measures for non banking financial companies (NBFC) will help credit growth.

A climate of pessimism and fear was responsible for falling credit growth, which fed into a slowdown in private investment and consumption. The Government's role is to bolster confidence. As a confident state steps in, begins to spend, and turns around the financial sector, private spending will also revive. Private investment projects had started in end-2017 as some sectors were running into capacity constraints, and then dried up because of the NBFC credit slowdown and election-related political uncertainty. It should revive again, especially since interest rates are coming down. G-Secs rates have fallen after the Budget. Spreads for corporate bonds and NBFC funds should also come down. Many NBFCs continue to have viable business models. The fear of credit risk will fade as costs come down and activity revives. The moribund real estate market that is responsible for much destruction of asset value will get a fillip from tax exemptions and lower interest rates.

Help is promised for industry in many other ways. Land availability, labour law simplification, reduction in legal costs, delays and tax harassment. The focus on public-private partnerships and support for entrepreneurship will create many opportunities for industry. Private firms generally do much better in last mile delivery of public services. Cuts in corporate taxes, other sops and tweaks in tariffs are well-thought-out to attract foreign firms to produce at scale in India. This is the right time for such initiatives in the context of foreign direct investment re-locating from China.

One of the strengths of the last government was in process improvements. These continue in this Budget. A new initiative of faceless e-assessment with no human interface, and cases assigned in random manner will reduce tax payer harassment. Integrated information will be used to auto fill tax forms making compliance easier even as tax evasion becomes more difficult. There is more simplification in Goods and Services Tax and other taxes while information will be used more intensively to increase the tax base.

The improvement in processes reflects in better delivery of Budget promises, and the quality of fiscal consolidation. The revenue deficit has fallen as well as the fiscal deficit even as expenditure promises were largely kept, although much more was spent for agriculture. Capital expenditure was supported by market borrowing of public sector enterprises (PSEs) — as they become commercially viable, they must borrow based on future income streams. The growth slowdown would have been worse last year without this borrowing. PSEs do not suffer from credit risk. The food subsidy from the Food Corporation of India — which last year was supported by borrowing from small savings — is now brought back to the Budget as it should be.

Apart from reforms in budget processes there is support for larger reform processes. The emphasis on technology cannot deliver alone without improvement in governance. But there is evidence of complementary action on both. For example, a major handicap for small businesses is an absence of timely payments from government. A payment platform has been announced for cutting time and improving processes. Ministries dealing with water have been merged.

A major constraint India has been facing is the absence of long-term funding for infrastructure. There is evidence of innovative thinking on this with sops announced for alternate investment funds; thinking about setting up a development bank as well for making more foreign savings available. Retail investors are also to be encouraged to buy government securities. Stock exchanges are building platforms, which are to be supported by inter-operability between the Securities and Exchange Board of India and the Reserve Bank of India depositories. To the extent there are large diversified domestic investors in government securities the proposal to also raise funds abroad becomes less risky.

As these reforms improve the supply-side, cost and time delays reduce for business as well as for the average citizen.

Long-term framework

As argued above, some stimulus is possible without raising deficits. In the long run, however, the macroeconomic framework constraining the Budget needs to be revisited to allow policy to counter growth slowdowns and booms. The present framework gives very little space for this. The Fiscal Responsibility and Budget Management adjustment path should be in terms of a cyclically adjusted fiscal deficit, with incentives to protect the quality of expenditure. A target for revenue deficit is also required since it is easiest to cut public investment, which also hurts growth. The 15th Finance Commission should consider this reset.

Reducing the level of debt and interest payments is a desirable objective, since it would release much more government funds for productive expenditure. But growth raises tax revenues and a rise in GDP increases the denominator reducing deficit ratios. Therefore maintaining growth is one of the best ways to reduce debt and deficit ratios.

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Budget - 2019

introduction

- Recently, Finance Minister Nirmala Sitharaman presented the first budget of the Modi Government 2-0 in the Parliament House.
- Finance Minister Nirmala Sitharaman her started his budget speech with the slogan "Strong citizen for a strong country".
- Finance Minister Nirmala Sitharaman said that our economy is the sixth largest economy in the world. In the last five years, we have done the work of rejuvenating the economy of the country.
- Our goal was to bring toilets in the homes of people, to provide electricity to households.
- 70,000 crore rupees are to be provided to public sector banks for promoting capital and improving the debt.
- Schemes such as Bharatmala, Sagarmala and Udaan (Nq.) Are reducing rural and urban divisions while improving our transport infrastructure.
- Indian economy will become a 3 trillion dollar economy in the current year. It is now the sixth largest in the world. It was 11th place 5 years ago.

