Union Budget 2014-15*

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Four things stand out about the Union Budget for 2014-15 presented to parliament on July 10. First, the figures it presents are palpably unreal. Second, the basic fiscal strategy it embodies consists in providing concessions to the better off segments of the population, viz. the corporate elite and the upper middle class, at the expense of the poorer strata. Third, it unfolds a roadmap for the future that involves a significant privatisation of the economy, both through a pervasive reliance on Public-Private Partnerships and also through a massive sale of public sector equity. And fourth, notwithstanding its stated objective of providing a way out of the current crisis, it offers no hopes for an abatement of either the stagnation or the inflation afflicting the Indian economy. Let us discuss these issues seriatim.

The broad figures of this budget, barring minor modifications which we shall discuss shortly, are essentially the same as those of the interim budget for 2014-15 presented by the UPA government before it quit office. At that time itself there had been general scepticism about the estimates of the interim budget whose revenue projections were considered over-optimistic. The current budget entails a net revenue loss of Rs.22,200 crores on account of direct taxes, compared to the interim budget; and a net revenue gain of Rs. 7525 crores on account of indirect taxes. But notwithstanding this overall net revenue loss of Rs. 14776 crores compared even to the optimistic projections of the interim budget, and notwithstanding the Finance Minster's claim that he was not cutting any expenditures, the fiscal deficit is still supposed to remain unchanged at the interim budget's projection of 4.1 percent of the GDP, which makes all these figures highly suspect.

Looking at it differently, the total tax and non-tax revenue in 2014-15 is supposed to increase over the Revised Estimate for 2013-14 by around 16 percent. With a 5 percent increase in real GDP and no change in tax rates (if anything a net reduction as mentioned above), this is simply impossible unless inflation accelerates to 11 percent, which surely the government is not banking upon. In fact as the budget documents themselves make clear, the assumed nominal GDP growth in 2014-15 over 2013-14 is just 13.4 percent: a current revenue increase of 16 percent on a GDP that is expected to increase by 13.4 percent, with no increase in tax rates, constitutes a sheer impossibility.

Hence if the expenditure target of the 2014-15 budget is met, then the fiscal deficit will have to be larger than the projected 4.1 percent. This per se does not matter, but such a denouement is disliked by finance capital, which is why the government will perforce have to compress expenditures; and the squeeze inevitably will be greater on the expenditure earmarked for the poor.

Secondly, while all the adjustments with regard to customs and excise duties have the single objective of raising the profit margin of domestic producers (ostensibly for overcoming stagnation), among whom naturally the corporate capitalists predominate, all the adjustments on the side of direct taxes focus on providing tax relief to the Foreign Institutional Investors and to the better off middle classes. The income tax exemption limit has been raised from Rs. 2 lakh to Rs.2.5 lakh, which would be construed as benefiting the middle class as a whole. But within this category, the limit for the better off segment of the middle class has been raised not just by Rs. 50000 but effectively by Rs.150000, i.e. there is a regressivity even within this concession. (This Rs.150000 consists of three components: the increase in exemption limit from Rs. 2 lakh to Rs. 2.5 lakh; the exemption in interest on housing loans amounting to Rs.50000; and the exemption on account of the increase in investment allowance by another Rs.50000; all of which would benefit the upper end of the middle class more than the lower end). The tax exemptions in short have been in favour of the better off segments of the population.

On the other hand there is niggardliness with regard to social sector expenditure and rural development expenditure which can potentially benefit the poor. While the Finance Minister claims that he has not lowered the provisions compared to the interim budget, there is a point here which is not appreciated.

Under the MGNREGS there is an outstanding unpaid wage bill of about Rs.5000 crores. The workers have already done the work but have not yet been paid because the earlier Finance Minister, in order to keep the fiscal deficit within such limits as would not frighten international finance capital, had actually deferred this payment. Since this payment constitutes a right of the workers, the outlay on MGNREGS, strictly speaking, should have been put at Rs.43000 crores, which is Rs.10000 crores above last year's level, if the same nominal outlay as last year was to be maintained, i.e. even without reckoning with inflation. (With inflation it should have been even higher in nominal terms, higher by about Rs.14000 crores, to constitute the same amount in real terms). The actual provision for MGNREGS however is just Rs.34000 crores, almost the same as last year, i.e. Rs.13000 crores short of what it should have been for maintaining the same real level.

