The 2014 Budget in Perspective: Pushing Forward the Anti-People Agenda

By Amit Basole

The 2014-2015 Budget largely carries forward the neoliberal agenda of the previous governments, but also carries Modi's stamp. The two striking but less noticed features of the budget are a transfer of resources from the social sector to infrastructure and a larger transfer of resources to the States.

INTRODUCTION

The 2014-2015 budget presented by Finance Minister Arun Jaitley continues the neoliberal political agenda of privatizing public assets, giving massive concessions to the corporate sector while reducing investments in people, and opening the economy further to foreign capital flows. There is an obsession with "fiscal consolidation" (mentioned no less than 28 times in the 28 page Fiscal Policy Strategy Statement), i.e. reducing the fiscal deficit and a continuation of the process of allowing foreign direct investment (FDI) in key industries, this time Defense and Insurance, as well as a proposed reduction in "subsidies," especially fuel.

The budget has received largely positive reviews from the corporate sector, including a glowing review from Gautam Adani. What the global corporates and financial sector sees as the main aspects can be gleaned from what the Wall Street Journal (WSJ) chose to highlight. It noted that the India budget proposes to:

- Raise cap on foreign stakes in defense, insurance to 49%
- Limit retroactive tax demands on foreign companies
- Pursue a uniform national goods-and-services tax
- Make subsidy programs for the poor more efficient

That said, the fiscal deficit target as well as some other initiatives have been taken from the previous UPA-II government, subsidies have not been reduced to the extent expected, and flagship social programs such as the MNREGA have been retained (though in modified form). So the budget is also somewhat cautious in not departing too strongly from the previous years.

As a result the WSJ noted that the budget "met expectations" even though it was not bold. Indeed many commentators have expressed that view that it is not as "imaginative" or as radical a departure from the past as was expected given the election rhetoric. This is not surprising. After all the government has just come into power and it is not easy to overhaul a system of this size suddenly. Further, it is possible that the government and the PM personally want to proceed more cautiously than the corporate sector wants them to.

The WSJ made a virtue out of the lack of boldness and vision by saying that this meant a move away from the budget being a “vision document” to being what it should be: a statement of accounts. Indeed, in addition to being a statement of the government’s income and expenditure, traditionally, the budget *did* serve two more purpose – announcing regulation and planning. Lack of these two functions is a virtue in a neoliberal world. Important economic decisions are increasingly being taken outside the purview of the budget. For example, a portion of train fare (the fuel component) increase has been made automatic (market dependent) and therefore does not require parliament’s approval any more.

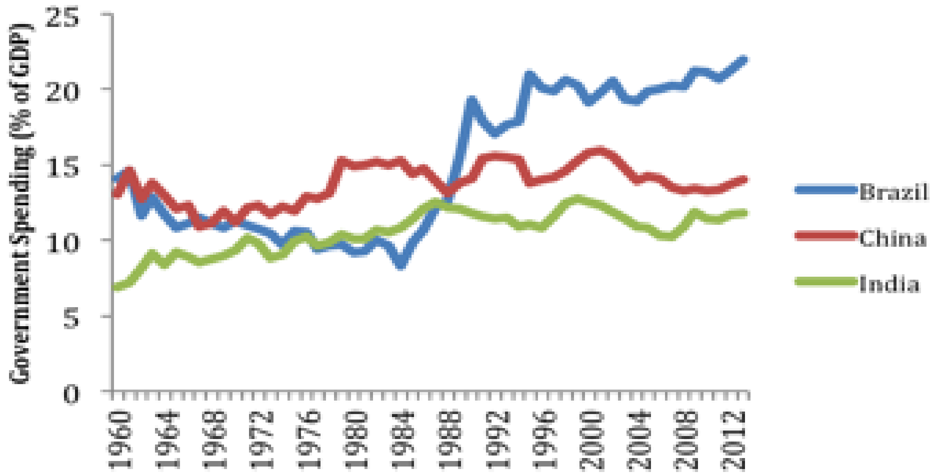
The media narrative is centred on whether the budget is a major revamp or not. But this budget should be seen *in continuity with past policies*. Since the mid-1980s adoption of neoliberal policies has remained a phase-wise but continuous process. Major changes, particularly those that directly affect peoples’ lives, have been brought in step by step to minimize resistance from the people. Privatization of public sector companies and mineral resources, introduction of FDI etc. have been introduced in small doses. *This has happened irrespective of the party in power and the size of its majority*, which have only affected the pace of change (as for example with a slowdown during the UPA-II regime due to internal disagreements, scams etc.).

