

Walking The Fiscal Tightrope

Six economists on the interim budget—What it may achieve, where it failed and what more it could have done



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Six economists share their views on the interim budget and discuss what the budget achieved and what more could have been done by the government. (Photo: Representational Image)

Q: Is the interim budget economically/ fiscally prudent or populist? How so? Is the government likely to meet its fiscal deficit target?

A:

N.R. BHANUMURTHY

The interim budget, not surprisingly, is a populist budget. It hasn't been fiscally prudent either, given that it said it would miss the targets set by the Fiscal Responsibility and Budget Management (FRBM) Act this financial year and the next. Some argue that the government almost achieved the fiscal deficit target for 2018-19, but, according to the Medium-Term

Fiscal Policy (MTFP) Statement, it is ignoring the revenue deficit target as set in the original FRBM Act.

Then, it is unclear how the government achieves the public debt target as all three targets—fiscal deficit (FD), revenue deficit (RD) and debt/GDP—are internally consistent with a growth of 7 to 7.5 per cent. For 2019-20, the FD target itself is breached.

Most importantly, when we look at the revenue estimations (including the disinvestment targets), the fisc for 2019-20 could be higher than the 3.4 per cent set in the interim budget. And there is ambiguity about the treatment of Rs 50,195 crore as extra-budgetary resource. The Finance Bill does not include the proposal of income tax exemptions and there are ambiguities in terms of its implementation, but once it is included in the full budget, the fiscal deficit should be higher.

D.K. JOSHI

There is an attempt to balance prudence and populism. Addressing farm distress and stoking domestic demand was necessary, as was income support to farmers and tax benefits to the middle class.

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These wouldn't have been possible without deviating from the fiscal goal. Since 1991, the medium-term fiscal deficit goal of 3 per cent of GDP has been met only once—deviation has been the norm.

The interim budget also does the same, deferring conformation to fiscal 2020. Attaining the fiscal deficit target at 3.4 per cent of GDP next fiscal will be a challenge without aggressively pursuing the divestment target and success in Goods and Services Tax (GST) collections. This will be important to keep government bond yields, which have reacted adversely to the news of slippage this fiscal, in check.

AJIT RANADE

It is fiscally prudent considering the temptation to pump prime aggressively in light of the upcoming election. The slippage is only 0.1 per cent of GDP although some of the borrowing is off the government's balance sheet and via public sector entities. It is unlikely that the government will achieve the target.

Especially the rapid decrease from 3.3 to 3 per cent in one year in 2021. The year 2020 might see a major global slowdown increasing the imperative for a fiscally expansionary stance. Even so, as a statement of ambition, it is understandable.

ARVIND PANAGARIYA

For an election year, this budget will be remembered as among the most prudent fiscally. For the first time, new social spending has taken the form of cash transfers, which will ensure that near 100 per cent benefit of the spend reaches the beneficiary.

Fiscal deficit has been pegged at 3.4 per cent, no more than the revised estimate for 2018-19. Since at least 1980-81 (which is as far back as I have checked the data), this is the first time that a full-term central government has either reduced or held steady fiscal deficit every single year.

MAITREESH GHATAK

It is a populist budget aimed at providing sops to different interest groups. For example, raising the income tax exemption limit to Rs 5 lakh per year, there will be an estimated revenue loss to the tune of Rs 10,000 crore.

In most countries, the poor are supposed to be exempt from income taxes, but those earning Rs 20,000 to Rs 40,000 a month are certainly not poor by Indian standards. The government also seems unlikely to meet its fiscal deficit targets. It claims that it has nearly stuck to its fiscal deficit target of 3.4 per cent of GDP as opposed to a projected 3.3 per cent, but the actual public sector borrowing seems higher than what this would imply.

There are also lots of questionable accounting methods that are being used, which suggests that a lot of the government's economic activities don't show up in the budget and are being done through public sector entities, as the recent Comptroller and Auditor General, or CAG, report suggests.

Also, one has to take into account non-payment of overdue MNREGA or Food Corporation of India bills. According to some calculations I saw, the fiscal deficit would have been 4 per cent if the government just paid the FCI what it is owed.

ASHOK GULATI

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It attempts to woo farmers and the lower middle class. If GDP numbers get inflated, the deficit target may remain within reach. But there is quite a bit under the carpet. For example, unpaid bills of FCI on account of food subsidy, which have crossed well over Rs 1 lakh crore.

