Budget 2018-19: No money where the mouth is*

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Billed as the last full budget of this second NDA government, Budget 2018 was not expected to surprise. The leadership of that government may be pleased with having played, during its nearly 4-year tenure, with programmes varying from "Make in India" to Swach Bharat Abhiyan, experimented with demonetisation, and launched the Goods and Services tax regime. But while none of these immediately benefited the "common man", some of them like demonetisation hit the vulnerable, and the GST disrupted production and damaged the operations of the micro, small and medium enterprises (MSMEs). There was also evidence that agriculture had been neglected and allowed to languish over the last four years, leading to a crisis that triggered farmers' agitations that were a wakeup call. Moreover, GDP projections and the pre-Budget, speculation-driven boom in the stock market notwithstanding, the feeling on the ground was that the real economy was not doing well.

Given the circumstances in which it was unveiled, it was obvious that the primary thrust of the Budget had to be corrective action that offered some succour to the large mass of the deprived in India, with some focus on the agricultural sector and small industry. In advancing this agenda the Finance Minister had to go beyond the belief that had served the NDA in the early phases of its tenure, that propaganda combined with the oratory of a couple of demagogues can replace real policy action, when seeking popular support. But if he chose to adopt redistributive policies, he needed to make sure that he did not in the process lose the support of Indian big business, which financially and through the use of a corporate-controlled media contributed much to the NDA's cultivated legitimacy. That was a tough call.

More so because the NDA and its leadership invested much to advance its claim to being the real carrier of the post-1991 neoliberal, "reform" agenda. There were many indicators of that image that the government itself had sold those concerned: strict adherence to fiscal consolidation with ever-lower fiscal deficit targets; periodic big ticket liberalisation on the trade, foreign investment and domestic liberalisation front; and, large-scale disinvestment and privatisation, including a return to the mechanism of "strategic sales", where management was handed over to the private investor even when less than 50 per cent of equity was bought from government. This self-cultivated image had also to be reinforced by the Budget.

So the Finance Minister had his task cut out for him while presenting Budget 2018-19. He has clearly failed. As the veil that initially conceals the essential features of the budget was lifted, every section that had ostensibly been favoured by the Budget realised that there was little on offer; and many who thought they had just been ignored realised that they had actually been hit. Combine that with the fact that the Budget does nothing to lift the prospects of those whose incomes have stagnated or been depressed, and it proves to be a damp squib.

It is clear that the Finance Minister has chosen to address pre-election imperatives with mere rhetoric and window-dressing, rather than actual measures backed with financing aimed at the neglected and marginalised sections of Indian society. Put simply, this budget does not put its money where its mouth is. As expected, the

budget made noises regarding special policies for the rural sector, small industry and the marginalised. But what is striking is the missing clarity on the details of the policy measures announced and the absence of commitment of adequate budgetary resources to back up the intended measures. The one pro-farmer measure the Finance Minister celebrates is a much-belated plan to implement the M S Swaminathan Commission recommendation that the floor for the Minimum Support Price for crops should be set at 1.5 times cost. This has been done for rabi crops says the Finance Minister, and would now be extended to kharif crops. It took no time for sensible observers to ask: which cost—A2 as defined by the Commission for Agricultural Costs and Prices (CACP) that takes into account only paid out costs; A2+FL that adds on the imputed cost of family labour, or C2 that takes account of imputed rent and interest on owned land and capital? If the first, then MSPs in the case of most crops already match that requirement and farmers find them inadequate. If the second, there are stile some rabi crops that don't meet the norm. And if the third, announced MSPs are nowhere near. But let us presume that the government is sincere about moving to A2+FL or C2 as the basis for cost, then the resources don't seem to be provided for. Increases in budgetary allocations for food subsidy, for example, are needed to clear the government's past arrears to the FCI. So the government is expecting to continue with a situation where the coverage of procurement at MSPs is limited and its sincerity is obviously in question.

This absence of resources to back promises is visible elsewhere as well. Thus, though Part A of the budget speech repeated the words, rural, agriculture and farmer, in an attempt to define its thrust, the allocation for the Department of Agriculture, Cooperation And Farmers' Welfare has been increased by just 7 per cent in Budget 2018-19 as compared to the revised estimate for 2017-18. That would be a negligible increase in real terms. Rather than significantly increasing budgetary support for a sector in crisis, which forced some state governments to accede to demands for farm loan waivers, the Finance Minister has merely offered more debt to the farmers. He promises to increase the flow of institutional credit to agriculture from Rs. 10 lakh crore to Rs. 11 lakh crore. That is not government money, but that of banks that are also reeling under a crisis.

This absence of allocations to back claims of devoting additional resources to uplift the poor and the marginalised is visible in other areas as well. The Finance Minister announced the launch of the "world's largest government funded health care programme" through a flagship National Health Protection Scheme that would "cover over 10 crore poor and vulnerable families (approximately 50 crore beneficiaries) providing coverage upto 5 lakh rupees per family per year for secondary and tertiary care hospitalization." Strangely no clear estimate of the resources required is provided and not a single additional rupee has been set aside in the budget for this purpose. Nor has there been any information provided on whether discussions have been held with insurance companies who will implement the scheme and the premia they would charge. And there is post-Budget talk of the contributions state government would be called upon to make to finance the scheme, but they have not been consulted. Once all of that is done, the whole scheme may be quietly dropped for lack of resources. In any case what India needs experts have argued is universal health coverage backed with public provision. Failing that administrative costs would be high and much of the money would accrue to private sector insurance companies.