The calculation here is quite straightforward. A shortfall of Rs.5000 crores on an earmarked outlay last year of Rs.33000 crores means that the actual outlay was Rs.38000 crores. Maintaining an identical nominal amount therefore would mean a provision of Rs.43000 crores (the same outlay as last year plus the outstanding Rs.5000 crores, which comes to Rs.43000 crores). If instead of Rs.43000 crores, a figure of Rs.34000 crores has been earmarked for the NREGS, then, even leaving aside the problem of inflation, there is severe compression in the MGNREGS outlay. And if we factor in inflation, then the compression is far more severe.

Once we factor in inflation, we find that not only in this sphere but in the entire sphere of social expenditure there has been a severe compression. It follows that the basic fiscal strategy of the budget is to increase transfers to the rich, and the better off segments of the population, while reducing the outlays earmarked for the poor, contrary to the claims of the Finance Minister in his TV interviews. The NDA in short is living up to its reputation of being bloody-mindedly pro-rich.

The third, and in the long run the most significant, feature of the budget is the clear announcement of an intention to privatise public sector undertakings, including the nationalised banks. To believe that it makes no difference if the equity share of the private investors increases from 26 per cent to 49 per cent (as is proposed in the case of FDI in defence and insurance and as is likely in the case of PSUs and nationalised banks) is clearly absurd. Indeed if that was the case, then there would have been no justification, to start with, in the government itself fixing 26 per cent as the safe limit up to which private equity should be allowed. Not only does equity above 26 per cent allow veto power to a shareholder, but a partner holding 49 per cent equity cannot simply be brushed aside. Permitting 49 per cent equity therefore does amount to bringing in private interests into the operation of public enterprises. And the excuse for doing so which the Finance Minister provided is extraordinarily lame.

On FDI in defence his argument was that instead of importing defence equipment as we currently do, we should rather produce them; and doing so even with 49 per cent foreign equity is better for domestic self-sufficiency, for employment generation and for foreign exchange conservation. But this argument is nothing else but the argument for import substitution which is obvious and unexceptionable; it is not an argument for 49 per cent foreign equity.

After all, the move towards being self-sufficient in defence production had begun when Krishna Menon was the country's Defence Minister; and there was no talk then of 49 per cent FDI in defence production units. It may be argued that without such substantial foreign equity technology transfer would not take place; but curiously that is not a point the Finance Minister, who also holds the defence portfolio, actually made. Besides, self-sufficiency in defence production requires also a strong effort at domestic R&D, which would suffer if FDI up to 49 per cent is allowed into the sector.

Likewise the argument for inducting private equity into the nationalised banks does not stand scrutiny. Increasing the capital base of the banks for meeting the Basel III norms, even leaving aside the fact that such norms are quite unnecessary (and we should not tamely give in to the Basel III insistence upon them), does not require the raising of private equity. Consider a situation where the government simply borrows from the RBI the requisite amount of money, which is printed by it against government bonds, for increasing the capital base of the banks. This money will not be spent; it will simply be stored. Hence even the most conservative monetarist cannot possibly claim that this printing of money constitutes an inflationary stimulus.

Just as the Obama administration's providing an assistance, including in the form of guarantees, of $13 trillion to the financial sector of the U.S. for propping it up in the wake of the financial crisis, did not actually mean that it had to make fiscal provision of this amount, or that this amount was actually spent, likewise the Indian government's capitalizing the nationalized banks to meet the Basel III norms need not mean the actual fiscal provisioning of the requisite sum. The "norms" are meant for an emergency, if there is a run on the banks; foregoing RBI-financing, through printed money, of government's capitalisation of nationalised banks under these circumstances, makes no sense whatsoever. The feeling is inescapable that this is an excuse being used by the government to justify the privatisation of nationalised banks, which has been a long-standing demand of international finance capital and of US imperialism.

With "fiscal consolidation" as the main aim of the budget and with the fiscal strategy tilted towards curtailing public expenditure earmarked for the poor and increasing transfers to the rich and the affluent (whose expenditure per unit of income is much lower than that of the poor), the budget is not contributing to an expansion of the domestic market. Since the persistence of the world capitalist crisis also entails a stagnation of sales in foreign markets, the demand constraint on the Indian economy will continue unabated. And since the inflation currently underway is not caused by excessive demand but rather because of cost-push factors (and sales of foodgrains in the open market as promised by the Finance Minister will not help here since they would simply be bought up by speculators without bringing down inflation), the crisis of the economy will continue.

*** This article was originally published in the People's Democracy Vol. XXXVIII No. 28, July 13, 2014.**