Newspapers and right wing commentators want us to believe that only a divided parliament and “policy-paralysis” were responsible for lack of “big bang reforms,” in the recent past. But in reality parliamentary parties do not present any ideological obstacle to this process. *The significant and consistent threat to the anti-people agenda comes from the working people themselves. This exists even today in spite of BJP’s large majority.*

FIGURES AT A GLANCE

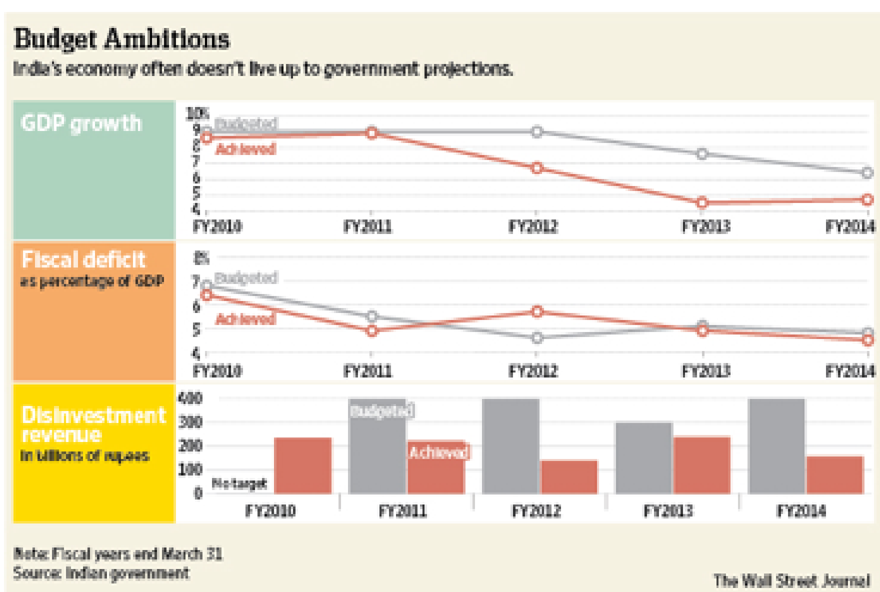
Total expenditure estimate for 2014-2015 is 18 lakh crore (1 lakh crore is the same as 1 trillion) or $300 billion (at Rs.60 to a dollar). Government expenditure as a percentage of GDP in India is around 11-12%, which, despite the popular image being spread by the media, does not indicate a “large government” by global standards (see Figure 1). To finance the estimated expenditures, estimated gross tax revenue is 13.6 lakh crore. Non Tax Revenues are expected to be 2.1 lakh crore. With the above estimates, the fiscal deficit (revenues minus expenditures) would come to 4.1% of GDP.

Figure 1: Government Spending as % of GDP



Revenue estimates are generally optimistic. Last year's budget estimated that tax revenues will rise by 19% over the revenues of 2012-2013, but in fact they only rose by 11%. Despite that the fiscal deficit for 2013-2014 was smaller (4.6%) than expected (4.8%) because non-tax revenues rose more than expected while expenditures were smaller than budgeted. As predicted in last year's Sanhati article on the budget, the government had to resort to expenditure cuts to bring down the deficit. The Wall Street Journal graphic reproduced in Figure 2 shows that the government has been very conscientious about sticking to its "fiscal consolidation" path even when the economy has performed significantly worse than expected, as seen in the GDP growth numbers (top panel).

