

# The Budget of 2014-2015

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The Economic Times published on 11<sup>th</sup> July, 2014 carries the headlines “Narendra Modi aims for goal, hits crossbar”. This newspaper and some others, not to mention the Opposition have referred to the budget presented to Parliament by Arun Jaitley, the Finance Minister, as not containing anything radical which would signal a complete departure from the policies of the previous government. One newspaper describes the budget as “Chidambaram’s budget with saffron lipstick”. Whereas there is a cautious welcome of the budget by a cross section of people, there is also a sense of disappointment that the budget is not particularly radical. Of course it is recognised by everyone that the budget does hold out hope for the future, but in itself it is a form of continuation of the previous government’s financial policy.

Under Article 112 of the Constitution the President is required to lay before both Houses of Parliament a statement of the estimated receipts and expenditure of the Government of India for that year. Article 112 (2) gives the two main components of the annual financial statement and it reads, “The estimates of expenditure embodied in the financial statement shall show separately – (a) The sums required to meet expenditure described by this Constitution as expenditure charged upon the Consolidated Fund of India; and (b) The sums required to meet other expenditure proposed to be made from the Consolidated Fund of India”. Article 112 (2) (b) has to be read with Article 113, which says that every estimate which relates to expenditure, other than charged expenditure, shall be presented to Parliament in the form of demands for grants and the House of the People may assent, refuse to assent or assent after reduction in the demand for grant. Under Article 114 all the demands for grants which have the assent of the House of the People are put together in the form of an Appropriation Bill, which is to be presented to the House of the People. This Bill has to be passed in toto by the House of the People because Article 114 does not permit any amendment after the grants have been individually approved. That is why if the Appropriation Bill fails, then this amounts to a vote of no confidence and government falls. Government can spend money from the Consolidated Fund of India only after the Appropriation Bill is passed into law. This slightly detailed reference to the provisions of the Constitution regarding the annual financial statement has become necessary to really understand the purport of what is popularly called the budget.

To further simplify the above statement it is clarified that the budget gives the entire programme of government for which government is seeking the approval of Parliament in the matter of funds. It is when grants are being discussed that every individual scheme of government comes under parliamentary scrutiny and in the budget government charts out the direction in which the entire programme of government will be driven. Of course the revenue portion of the budget states how government intends to raise the funds for meeting proposed expenditure. This means that the taxation policy of government also forms a part of the budget and when the budget is read as a whole it really gives the ideology, the political philosophy and the programme of the party in power and tells the people in which direction the country will move. That is the real importance of the budget and that is why Modi and his Finance Minister are being subjected to judgemental scrutiny.

The present government succeeded a government led by a party which claims to have fundamental ideological differences with the present party in power. Its successive budgets, therefore, reflected that party’s philosophy and programme. The change of government in India has come through a democratic process which

has two components, the first being continuity and the second being change. Change is a process in which there is also continuity and has to be evolutionary, which means that if the incoming government wants to have different priorities from the previous one, or different programmes, it has to achieve the change over a period of time and not overnight through total radicalisation. Change of government in a democracy is not a Bolshevik revolution of the Soviet model. In Russia Lenin and the Marxists overthrew the Tsar and his government by armed revolution and stated that the objective of the revolution was to completely destroy the old political and social order. Earlier the French Revolution also had the same aim and in both cases royal regimes and everything that they represented were destroyed lock, stock and barrel. That is not the way of democratic change. In this context let us examine what chance the new government had of immediate radical departures from the past. For example, Narendra Modi has held out for “minimum government, maximum governance”. Did he have the choice in the budget presented within forty-five days of coming to power to say that he would immediately reduce the number of government servants by ten percent, a quarter or perhaps half? Part XIV of the Constitution would have to be scrapped if this were to be achieved. Any such an attempt would have caused blood to flow on the streets as unemployed government servants revolted against it. Would Modi’s own Members of Parliament have found this acceptable? What “big bang”, to which irresponsible journalists and TV commentators refer, was possible for government in this behalf?

