Budget 2016-17: Signs of paralysis*

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When the numbers underlying Budget 2016-17 are unpacked the unavoidable conclusion is that any claims of direction in the budget, let alone of a redirection of policy, was just empty rhetoric. The government had clearly failed to put any money where its mouth was. This was especially true of the Finance Minister's claim that his Budget provides "additional resources for vulnerable sections, rural areas and social and physical infrastructure."

As part of this new thrust, the Budget speech reiterated a recent promise by the Prime Minister that it would double the income of farmers by 2022. In pursuit of that goal the Finance Minister has provided a total allocation for Agriculture, Cooperation and Farmers' Welfare (ACFW) of Rs. 35,984 crore for 2016-17. On the surface this seems to be a huge increase in the allocation for this sector when compared to the revised estimate of Rs. 15,809.54 crore for 2015-16. But it emerges that this increase is the result of a change in classification. The budget estimate (BE) for 2016-17 includes Rs. 15,000 crore under the head "interest subsidy for short term credit to farmers". This head earlier appeared as part of the demand for grants of the Finance Ministry, and its inclusion hugely inflates the ACFW figure for 2016-17. Adjusting for that, the nominal increase in allocation to "farmers", even if realized, is far smaller than the impressive 128 per cent implied by the Finance Minster's claim.

This dichotomy between rhetoric and intent as reflected in even budgeted allocations is visible in other areas that impact on India's precariat. One is the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS), which the NDA government has had to reluctantly declare as being a "flagship" programme for the poor, despite its origins and expansion under the UPA. Even before Budget 2016-17, it was clear that in practice the NDA government was starving this programme of funds, though it was legally a demand-driven programme with the government committed to providing employment claimed irrespective of the allocation required. This neglect had resulted in a fall in the average number of man-days of work provided to households under the programme to 40, as opposed to the promised 100.

The Finance Minister's Budget Speech declares that the allocation for the programme has been set at Rs. 38,500 crore and there have been attempts made to portray this as substantial. As activist Nikhil Dey has pointed out, the fact is that even by the time the Budget was presented, actual spending on the programme in 2015-16 had touched Rs. 37,000 crore and there were arrears to the tune of Rs. 6,000 crore that needed to be cleared. By the end of March this Rs. 43,000 crore is likely to have risen even more. So the allocation proposed in the budget is a huge decline even in nominal terms, without accounting for inflation.

Such examples can be multiplied as has been done by different commentators on the Budget. The relevant question is why there is this divergence between the rhetoric of the NDA and its actual allocations. Numerically, the explanation is obvious. The Finance Minister has chosen not to increase government expenditure when measured as a ratio of GDP. The ratio of total expenditure to GDP is in fact projected to fall marginally from 13.2 per cent in 2015-16 to 13.1 per cent in 2016-17. This in a year when the government has to make substantially increased allocations for its wage and salary bill, given its obligation to implement the award of the 7th Pay Commission. This paralysis with respect to spending has its roots in two tendencies that have come to characterise the fiscal stance adopted by successive governments since the mid-1990s, and has intensified under the current NDA regime. The first is conscious forbearance when it comes to imposing corporate, wealth and capital gains taxes in the name of strengthening private initiative. The second, is an increased emphasis on realizing the revised fiscal and revenue deficit targets that are expected to brought down to 3 and zero per cent respectively even if with a lag relative to dates set in the Fiscal Responsibility and Budget Management Act. This pursuit with renewed vigour of self-imposed targets has meant that the fiscal deficit for 2015-16 has been brought down to 3.9 per cent and that for 2016-17 have been set at 3.5 per cent of GDP.

With the government having decided to restrict itself on both the direct tax and borrowing fronts, what happens to expenditure depends on what happens to any residual direct tax initiative, indirect taxes, non-tax revenues and what are called "non-debt capital receipts", which really is the sale of assets to finance current expenditures. Budget 2016-17 makes an effort to push the boundaries on all of these funds. It has chosen to tax the retirement savings of middle and lower-middle class households, by making 60 per cent of the withdrawals from Provident Funds of those under the older pre-NPS system taxable. That is while corporations are to be given the benefit of reduced rates in the coming years, workers in different categories are to be subject to a new tax on savings.

Second there are a variety of surcharges and cesses that the government has chosen to impose, which are in the nature of inflationary indirect taxes the revenues from which need not be shared with the states. One area in which this strategy has yielded the government large revenues even in 2015-16, is petroleum and products, enhanced indirect taxes on which have been used to skim off much of the benefits of the sharp decline in international oil prices that would have otherwise acquired to the consumer. Against the budgeted figure of Rs. 186787 crore from duties on petroleum and products, the government actually collected Rs. 263172 crore in 2015-16. Expecting that oil prices will remain low and continuing with this practice the government is expecting to mobilise an additional Rs. 280464 from this source 2016-17, depriving the population of the benefits of this windfall gain. Given the fact that oil products are universal intermediates, all sections will have to share this burden, making it regressive.

Third, the government has chosen to flog to the very end the benefits to be derived from the use of spectrum, which is a limited resource. According to the budget, receipts from "other communication services" rose from Rs. 30,624 crore in 2014-15 to Rs. 56,034.35 crore in 2015-16, and are estimated at Rs. 98,995 crore in the budget for 2016-17. According to the detailed receipts budget, these resources are derived from one-time spectrum charges, auction of 1800 MHz and 900 MHz spectrum and receipts from 800 MHz spectrum.

And finally, despite repeated disappointments, the government is hoping to sell large volumes of equity in public sector corporations and undertake strategic sales of some units to garner substantial receipts from privatization. Given the state of the market for asset sales this is not a fail-free source. In the budget for the current financial year

2015-16, for example, receipts from disinvestment and strategic sale were set at Rs. 69,500 crore. The revised estimate indicates that the government managed to mobilize only Rs. 25,312 crore. Yet the receipts from this source in 2016-17 have been set at a still ambitious Rs. 56,500 crore.

Even if an odd and regressive set of interventions to mobilize additional resources, it could be expected that these measures should give the Finance Minister some space for manoeuvre. Surprisingly, it does not seem to have delivered that. As opposed to expectations that the budget would raise expenditures to give the slowing economy a much-needed stimulus, projected spending in 2016-17 is just about keeping pace with nominal GDP growth.

What the government has chosen to do is to reorient expenditures a bit so that it can devote more to infrastructure spending, especially on roads and the railways. Even this may not materialize since revenues may fall short of the optimistic projections in the budget, as happened in 2015-16. In any case, with aggregate expenditure not buoyant, the marginal infrastructure thrust has meant that the Finance Minister has had to make tall claims of what he intends to do for farmers and the poor, without allocating the resources needed to realize them.

In sum, despite the pressures created by impending elections in a number of states, which possibly explains the Finance Minister's rhetoric, the ruling party has not been able to use the fiscal lever to push for growth and some improvement in welfare. The source of this paralysis is the adherence to the twin pillars of direct tax forbearance and fiscal deficit reduction. These principles are clearly meant to appease domestic and foreign investors, especially the latter. But they are unlikely to enthuse the majority of voters. That possibly explains why a party and government wooing foreign capital is trying to create a new discourse on nationalism to build a vote bank.

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