Budget 2015-16: Bonanza for the corporate*

Prabhat Patnaik

Between 2013-14 and 2014-15, the nominal GDP of the country is estimated to have increased by about 11.5 percent. But Gross Tax Revenue for 2014-15 (RE) was higher than that for 2013-14 (Actual) by less than 10 percent. The tax-GDP ratio in other words, actually came down in 2014-15, which is extremely bizarre for two obvious reasons. First, in any system of progressive taxation, as income increases tax revenue must increase more than proportionately. And second, since income in India increases at a faster pace in the non-agricultural sector compared to the agricultural sector which is supposed to be taxed at a lower rate, this change in the sectoral composition of output should also have resulted in an increase in the tax-GDP ratio. The fact that notwithstanding these factors, and also the fact that in the context of the reduction in world oil prices, the Indian government has been pushing up the excise duty on petrol and diesel and thereby reaping a part of the windfall, the tax-GDP ratio came down is a matter of great significance. And one of the main culprits here has been corporate tax revenue which increased by only 7.8 percent.

Nobody can say that the share of corporate income in GDP came down in 2014-15. Hence corporate tax revenue should have increased at least at the same pace as the GDP, i.e. at 11.5 percent, if not more. The fact that it increased only at 7.8 percent suggests that the corporate-financial oligarchy was not paying the taxes it should have been paying. There was a case therefore for increasing the tax rates on the corporate sector. But instead of doing so, Finance Minister Arun Jaitley has gone and lowered the Corporate Tax rate from 30 to 25 percent, to be effected over a 4-year period. True, he has also announced that several tax exemptions given till now would be withdrawn, but some will still continue. As a result even the corporate sector spokesmen estimate that the effective corporate tax rate, after taking into account all exemptions, which now stands at 23 percent (according to Jaitley), will continue to remain at 23 percent when the proposed budgetary changes have been put into effect.

An argument has been advanced that even though the effective tax rate may not change much, since companies with pre-tax profits of over Rs.500 crores have at present an effective tax rate of only 20.68 percent while companies with pre-tax profits of Rs. 1 crore have an effective tax rate of 26.89 percent, there would be greater equity across companies with the implementation of the budgetary provisions. But, even if these figures are correct, a lot of these large profit making companies, it must not be forgotten, belong to the public sector. In fact, the effective tax rate for public sector companies is estimated at 19.33 percent and for private sector at 24.44 percent. A uniform 23 percent effective tax rate therefore would mean a lower tax burden on the private sector, and also a loss to the exchequer since the “Internal and Extra Budgetary Resources of the Public Sector” are available anyway to the Union government for financing the Central Plan outlay. The net loss to the exchequer owing to the budgetary measures, and that too of a significant order of magnitude, is therefore an undeniable fact.

Budgets these days deliberately tend to produce a miasma of words and figures, which can then be interpreted by the “pundits” in TV studios in so many diverse and confusing ways that the class content of the budget gets effectively camouflaged. But the miasma produced by Jaitley this year can scarcely conceal the class content of his budget. This is because his is the most brazenly pro-corporate, pro-rich and anti-people budget in recent memory. It is in that sense an authentic neo-liberal budget, the true expression of the ideology of a neo-liberal State which believes that promoting the interests of the corporate-financial oligarchy is good for "society" as a whole, the best means of bringing "acchhe din" for all. It is neo-liberalism without any attempt at a "human face".

Not surprisingly, while Jaitley has reduced the corporate tax rate, and has deferred the application of GAAR (the General Anti-Avoidance Rules) by two years to April 1, 2017, after which these rules would apply only to investments made from that date onwards, he has kept the provision for MGNREGS virtually unchanged at Rs.34699 crores (last year's provision was Rs.34000 crores). True, there is a promise that if the revenue situation improved he would increase the allocation for MGNREGS by another Rs.5000 crores, but this is not only a pie in the sky, but also against the very spirit of the Act which had made the provision of employment, upon asking for it, mandatory. In a "rights"-driven scheme there cannot be any rigid pre-fixed allocations; and if there are, then the "right" has in effect been withdrawn.