Agricultural sector

- There will be especial focus on the village, the poor (Proverty alleviation), the farmer. Nirmala Sitharaman said that every village will have electricity the year 2022. There is also a plan to build 1.95 million new houses.
- Under the Pradhan Mantri Awas Yojana- Rural, between 2019-20 to 2021-22, the beneficiaries will be provided with 1-95 crore houses.
- They will have facilities like LPG, electricity and toilets. In the making of houses earlier it took 314 days, it now takes 114 days.
- 5.6 lakh villages of have now become open defecation free. India will be open defecation on free by 02 October 2019.
- By the year 2022, 10 thousand new farmer producing organizations will be created.
- To improve the livelihood of the fishermen, the fisheries framework will be established under the Prime Minister's Fisheries Estate Scheme.
- In the budget speech, the Finance Minister proposed to provide piped water to all rural households by 2024 under the 'Jal Jivan Mission'.
- For the poor, Houses to all by 2022 under Prime Minister Housing Scheme- Rural Development
- The Government is aiming to give digital education to two crore villagers.

For Railway

- Finance Minister Nirmala Sitharaman has approved a 300-km metro rail project in the budget of 2019-20.
- Operations on 657 kilometers of new Metro Rail network will start this year.
- Private participation through PPP model in Indian Rail and Metro projects will be promoted.

- she approved the PPP model for the railway track in the budget. The Public Private Partnership (PPP) model will accelerate the development of the railway.
- Railway has made an agreement with France to make the stations world-class. Under this agreement with France, the government will lay seven million euros on structural development.
- Union Minister Nirmala Sitharaman said that the waterways are being developed rapidly to and the traffic congestion of the railway network. Apart from this, the construction of the dedicated freight corridor for the freight trains is also being done fastly.
- The Finance Minister said that Indian Railways is focusing on green energy under the pollution control module. Under this, Diesel locomotives are being modernized into electric engines.

For Defence

- In the Union Budget 2019-20 this time, Rs 3.18 lakh crore has been allocated for the defense sector, in the last year's budget it was Rs 2.98 lakhs.
- Rs 1,08,248 crore of the total amount allocated to the defense budget has been earmarked for capital expenditure in respect of new weapons, platforms and military hardware.
- Revenue expenditure, including payment of salaries and maintenece of establishments, has been estimated at Rs. 2,10,682 crore. In the budget of 2018-19, it was Rs. 1,88,118 crore.
- In the total budget, Rs.1,12,079 crore is not included for the payment of pension separately. If it is added to the pension allocation, then the defense budget reached 4.3 lakh crore, which is 15.47 percent of the total expenditure by the central government for the year 2019-20.

Tax provision

No tax on income upto Rs 5 lakh.

- The Finance Minister announced to increase the limit of 25 per cent corporate tax from Rs 250 crore to 400 crore annual turnover.
- This means that now, the companies having 400 crore turnover will have to pay corporate taxes at the rate of 25 percent. The earlier companies having annual turnover of Rs. 250 Crore had to pay 25 percent tax.
- GST on E-vehicles will be reduced from 12 percent to 5 percent.
- Rebate Rs. 1.5 lakh will be given on the loan of Rs. 45 lakhs of house to the middle class. The total exemption received on the interest of the housing loan has now increased from 2 to 3.5.
- In addition to this, the electric vehicle of be exempted up to Rs 2-5 lakh will.
- TDS of 2% on cash withdrawal exceeding Rs. 1 Crore in a year from a bank account.
- Now, the earning between two and five crore rupees annually will be taxed at a higher rate of 3 per cent and at the same time earning more than 5 crore rupees will have to pay 7 per cent excess tax.

Expected Questions (Prelims Exams)

1. In the context of present Budget, Consider the following statements-

1. In this budget the corporate tax has been increased from 25 percent to 30 percent for the companies doing trade of Rs. 400 crore yearly.
2. The GST on Electric vehicles has been decreased form 12% to 5%

Which of the above statement is /are correct?

(a) Only 1 (b) Only 2

(c) Both 1 and 2 (d) Neither 1 nor 2

Expected Questions (Mains Exams)

Q. Budeget process was performed with the formation of new goverment in India. To what extent, this budget will be helpul in attaining the dream project ' New India' of the present goverment. Discuss

(250 Words)

Note: Answer of Prelims Expected Question given on 5 July. is 1(a).