No Sign of Change*

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Finance Minister Arun Jaitley began his budget speech by declaring that "the people of India have decisively voted for a change." If so, they are likely to be disappointed by his first budget for financial 2014-15. Nothing much seems to have changed on the economic policy front.

Let us start with matters of form. As has become the practice in the last few years, the budget speech was long in Part A and short in B. Much time was wasted on "announcing" a host of minor measures, many of which were not really within the scope of an annual budget, and some of which merely amounted to restructuring and renaming pre-existing schemes, while others were rendered meaningless given the small allocations of Rs. 100 crore or less to schemes and projects that required much more to matter.

The intent of Part A seems substantially one of establishing the government's pro-business and "reformist" credentials. The hike in FDI cap in the insurance and defence production sectors is emblematic of that. But those are old ideas that the UPA too was committed to implement. And in themselves they are inadequate to stimulate demand and revive growth.

In addition, the Finance Minister displayed no innovation when it came to mobilising resources. Commonly adopted measures such as enhanced income tax exemption limits and slightly higher savings-linked concessions for middle class tax payers have been combined with largely symbolic ones (like making smaller investments eligible for investment allowance) to convey the impression that a "soft" taxation policy will be kept in place.

This implies that the government intends to manage within its "limited fiscal space." One device adopted in the past for the purpose was to window dress the numbers. By assuming high direct tax buoyancy and tinkering with indirect taxes on cigarettes and much else, the Finance Minister expects to increase gross tax revenues by more than Rs. 2,20,000 crore in 2014-15 as compared with around Rs. 1,22,700 crore in 2013-14. This, despite the tax concessions mentioned earlier.

But, even while granting this possibly inflated tax revenue increase, the government has a problem, because it wants to be seen as being as or even more "reformist" than its predecessors. The Finance Minister swears by "fiscal prudence that will lead to fiscal consolidation and discipline" and sticks to the 4.1 per cent fiscal deficit to GDP target set in the interim budget. So all that can be done to spur the economy is to sharply reduce revenue expenditures and release funds for growth-inducing capital spending. But having occupied the Finance Minister's seat, Mr. Jaitley realises that large reductions here are difficult. Interest has to be paid on past debt, defence expenditures are too sensitive to be touched, and subsidies are not easily cut. In the event, as compared with a Rs. 1,56,000 crore increase in revenue expenditures during 2013-14, Budget 2014-15 provides for an increase of Rs.1,50,514 crore — smaller, but not significantly so. This is combined with smaller capital expenditure increases of Rs. 22,266 crore in 2014-15 (as compared with Rs. 24,036 crore in 2013-14), to ensure that aggregate budgetary expenditure rises by 11 per cent in nominal terms in

2014-15, as compared with 13 per cent in 2013-14. Given the current rate of inflation, that amounts to a marginal real increase in total expenditure. This is how the deficit target is met.

Thus, the budget signals no change, but is a version of conducting business as usual. The NDA, like the UPA, seems unwilling to tax and unable to spend.

This fiscal stance, many would argue, is not enough to kick-start a sluggish economy and begin "a journey to sustained 7-8 per cent growth." Mr. Jaitley possibly recognises this and cautions the nation, saying "it would not be wise to expect everything that can be done or must be done in the first budget presented within 45 days of the formation of this government." But having generated great expectations during the election campaign that brought this government to power, it may be too much to expect the nation to wait. Neither those, he refers to as the "neo middle class" nor the poor, let alone big business, are likely to be pleased.

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