A Disappointingly Ordinary Budget for Extraordinary Times*

Jayati Ghosh

The most striking thing about Arun Jaitley's budget presentation for 2017-18 is just how unstriking it is. A lot of was expected from this Budget, and it is largely the Government's own fault that the expectations were so many and so contradictory. In the event, the Finance Minister has presented a very "ordinary" Budget, which is unlikely to satisfy most people who recognise that these are definitely not "ordinary" economic times.

First, this Budget comes directly in the wake of demonetisation followed by painfully slow and inadequate remonetisation, which has dealt a body blow to the informal sector as well as to much formal economic activity. The growth rate is decelerating, and even the Finance Ministry's own Economic Survey recognises that the effects of demonetisation in the current year cannot be fully estimated yet and may well linger on into the next financial year. If ever there were a case for a more expansionary fiscal stance to revive demand in the economy, it would be now. But the Finance Minister has chosen to stick to his self-declared fiscal deficit target of 3.2 per cent of GDP! Of course, his estimate is based on huge increases in the revenue projections (more than Rs 200,000 crore increase in tax revenues, out of which as much as Rs 88,000 crore is projected to come out of increases in personal income taxes) which are unlikely to be realised. So it may well be that the actual deficit will be larger if these higher revenues are not realised. Still, in the current context, with all the global economic headwinds coming from the new US dispensation and other forces, such fiscal rectitude is surprising to say the least.

Second, the economic pain caused by demonetisation was felt disproportionately by the poor. So it was naturally expected that the government would do something to compensate for all the material damage it had caused through this ill-judged move, at least by directing much more spending towards the poor in various ways, reviving demand, increasing social spending and providing for better conditions for the recovery of informal activity. But it has really done none of these things, in most cases maintaining expenditure at the same levels or only slightly more in keeping with inflation or nominal GDP growth. Even the supposedly big increase in outlay for the MNREGA misses the point that this is legally a demand-driven scheme, for which funds must be provided as work is demanded. Given the massive hit taken by informal workers across the country, the provisions that would affect them are quite inadequate, and will be seen as such.

Third, the Economic Survey also raised expectations of at least a beginning being made towards a Universal Basic Income – although fears were raised that the government would try to provide this as a substitute for essential public provision of food and other basic needs. In fact, neither the hope nor the fear were realised, as the Budget makes no provision whatsoever for any increase in direct cash transfers – it does not even offer the possibility of raising the pension provided to BPL individuals above its current pathetic level of Rs 200 per month.

Fourth, the Budget was presented at a politically febrile time, just before important Assembly elections in six states. Indeed, the Opposition parties had actually sought postponement of the Budget presentation to its normal date (28 February) so as to prevent the government from influencing the electorate in these states through major sops. They need not have worried. This Budget is remarkable in its relative absence of any of what are normally called "populist" measures – in other words, measures directed towards the welfare of the masses. The expectation that this would be a "political" Budget has clearly been belied; what is surprising is that it is not a particularly "economic" Budget either, since it is not addressing some of the most important macroeconomic concerns today.

Finally, there is the concern about the numbers: to what extent can we rely on any of them, including the revenue and expenditure projections for the present and the coming year? We know from the past how much the revised estimates (and then eventually the "actuals") deviate from the budgetary estimates, but this is the first year in which the government is attempting to provide its own revenue and expenditure data based only on the first nine months of the year, with the demonetisation whammy coming towards the fag end of that period. Surely both direct and indirect tax data must be hugely questionable in such circumstances? The 35 per cent increase in direct tax collections that Mr Jaitley proudly announced in his Speech must surely have something to do with the use of demonetised notes to pay advance taxes – and so not a useful basis on whichto project the collections for the entire year. And while excise duty collections benefited from the windfall provided by higher global oil prices, they are bound to be affected in the last quarter by the widely reported slowdown in economic activity. So the numbers that eventually turn up may be quite different.

A usual Budget in unusual times: will this be enough for the government and its supporters? If I were a candidate for the ruling party in one of the incoming elections, I would be rather worried.

* **This article was originally published in the Wire on February 2, 2017.**