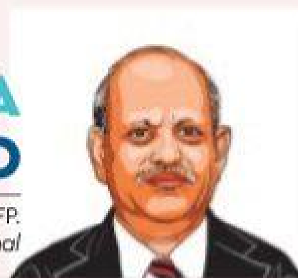
● BUDGET 2018-19

WHILE IT PROPOSES A NUMBER OF INTERVENTIONS, A CLOSER LOOK AT THE ALLOCATIONS DOES NOT CONVINCE ANYONE THAT THERE ARE QUALITATIVE DIFFERENCE FROM THE PAST

Once again a **missed opportunity**

M GOVINDA RAO

Emeritus professor, NIPFP.
Views are personal



THERE WERE HIGH expectations that the Budget 2018-19 will fast-track reforms in the small window available to the government before elections. After the ruling party's performance in the Gujarat elections, it was expected some populism will creep in, that measures will be taken to revive the investment climate. Indeed, there is considerable rhetoric in the Budget speech, but on closer examination, concerns about macroeconomic situation are palpable and there are reasons to be disappointed.

The Economic Survey has underlined the important reform areas in four Rs—Recognise, Resolve, Recapitalise and Reform. Of course, it was a bit too optimistic in estimating the growth for the current year at 6.75%; for that to achieve, the economy in the second half will have to grow at 7.5%. Similarly, the assumption of growth at 7-7.5% for the next year is more an aspiration than is grounded in hard facts. What is important is that the Survey goes on to list the major reforms as ensuring macro-stability, creating the investment climate to reverse the secularly declining investment rate, including the governance reform of the public sector banks along with recapitalisation and implementation of insolvency and bankruptcy code to resolve bad debts, privatisation of Air India and stabilisation of the goods and services tax (GST).

The Budget proposes a number of interventions, but a close look at the allocations does not convince anyone that there are qualitative difference from the past. The two most important proposals are (i) fixing of minimum support prices at 150% of the cost for number of crops to double farmers' incomes by 2022; (ii) providing health insurance of ₹5 lakh to 10 crore poor families. Interestingly, both agriculture and health are the state subjects in the Constitution and it is unclear why the Union Budget should focus on them.

Indeed, price fluctuation is an important cause of farm distress and attempt to stabilise remunerative prices for the farmers is important. The question, however, is, whether this should be done through government fiat or by making large investments in storage and marketing infrastructure and food processing industries, reforming and regulating markets and expanding extensions for horticulture and floriculture? These will have to be done in collaboration with states. Perhaps, lasting solution to the farm distress could have been found if instead of subsidy, investment in the sector was increased.

Providing healthcare to the poor is important but the Budget proposal raises more questions than providing answers. This is a sector with significant asymmetric information, and the spending will spiral year after year. Dr Mita Choudhury of NIPFP has calculated that to provide health cover of ₹5 lakh to 10 crore families even at the rate of 2% premium would cost ₹1 lakh crore. The Budget does not make such allocation. Is it to be taken that this is merely an announcement? If this amount of money has to be spent, why not strengthen the sub-centres and health centres to create a sound infrastructure for primary and secondary healthcare? Given that health is a state subject, are states supposed to be a part of this scheme and have they been consulted?

On infrastructure creation, while the Budget speech is eloquent, the actual allocation does not match the optimism. The total outlay for agriculture and rural development is set at ₹14.34 lakh crore in 2018-19, and of this, extra budgetary and off budgetary resources are estimated at ₹12 lakh crore; the budgetary allocation is just about ₹1.36 crore. The budgetary allocation for education shows an increase of 5.3% over the revised estimate and in the case of health and family welfare, the outlay in 2018-19 is actually lower than the revised estimate by 5.7%. Similarly, much of the investment in road and railway infrastructure will have to come from extra budgetary resources. In fact, analysis shows the capital expenditure as a ratio of GDP continues to decline and is estimated at 1.6% of GDP, compared to 1.85% in 2016-17.

On the tax proposals, attempt to bring parity in the long-term capital gains is certainly welcome, particularly after the amendment to the tax treaty with Mauritius. The tax policy has no business to influence investors' choice between different financial instruments. However, for the same reason, it is inappropriate to provide concessions under 80C for permitted instruments such as public provided fund and small savings and bank deposits for five years up to ₹1.5 lakh. Apart from distorting the choice of investors' between assets, this actually does not increase savings, for once a person saves for five years, he can simply roll it over. Furthermore, with the abolition of exemption, the rationale for levying securities transaction tax (STT) disappears and both STT and commodities transaction tax should have been abolished to reduce the transaction cost. The imposition of surcharge at 10% of import duty and raising the import duties on certain items goes against the grain of making the country competitive. "Make in India" should not have been reduced to import substitution.

The significant slippage in all deficit numbers is a major cause for worry. The revised estimate of revenue deficit in 2017-18 is 2.6%, compared to the Budget estimate of 1.9%, and the fiscal deficit has slipped from 3.2% to 3.5%, which is the same as in 2016-17. This has happened despite the compression of capital expenditures by 12% over the Budget estimate and no shortfall in revenues. The capital expenditure in 2017-18 as well as that is budgeted for 2018-19 at 1.6% of GDP is perhaps the lowest in recent years. The slippage was mainly on account of unplanned expansion of revenue expenditure.

The Survey had emphasised the need for ensuring macroeconomic stability in view of both domestic and global developments. However, this Budget has reworked the entire adjustment path. The estimated fiscal deficit for 2018-19 is 3.3%, and, in addition, the government will issue bank recapitalisation bonds amounting to ₹80,000 crore. In fact, proper accounting demands that this should be a part of the fiscal deficit, as when the shares of public enterprises are sold, these are taken as non-debt capital receipts but when the bonds are purchased by the government, they are not counted for the deficit! The finance minister states that he accepts the key recommendations of the Fiscal Reform and Budget Management Review Committee to bring down the debt to GDP ratio to 40% and fiscal deficit target will be the key operational parameter, but at this rate, this cannot be achieved by 2022. The medium-term fiscal plan states that the 3% target will be reached only on 2020-21. In fact, there is a credibility crisis in fiscal management of the country.