In fact, however, even as things stand, the MGNREGS allocation has been effectively pruned. The Centre, which is supposed to provide funds for this scheme, already owes the States Rs.6000 crores because the State governments have paid a part of the mounting wage arrears (estimated to be as high as Rs.12000 crores). Even without taking account of inflation, even without considering the actual wage arrears (i.e. even assuming that the Rs.6000 crores paid by the State governments have cleared the entire amount of wage arrears, though they obviously have not), if the Centre wanted to maintain the MGNREGS at the same absolute level as in the previous year, the minimum outlay it should have provided is Rs.46000 crores (consisting of Rs.34000 cr. plus Rs. 6000 cr. arrears plus Rs.6000 cr. shortfall that caused the arrears in the first place); the fact that it has not done so but kept the provision at roughly the same level as last year, implies therefore a massive actual cut, of at least 30 percent (i.e. Rs.12000 cr. on Rs. 40000 cr.). Curtailing an Employment Guarantee Scheme, meant to provide a universal economic right to the people of rural India on the basis of a unanimous resolution of the parliament, while handing over tax relief to the corporates, sum up between them the ideology of the present government: they give a clear indication of the class orientation of the budget. Prime Minister Narendra Modi's characteristically crude diatribe against the MGNREGS, which happens to be the largest rural employment scheme anywhere in the world, only underscores the anti-poor and the pro-corporate ideology of the NDA government.

The concessions given in the realm of direct taxation which would cost the exchequer Rs.8315 crores, and the additional revenue mobilisation through indirect taxes to the tune of Rs.23 383 crores, i.e. the shift of emphasis from direct taxation which falls on the more affluent sections of society towards indirect taxation whose burden falls mainly on the poor, is in line with this class orientation. And not surprisingly there have been cuts down the line in social sector spending.

The reduction in provisions for ICDS, Mid-Day Meal Scheme and Sarva Shiksha Abhiyan, and the refusal to increase the honoraria of Anganwadi and ASHA workers, are all symptomatic of this attitude. In fact allocations have been cut in a whole range of sectors from agriculture, drinking water and sanitation, panchayati raj, and water resources to women and child development and even SC/ST sub-plans.

Of course the Union government will claim that since a larger amount of resources is being transferred to the States in keeping with the recommendations of the Fourteenth Finance Commission, some of the responsibility for social sector spending too must be transferred to the State governments, so that there is no cause to worry about the social sector if the State governments also do their bit.

There are however two problems with this argument: first, the transfers to the States as a percentage of gross tax revenue are hardly any more than was visualized in the last year's budget estimates, if we take tax devolution, loans and grants together. And secondly, if there is a revenue shortfall, which is more than likely, then the transfers to the States will become a major casualty exactly as happened last year.

The budget estimates for 2014-15 had provided for a total transfer, consisting of tax devolution, loans and grants to States and Union Territories, which was 57 percent of the gross tax revenue. The 2015-16 budget provides for a total transfer of 58 percent. So, the argument that the current budget has substantially stepped up transfers is without substance. In addition however we find that when gross tax revenue fell short of the budgeted figure for 2014-15 (by as much as 9 percent), there was a much larger cut imposed on the States and Union Territories than upon the Centre. In fact according to the revised estimates for 2014-15 the percentage of transfers was only 54.7 percent.

For 2015-16 too, the gross tax revenue has been over-estimated: it is estimated to rise by 15.8 percent when nominal GDP is expected to rise by only 12.7 percent. The elasticity of tax revenue with respect to nominal GDP (i.e. the percentage change in the former divided by the percentage change in the latter) which, as we saw earlier, was less than one for 2014-15, is suddenly expected to jump to 1.24! This is an entirely fanciful presumption. And when tax receipts fall short of estimates, transfers to States will be squeezed, together with social sector expenditure generally, as has happened in 2014-15.

But what about the "growth-stimulating potential" of the budget (for whatever it is worth) that everyone is talking about? Basically, the strategy one can detect, if any, for stimulating growth has two parts: one is increasing the class power of the capitalists, euphemistically called "providing a congenial atmosphere to private investors", of which the so-called "make in India" is an essential part, and towards which the land acquisition ordinance is a step. The other is increasing investment in the "infrastructure" sector, by making use of public sector units which are to be given the freedom to rope in private sector players.

This reliance on public sector should normally be a welcome step, provided it was part of a planned development programme, and meant to strengthen the public sector as a bulwark against private, especially metropolitan, domination of the economy. But this is not the case here. The Planning Commission, such as it was, has been demolished, so that there is no question of public sector expansion being a part of any planned development. And if public sector units are forced through government diktat to make large investments in the infrastructure sector which undermines their financial position, then this same government will use this very excuse of their poor financial position to privatize them for a "song".

This budget in short is a major step in the direction of increasing the class power of capital; and this per se does not bring growth, as is evident all over the world at present. Ironically, however, when this growth strategy fails, the only panacea under neo-liberalism is to increase the class power of capital still further, efforts towards which are what we shall see in the coming days.

*** This article was originally published in the People's Democracy, March 08, 2015 edition.**