Figure 2: Projected versus Actual

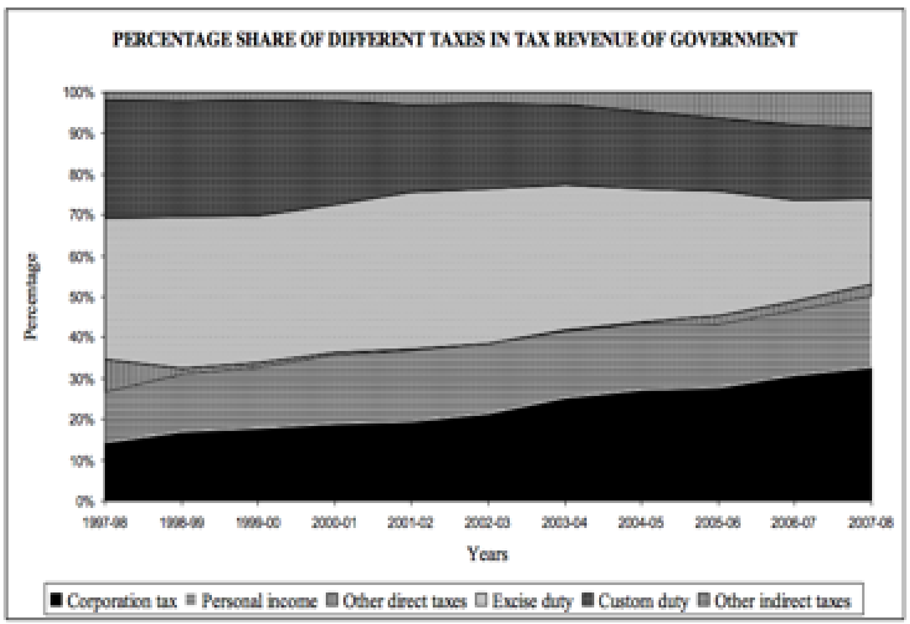


THE REVENUE SIDE

India has historically had a narrow direct tax base due to the preponderance of informal employment as well as tax-evasion by the rich. But high growth rates of the economy in the recent period have increased the tax-to-GDP ratio (tax revenues as a proportion of the country's GDP). It was around 4% at the end of the 1990s but grew to 10-11% by 2012. During the high growth period of 2003-2008, tax revenues grew by 21.3% (see the Medium Term Fiscal Policy Statement of the union budget). This is similar to China (10%) but lower than Brazil (15%).

It is worthwhile glancing at the government's sources of revenue. In 2013-14 the share of corporate tax in total taxes was 34% while share of income tax was 21%. Thus direct taxes account for a little over half of tax revenue. The rest of the taxes came from indirect sources like customs duties (15%), excise duties (15.5%) and service tax (14%). Figure 3 shows the contribution of various types of taxes in tax revenue of the government for the period 1997 to 2007. Note the increase in the relative contribution of direct taxes (corporate tax and personal income tax) compared to indirect taxes. To the extent that indirect taxes tend to be regressive (i.e. place a disproportionate burden on the poor), this is a welcome structural change in the Indian economy.

Figure 3: Contribution of various types of taxes to the total tax intake



But of course, a lot more can be done to ensure that the corporate sector in particular pays the taxes it owes. One of the most interesting documents related to the budget is on revenues foregone by the government, which talks about taxes foregone due to concessions. Concessions are of various kinds, for e.g: deduction of export profits of units located in SEZs, depreciation, deduction for expenditure on scientific research, deduction of profits of undertakings engaged in development of infrastructure facilities, deduction of profits of undertakings engaged in development of SEZs and Industrial Parks, deduction of profits of undertakings engaged in providing telecommunication services, deduction of profits of undertakings engaged in generation, transmission and distribution of power, deduction of profits of industrial undertakings derived from production of mineral oil and natural gas, etc.

Estimated revenue forgone due to corporate concessions for 2013-2014 is Rs. 76,116 crore or 19% of collected corporate tax revenue. *By way of comparison this corporate subsidy is 82% of the food subsidy (92318 crore) for the same year*. This also means that while the actual corporate tax rate in India is 32.4%, effective corporate tax rate is just 22.4%. And for the largest companies, with profits before taxes [PBT] of Rs. 500 crore or more, the *effective tax rate is 21 per cent*, while it is 26.7 per cent for companies with PBT up to Rs. 1 crore. This indicates that the tax system is designed, not surprisingly, to favour larger companies.

P. Sainath has estimated the total corporate giveaways in last year's budget to be Rs. 5.32 lakh crore (Table 1). This includes the tax revenue foregone mentioned above plus foregone revenues from excise and customs duties and is twice the size of the food, fuel, and fertilizer subsidies combined for last year (2.4 lakh crore).

There is no reason to believe that this situation will improve under the present government.