Similarly, the budget speech talks of fulfilling the dreams of the poor to own their own house. Yet, the nominal allocation for the Pradhan Mantri Awas Yojana has been increased by just 3 per cent. Finally, though after much hesitation the NDA was forced to accept that the Rural Employment Guarantee Scheme was a "flagship" programme which it must take ownership of, it is only mentioned in passing the Budget speech, and allocations for the programme for 2018-19 have been kept at the same level of Rs. 55,000 crore as provided for in the budget for 2017-18. It is another matter that the full amount was not even spent in 2017-18, despite the overwhelming evidence that the demand for jobs in the scheme was large and wages are in arrears. Overall, the fiscal stance of the budget is conservative. The ratio of total central expenditure to GDP, which fell from 14.2 per cent in 2012-13 to 12.9 per cent in 2016-17, is only expected to rise to 13.3 per cent in the coming financial year. Even that figure is unlikely to be realised, given the consistent shortfalls in revised relative to budgeted estimates in most ministries over the years.

These, of course, are instances where allocations do not match promises. There are others where concessions are accompanied by measures that neutralise their effects. The additional Rs. 40,000 standard deduction in lieu of transport and medical allowance deduction is a typical example. For the medium and small scale industries the real issue of lack of demand and low or negative profitability is not the focus of the budgetary measures. Rather the aim is to improve credit access and reduce taxation of profits. Rs. 3794 crore has been allocated for credit support, capital and interest subsidy and support for innovations in the MSME sector. The Budget also extends the reduced rate of 25 percent currently available for companies with turnover of less than 50 crore (in financial year 2015-16), also to companies reporting turnover up to Rs. 250 crore in Financial Year 2016-17. This is expected to benefit the entire class of micro, small and medium enterprises, which account for almost 99 percent of companies filing tax returns. There is no allocation involved here, but the revenue forgone during Financial Year 2018-19 is estimated be Rs. 7,000 crore. How far this measure would go to enhance post-tax profitability and steer output and job growth given the market facing these firms is unclear. But that the government feels that there is need to enhance demand for domestic firms comes through from the decision to offer some protection by hiking the customs duties on 46 items.

What is surprising is that despite such measly concessions, restricted spending, optimistic revenue projections and an additional 1 per cent across the board cess, which need not be shared with the states, the government finds it difficult not to sway off what the Finance Minister describes as his fiscal consolidation "glidepath". The fiscal deficit in 2018-19 placed at 3.3 per cent of GDP, rather than the original target of 3 per cent. The reason comes through from an examination of the revised numbers for financial year 2017-18. In that year, the Finance Minister could not achieve his irrational target of restricting the fiscal deficit to 3.2 per cent, with the deficit (optimistically) estimated at 3.5 per cent. What is noteworthy is that even in 2018-19, the deficit overshoot the target set earlier despite the facts that (i) finance ministry mandarins have kept some big-ticket spending items (such as expenditure on the recapitalisation of banks) outside the budget through a sleight of hand; and (ii) the government arranged a transfer of Rs. 36,915 core from ONGC in return for a 51.1 per cent stake in HPCL one day before the budget. There is no clarity on how this would benefit ONGC, which would have to borrow money and deploy cash surpluses to finance the deal. But, this helps take the estimated receipts from disinvestment in

2017-18 to Rs. 1,00,000 crore as against the budgeted Rs.72,500 crore, heping reduce the deficit financed with borrowing.

Clearly the shortfall in GST receipts, which had taken the fiscal deficit figure to 112 per cent of that budgeted by November 2017, played a role in upsetting the government's fiscal consolidation agenda. What that shows is that neither is the GST delivering on its promises nor is the economy doing well from a revenue buoyancy point of view. This seems to have pushed the government into adopting what many may consider the one progressive action in the budget—the restoration of a tax on capital gains made on investments of more than a year in stock markets. The Long-term Capital Gains Tax that had been abolished in 2003-04 has been reinstated at 10 per cent for gains exceeding Rs. 1 lakh, and the short term capital gains tax kept at 15 per cent. However, this together with customs duty hikes and the fact that a large chunk of disinvestment receipts is not the result of sale to the private sector but obtained from crossholding investment by ONGC in HPCL, does dent the government's well cultivated "reformist" image. The Budget, the single most important propaganda pamphlet issued every year because of intense media attention, has failed to vindicate the Prime Minister's claim that he is the most passionate "reformer" of all time.

The speculators in the stock market have taken note and reacted adversely to this move, with the Sensex and The government's image of being "reformist" has taken a hit among speculative foreign and domestic investors, despite all the tiresome talk about India's achievements with respect to "the ease of doing business" in the Finance Minister's speech. Speculators need to be constantly fed with hope. But that is not possible when even money to bolster image before multiple elections is not available, leaving the Finance Minister only the option of engaging in big talk backed with little money. But that does not please those who have been the losers in the neoliberal game and need to be compensated. In the event, support for Budget 2018-19 is missing across the income and wealth spectrum.

*** This article was originally published in the Frontline Print edition: March 2, 2018.**