Q: Do you see the Rs 75,000 crore farm income support announced in the budget addressing farmers' distress in the short and long term?

A :

N.R. BHANUMURTHY

In principle, the scheme should address farm distress, if only marginally, as it's a very small part of their expenditures, but its implementation poses many challenges. Absence of land records (more in east and north India) and the absentee landlords could result in wrong targets. Also, issues with the direct benefit transfer platform could also pose challenges initially.

D.K. JOSHI

Given the hit to farm income despite the increase in Minimum Support Prices (MSP), some form of support to farmer income was imminent. It is a short-term measure and needs other steps to address structural issues around agriculture over the medium run.

Long-term solutions, like clipping middlemen margins to raise the income of farmers without pushing up food inflation, are important. Agriculture also needs to be de-risked by improving irrigation cover and making insurance schemes effective.

Price forecasts will also help farmers reduce the risk of over/ under production. Finally, opportunities in other creative sectors have to be created for excess farm labour.

AJIT RANADE

This amount will still be insufficient. We need to reach the landless farm workers and tenant farmers as well who may remain unaddressed by this measure. It's good that it is a direct income transfer but a lot more needs to be done to restore the terms of trade in favour of agriculture and unshackle farmers from draconian laws.

ARVIND PANAGARIYA

I have argued that over 70 years of development, migration of workers out of agriculture into industry and services has been poor. As a result, agriculture today supports 45 per cent of the workforce on 15 per cent of the GDP where per capita GDP itself is quite modest.

Farmer welfare over the long run requires accelerated migration of marginal farmers and landless agricultural workers to industry and services.

MAITREESH GHATAK

An annual income support of Rs 6,000 to farmer families with land ownership up to two hectares is a populist measure. They clearly deserve support on equity grounds, but some

calculations suggest the amount is 6 per cent of a small farmer's income. So, other than the signalling value, it is a half-hearted move.

ASHOK GULATI

In the short run, it may provide a little balm, but it is too little, too late. There will be operational problems in delivering this promise. In the medium run, it won't make much difference unless the amount is augmented by collapsing fertiliser subsidy into it, and state governments should be encouraged to put even power subsidy into this.

Q: Does the budget address the issue of unemployment and job creation?

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A:

N.R. BHANUMURTHY

Not directly. However, as the government's intention is to revive consumption demand with various populist measures, the exemptions given to the MSME and real estate sectors should have some positive impact on job creation. In the absence of public investments, this will depend on how soon private investments, currently subdued due to twin balance sheet problems, revive.

D.K. JOSHI

It does provide short-term support by raising allocation to MNREGA. Continued support to the construction sector creates some job opportunities in rural India, but this is not enough given the rapid increase in India's working age population. From a medium to long term perspective, creating jobs and skilling people is a big challenge.

Technological advancements will also cause job displacements and disruptions. Therefore, it's imperative to push economic activity in labour-absorbing sectors, such as manufacturing and construction, and services such as healthcare and tourism.

AJIT RANADE

Not explicitly. Job markets are usually lagging indicators of the business cycle. If private investment picks up along with consumption and exports, that will eventually show up as a pick-up in labour markets. But this will also depend on the state of the world economy.

ARVIND PANAGARIYA

I have maintained that unemployment is not India's problem. Given our poverty, everyone has to do something to survive. Our problem is high-productivity, high-wage jobs. These

depend on the overall policy and bureaucratic regime of the country and not on any single budget, which is largely an account of the country's expected revenues and planned expenditures.

The government has made some progress towards creating good jobs with reforms such as the GST, Insolvency and Bankruptcy Code, some labour law reforms and greater formalisation of the economy (as reflected in the EPFO data). But a lot more needs to be done.

MAITREESH GHATAK

Nothing specifically. Education and employment seem to have been completely ignored in the interim budget.

ASHOK GULATI

Not really. And now nothing can be done before the elections.

Q: Is the new contributory pension for unorganised workers workable?

A:

N.R. BHANUMURTHY

Yes. This is one of the important measures that is implementable and provides social security for unorganised sector workers. On the other hand, the government has been ignoring the demands to increase old-age pension, which is implemented efficiently.

Even today, the government provides a meagre Rs 200 per month to pensioners. But this is also the right time to take a holistic view of the overall pension sector as well as its fiscal cost over the long run.