Table 1: Corporate giveaways over the past eight years. Source: P.Sainath

A SHORT HISTORY OF HANDOUTS

REVENUE FOREGONE UNDER CORPORATE INCOME TAX, CUSTOMS & EXCISE DUTY IN RS. CRORE

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	Total revenue foregone 2005-06 to 2013-14	Percentage increase 2013-14 over 2005-06
Corporate Income Tax	34618	50075	62199	66901	72881	57912	61765	68720	76116	551187	119.87
Excise Duty	66760	99690	87468	128293	169121	192227	195590	209940	195679	1344768	193.11
Customs Duty	127730	123682	153593	225752	195288	172740	250003	254039	260714	1763541	104.11
Total	229108	273447	303260	420946	437290	422879	507358	532699	532509	3659496	132.43

Source: Union budget documents 2006 to 2014

Political Economy of deficit and debt

As noted, reduction in the fiscal deficit is a key aspect of the budget. For a country with a narrow tax base and high amount of tax evasion, and one that has just experienced a period of low growth due to the global economic downturn, the current fiscal deficit is not alarming by any means. It reached a high of 5.7% in 2012 but has subsequently been reduced and is currently 4.6% of GDP, targeted to be brought down to 4.1% in this year and down to 3% by 2016-17, the final target. For reference, the European Union also lays out a target of 3% for its members. Greece, famously in trouble for overspending had a deficit of 15.4% in 2009.

In fact, even though the deficit target has been called "overly ambitious," Figure 2 shows that the government tries its best to match these targets (see centre panel). Further, such is the hold of neoliberal thinking in India's policy establishment that there is no longer any need to justify this obsession with lowering the deficit and almost no context is provided for how to evaluate whether the size of the deficit is macroeconomically damaging. One mechanism the Finance ministry seems to be concerned with what economists call "crowding out." That is, the government, falling short of revenue to maintain its expenditures, borrows money from financial markets and in the process leaves less to be borrowed by the private sector for its economic activities. In the words of the Fiscal Strategy document released with the budget:

> The fiscal policy of 2014-15 has been calibrated with two fold objectives – first, to aid the economy in growth revival; and second, to continue on the path of fiscal consolidation by containing fiscal deficit *so as to leave space* for private sector credit as the investment cycle picks up.

But the wisdom of the "crowding out" is questionable. In fact certain kinds of government spending that creates demand in the economy may *stimulate* private investment instead of reducing it. This is not to say that the government can borrow as much as it wants and the deficit can rise without consequences, but the extraordinary emphasis on reducing it, even when economic growth is weak, does not come from macroeconomic or development concerns. Rather it comes from a desire to please the international financial system which strongly prefers "sound finance" or low deficits to ensure that their returns are not threatened. We have seen this emphasis on fiscal austerity at the cost of economic growth everywhere in the advanced industrial countries, a clear sign the global financial interests take precedence over those of working people everywhere.

Even if we grant that the fiscal deficit needs to be lowered, it can be reduced either by raising revenues or lowering expenditures. The Budget Highlights document notes that the decline in fiscal deficit from 5.7% in 2011-12 to 4.5% in 2013-14 was mainly achieved by a reduction in expenditure rather than through higher revenue. This is not surprising. In an economic system where a vast majority is still too poor and the rich and ultra-rich cannot be taxed adequately due to complicity with the political machinery (e.g. the corporate concessions we saw earlier), the tax base is narrow and more revenue cannot be easily raised. It is easier to cut expenditures, particularly in the social sector, which is not seen as investment but as "welfare."

Of course, not all expenditures are equally likely to be cut. Since interest payments to creditors and various types of security spending (defense, police etc.) are seen as being essential and no one can question infrastructure spending, this leaves social spending to adjust. This is precisely what we see in the present budget also. Of course, from a macroeconomic perspective, such reduction in spending usually entails lower consumer demand for the country's output, which can further depress the economy. In a low growth context, cutting government expenditures is likely to reinforce the low growth state.

And when even expenditures cannot be cut because of pressures from below, the last option that remains is to raise non-tax revenues by selling public assets ("disinvestment"). Thus the pressure to reduce the fiscal deficit can also be seen as a strategy to push the privatization agenda.

Looking at India's public debt-to-GDP ratio also we find that the fiscal deficit should not be a cause for panic. Annual deficits accumulate in the form of government debt, i.e. the money that the government has borrowed over the years to bridge the deficit. India's debt-to-GDP ratio has been reasonably low and declining, estimated to be 46% at the end of 2013-14. This is far from the apparently "dangerous" figure of 90%, which in any case has also been criticized for being too alarmist.