Let us take another issue, which is the National Rural Employment Guarantee Scheme. The previous government had a huge programme of providing hundred days of employment per person in rural areas and for this a very substantial budgetary provision had been made. Could the new government have abandoned the scheme overnight, creating almost universal rural unrest? Therefore, not only has the government budgeted for the scheme but has also proposed enhancement of the allocation of the funds but with a specific rider that government would review the contents of the programme and would move away from just an employment objective into a more productive programme of creating permanent village assets. To those who really understand rural India this one simple statement contains a message virtually of revolution. NREGS as at present administered is entirely a muster roll based programme and, as is well known, it is not possible to run a muster based programme honestly. If the objective is the same, that is, providing employment in rural areas, a programme aimed at creating permanent assets would radically change it because now employment activity would be sharply focused and at the end of the day the village would acquire a long term asset. The old integrated watershed management programme, of which the government of Digvijaya Singh in Madhya Pradesh made a great success, was invaluable because it resulted in improving the water regime of thousands of villages, led to soil and water conservation and a sharp increase in the availability of fuel and fodder. Its abandonment on the insistence of the National Advisory Council and conversion into a populist muster based employment programme was a disaster. The present budget which gives the determination of government to provide rural employment, but to do it productively is, therefore, a big bang.

The leaders of the present government had promised at the time of election that skill development, employment generation and creation of a climate in which investment would flow in would have high priority. Does the present budget reflect this? There is no specific mantra which would make this happen, but the budget has made provision for skill development, it has assured the corporate world that in the future the tax regime would be simplified and an environment would be created which would facilitate investment and, by proposing a venture capital fund for Rs. 10,000 crores, the government has certainly signalled that it wants new enterprises to be created. Specifics can be provided only in the next budget because in the coming year the government would be able to fine-tune the policies which would lead to achievement of pronounced goals in the matter of investment, economic growth and employment generation.

Let us take the question of taxation. For the average tax payer the budget proposals are on the one hand cautiously welcome and on the other an indicator that the tax regime in future will be liberal, aimed at maximising government revenues but not unduly burdensome to the tax payer. Where it misses out is in the matter of taxes to be paid by business and corporations which could be designed to encourage corporations to invest in major infrastructure project, whether in terms of capital investment or in investment for maintenance and upgradation. Some of the sectors in which government have chosen to go on the Public-Private Participation model could be chosen for long term involvement of the private sector through an appropriate tax regime. Education which is universal and leaves out no one on account of affordability, health care which reaches down to the least fortunate, transportation corridors such as roads and railway tracks, power systems, in fact everything which gives the basics for development, creation of and management of rural assets are all areas in which we need to attract corporate investment, not because they will give direct returns on the money invested but rather because of tax incentives which attract the corporate world to invest in infrastructure which serves people at large. If PPP mode development and tax incentives for private investment are seen as one, then we may find that in the future private investment in public infrastructure could show a sharp increase. Perhaps there was not enough time to do any real thinking in this behalf, but by the time the budget of the year 2015-16 is presented, the Finance Minister, as a part of government, must come up with very specific, doable proposals for radically changing how the Indian economy functions. One word of caution. Using taxation as an incentive would be restricted to long term private investment in useful projects, but could not be used to cover corporate social responsibility.

The present budget talks about a disinvestment programme in which government gradually moves out of selected public sector undertakings and encourages privatisation. Even though it might reflect a continuation of the British obsession on the one hand with the Great Game and on the other the means of rapid troop movement to deal with another mutiny, the fact remains that the Indian Railways have an enormous strategic role to play in joining the country together. Therefore, public ownership of the railways is a necessity dictated by strategic and tactical requirements, but equally by the fact that this is the common man's main mode of transport. Total commercialisation of the Railways would hit the average citizen very hard. With this as a constant factor government has to ensure a much higher investment level in maintaining the Railways, improving them and extending them. In the United States Railways were always in the private sector and it is only when competitive modes of transport such as roads and air traffic began to affect the profitability of the private railway companies and the railway system was on the verge of collapse that that U.S. Government created AMTRAC, a public sector organisation which took over strategic railway lines. AMTRAC has been criticised for not always being very efficient, but it has at least kept the railways alive in America.

We, while continuing to have the Indian Railways as a public sector organisation, need to identify those schemes of the railways which can be run through the corporate sector. Tata Motors started as the Tata Locomotive Company, Telco, which manufactured steam engines for the Indian Railways very successfully. Why should the railways themselves run the Chittaranjan Locomotives Works? Why can they not privatise the manufacture of locomotives, rolling stock and the maintenance of the existing stock? This is an area which the railways need to explore so that they can concentrate on efficient operation of the railways. There is enough money for both the corporate world and the public sector for running the railways and a partnership mode in which the dominant position is that of government can certainly make the railways an organisation which is profitable but which does not become burdensome to the average traveller. The next budget must go beyond generalities about FDI in the railways and must come up with specific proposals which can be implemented within three years.