D.K. JOSHI

As the bulk of India's workforce (over 80 per cent) is in the unorganised sector, a pension scheme to support their incomes in the sunset years is welcome. But incentivising informal workers to voluntarily contribute to the pension scheme regularly could be challenging.

A study by the Organisation for Economic Cooperation and Development points out that such schemes should envisage flexibility in contribution and withdrawal, offer monetary incentives to participate, and promote financial literacy to make them successful.

AJIT RANADE

Social security for the unorganised sector is a huge step. It's a beginning. Scaling it up will need many parts of the jigsaw to fall in place.

ARVIND PANAGARIYA

(Did not want to speculate)

MAITREESH GHATAK

It is potentially an important policy, but the amounts seem quite small, and it is not clear how it improves upon existing schemes, such as the Atal Pension Yojana.

ASHOK GULATI

I hope so. Only time will tell.

Q: Will the budget spur private investments/industrial growth?

A:

N.R. BHANUMURTHY

I am not sure if the budget can revive private investments. The main reason being the flawed implementation of the FRBM Act resulting in deterioration of quality of public expenditure in favour of consumption rather than investments.

The original FRBM proposed switching expenditure from consumption to capital, while the implemented one allows the switching from capital to consumption expenditure.

While this could be inflationary, it could also reduce the capacity of markets to finance private investments.

Some of us also expected fiscal measures, such as recapitalisation to revive public sector banks. In the absence of such measures, it is not clear if there could be revival in investments, even if there is a cut in policy interest rates.

D.K. JOSHI

To some extent. It raises the fiscal deficit target for fiscal 2020 by 30 basis points and this will largely go to support consumption. Money in the hands of small farmers and the middle class will lead to private consumption demand as they have a higher propensity to consume. This will benefit fast-moving consumer goods, low-ticket consumer durables, two-wheeler manufacturers and organised retailers. All that, and government focus on construction, should provide support to already improving capacity utilisation.

With stressed corporates nearing the end of the deleveraging phase, rising capacity utilisation signals a revival of private investments in sectors, such as automobiles, cement and steel. A stable political outcome is necessary to reduce uncertainty and give fillip to private investment revival.

AJIT RANADE

The budget will definitely spur some consumption spending, but I don't see a pick-up in investment spending because of credit tightness and still-nascent business cycle sentiments.

ARVIND PANAGARIYA

(Did not want to speculate)

MAITREESH GHATAK

Unlikely. Investment rates have been declining. From a month-wide high of 36,578 on January 22 before the budget, the Sensex stood at 36,616 on February 5, after falling to 35,591 on January 30, right before the budget.

ASHOK GULATI

Not really. Investors are worried about the weakening fiscal, hardening of interest rates, etc. The only ray of hope is the infusion of the Rs 75,000 crore farm income support. The tax sops to the lower middle class can create some additional demand for industrial products.

Q: What else would you have liked to see in the budget?

A:

N.R. BHANUMURTHY

Since it was an interim budget, we saw some proposals that we did not expect! As the recent CAG report indicated, there appears to be an increase in off-budget financing as well as carry-over of some subsidies.

One would have expected to see right fiscal numbers. Advancing the budget from the last day of February to the first day of the month has led to an incorrect calculation of numbers.

D.K. JOSHI

Not much, as it is an interim budget. That said, a move away from cash-based' to accrual-based' accounting will help improve transparency in budget making.

AJIT RANADE

As an interim budget, there was limited room to hit sixers' and fiscal recklessness would have been punished badly by markets. This was as much bang for the buck as one could expect.

ARVIND PANAGARIYA

India needs to do a great deal more to sustain and accelerate growth and to create high-productivity and high-wage jobs. Labour law and banking reforms, genuine privatisation of PSUs that don't serve a public purpose, reform of school and higher education, reform of FCI, civil service reform, police reform, judicial reform and defence reform are some examples. But these can't be expected to be announced in an election-year budget. I do hope, however, the government that takes office in May takes up these reforms over the next five years.

MAITREESH GHATAK

A vision of reform is what is fundamentally missing whether it is a growth- and investment-oriented one or a welfare-oriented one.

ASHOK GULATI

Rationalisation and pruning of food and fertiliser subsidies, MNREGA, aggressive privatisation of some PSUs and PSBs.