While the magnitude of the public debt is not a matter of immediate macroeconomic concern, one point should be understood regarding the political economy of debt. Note that debt servicing (i.e. paying the interest and principal of debt) takes up *35% of the expenditures* in the 2014 budget. This is essentially money that is taken from tax-payers and given to the government's creditors. Who is lending the government money? At this point most of the government's debt (92%) is held by Indian citizens. Foreign debt is only 8% of total debt (i.e. most of India's dollar-denominated external debt is private debt not public). Of the domestic government debt, 46% is held by commercial banks, 19% by insurance companies, and around 7% by provident funds. Thus debt servicing constitutes a domestic redistribution of income from tax-payers to bond-holders.

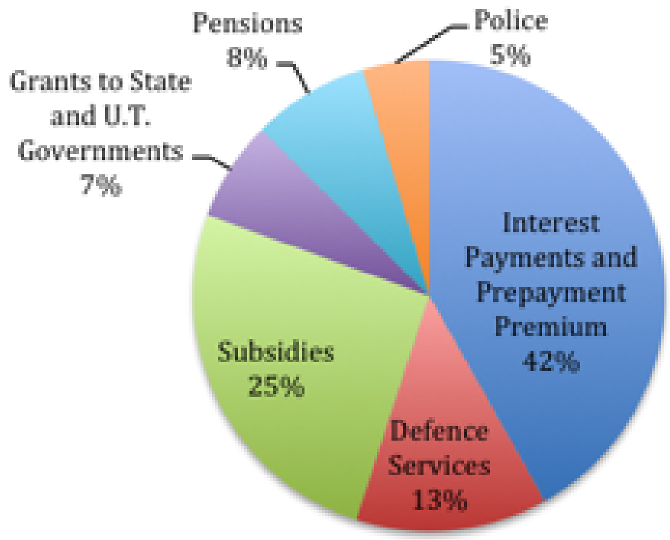
EXPENDITURES

Understandably, most of the focus in the media has been on the expenditure provisions of the budget. A little bit of terminology is useful in reading the budget documents. For historical reasons expenditures are categorized in two main categories: plan and non-plan. Plan expenditures, as the name suggests are developed as part of the planning process while non-plan expenditures cover all spending not included in the Plan, such as expenditure that is obligatory in nature (e.g. interest payments, statutory transfers to States) and expenditures on essential functions (e.g. defence, internal security, external affairs).

Over the years, as the planning process has been diluted, the distinction has lost some of its earlier significance and there are calls to abolish the distinction. The distinction has lost even more of its meaning this year since the 2014 budget has been drafted without the involvement of the Planning Commission, which has been leaderless for the past month and which the PM is considering scrapping.

Figure 4 shows the breakdown of the major items in "non-plan" part of the budget (items will add to roughly 90% because small items have been left out). Interest payments, defense, and subsidies account for 80% of non-plan expenditures.

Figure 4: Breakdown of Non-Plan Revenue Expenditure



Subsidies

The major subsidy bill (the three main subsidies are fuel, fertilizer, and food) has gone up from 2.4 lakh crore (2013-2014 revised) to 2.5 lakh crore. This includes increases in the fertilizer and food subsidies but a decrease in the fuel subsidy. This is because the budget calls for elimination of the diesel component of the fuel subsidy leaving only kerosene and LPG subsidies.

Food subsidy has been increased to Rs. 1.15 lakh crore from Rs. 92,318 in the previous year. This includes Rs. 59,000 for implementing the National Food Security Act. This is an increase of 24.6%, a more substantial increase than has occurred during the past years. During 2011- 12 it was Rs. 72,822 crore, which increased to Rs. 85,000 crore in 2012-13 and Rs. 92,318 crore in 2013-14, an increase of 16.7% between 2011-12 and 2012-13, and an increase of 8.6% between 2012-13 and 2013-14. But taking into account the 10%-plus food inflation per year over the past few years, this was not a large increase in real terms. In fact, the food subsidy declined in real terms between 2012-13 and 2013-14 (because the nominal increase was lower than the rate of inflation).