There is one very tricky area which cannot be ignored but which can probably also not be instantly cured and that is agriculture. All our efforts at agricultural development tend to be compartmentalised and segmented. There are a number of players in the agricultural scene which, incidentally, is and must remain the largest single employer. In China ten percent of the land is arable, but in India sixty percent of the land is arable. With such a huge area available to us for agriculture why should this sector not get the highest priority? There is a whole coterie of people who feel that if India is to progress it must draw people from rural areas and put them into urban employment. This, mind you, in a country which is largely ryotwari and in which the cultivator is the bhoomiswami or the owner of the land. In China the cultivator was a serf, a tenant at will and, therefore, leaving the land and seeking a job elsewhere was not a great hardship. In India people who want to follow the Chinese model want to replicate China in the matter of migration from rural areas to urban areas. Because of this attitude there is no wholehearted attempt to bring about that qualitative improvement in agriculture which makes it a truly profitable vocation.

As stated earlier, agriculture has a number of players, of which the primary one is land. Then there is the owner of the land. For cultivation land needs water and for high yields it needs manure. Manure can be natural, for which we need animal dung and agricultural waste, or it can be synthetic, that is, chemical fertilisers. With water and nutrients the land can be made productive and by selecting the correct cropping pattern productivity can be optimised. In those areas where this has been done, for example, the catchment of the Punjab Agriculture University at Ludhiana, the results are spectacular. This needs to be replicated throughout India, but in the context of local soil conditions, water availability and climate. That is why the next budget must give greater importance to developing of agriculture universities in India to the level of the Punjab Agriculture University. Today, for example, two fine agriculture universities in Madhya Pradesh, at Jabalpur and Gwalior, are being strangled for want of funds. This must not be allowed to happen.

The producer grows a product, but the product has to be marketed. For this one needs roads for transportation and develop mandies or market towns for marketing of the product, value addition through processing and the backward linkages for providing services to agriculture, such as finance. There is need for warehousing and cold storage so that by releasing product in the market in a steady stream there is price stabilisation throughout the year. During the season of glut tomatoes and onions sometimes have to be thrown away, but at certain times when there is no fresh inflow and there is no supply stabilisation through release from appropriate storage facilities, prices rise very high and this creates a crisis for government. No agriculture policy, no price stabilisation policy can succeed unless government intervention ensures that storages give a fair price to the farmer because there is a median price which prevails throughout the year, whilst at the same time ensuring steady release into the market so that there is constant inflow which stabilises prices. In fact this is so important that it must form the core of agricultural policy and the price stabilisation policy. Will the 2015-16 budget reflect this? In other words, the budget can be an instrument in ensuring that there is long term agricultural policy which is stable and there is no need for knee jerk reaction to an emergent situation

One welcome signal that can be read is that the Human Resource Development Ministry is considering a review of the PPP mode policy for six thousand new model schools. School education is the responsibility of government, the Navodaya Schools have proved that if good quality schools are established in rural areas there can be significant improvement in education and in any case unless we improve the level of school education all our universities and Indian Institutes of Technology, Science Education and Research, Information Technology and Management will be worthless pimples on our fair face. The new government, in future budgets, must make so much of funds available for school education that in one cycle of schooling we completely transform

the education picture. If everyone, the disempowered, the socially ostracised, the backward and even the socially advanced are all given equally good education they would all become equal in every sense, able to compete with their peers and no longer in need of the support of reservations. In fact education can be the main instrument of making India a casteless society in which everyone is equal in terms of opportunity to acquire knowledge and skills. This is much more important than providing sops to the corporate world, reservation to the deprived or subsidies which provide only immediate relief.

Are subsidies justified? Europe and America shamelessly use subsidies in areas of interest to them, especially agriculture. The entire social security programme is a form of taking from the rich and giving to the poor but as a balanced programme, aimed at levelling out inequalities by raising tax revenue to meet the cost of subsidies. In India, unfortunately, deficit financing is generally used not to kick-start a flagging economy on the Keynesian model, but to distribute largesse ad infinitum. The budget must quickly visit this situation, remedy it and make subsidies part of a self sustaining regime.

This paper is not an analysis of every scheme of the budget. But it is a kind of report of what, under the circumstances, can be considered to be a good, workable budget which gives government the breathing time to evolve its long term economy policy. Mr.Modi has neither scored a goal nor hit the crossbar. He has, however, started to evolve a kind of field strategy which would enable him to repeat what Dhyanchand achieved in the 1936 Berlin Olympics, that is, proved that Hitler's theory of his so called Aryan superiority was a complete myth and that it is Indians who are true Aryans.

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