Two larger points need to be made in the context of the subsidy discussion. First, the major part of this expenditure, for instance fertilizer and fuel subsidies, goes to industry because the government pays them international market prices (import parity price), which are substantially higher than their home production costs. Hence these "subsidies" only make up for a notional loss. In fact, in the case of oil, taxes paid by consumers at the point of purchase constitute a revenue source that is larger than the subsidy provided by the government to the oil companies (see Figure 3 in the article linked above). That is, there is a negative net subsidy on petroleum products or in other words, the government extracts net positive tax revenue from petroleum products.

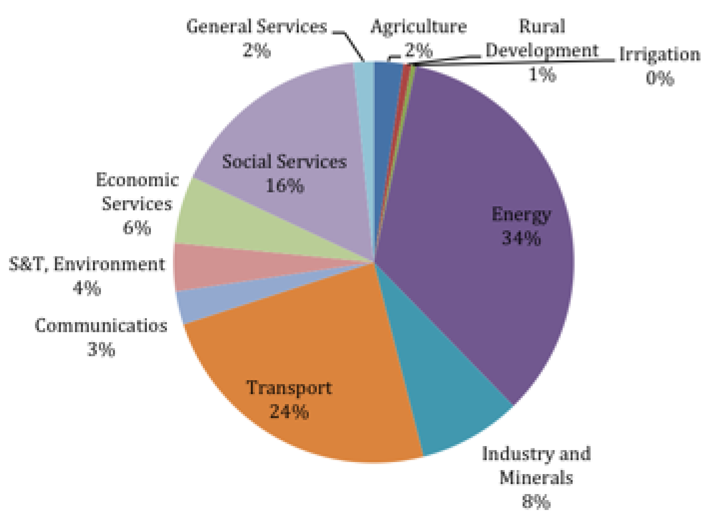
Second, neglect of the rural economy and growth of casual, informal sector jobs in the semi-urban and urban areas means that the vast majority of working people do not earn a living wage. The lopsided nature of the growth process and increasing informalization of the labour market necessitates consumption supports such as food subsidies. The continued presence of these subsidies is thus an indication of the failure of the government's macroeconomic policies.

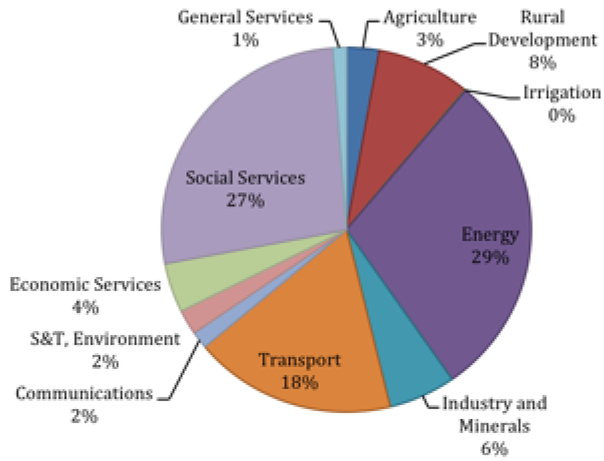
Social Spending versus Infrastructure

Coming to the Plan portion of the expenditures, there are two major points to be emphasized. Figure 5 provides the breakdown of the Central Plan expenditures by sector for this year's budget (top) and compares this breakdown with the previous year's budget (bottom). First, note that there has been *a large drop in social sector spending combined with an increase in infrastructure spending.* And the second, connected to the first, is *a large transfer of resources to the states*. Let us take each in turn.

Social services spending in the Central Plan, which includes education, medicine, family welfare, sanitation, housing, SC/ST/OBC/Minority welfare, social security, etc. fell from Rs.1.64 lakh crore to Rs. 79,411 crore, a fall of ten percentage points from 27% in 2013-2014 to 16% in 2014-2015. If we include the small amount spent on social services from the non-plan part of the budget and calculate the weight of social spending in terms of total government expenditures (plan and non-plan) there is *a fall from 12% to 5.6%*, a large fall indeed (the evolution of social spending under the two UPA government is available here.)

Figure 5: Break down of Central Plan outlays by sector for 2014-2015 (top) and 2013-2014 (bottom)





Rural development spending has also dramatically declined from 8% of the Central Plan to 1%. The major gainers have been Energy (5 percentage point increase) and Transport (6 percentage point increase) in keeping with the infrastructure focus of the new government (this infographic compares the outlays for both budgets). The budget keywords document prepared by Jean Dreze also underscores this shift in priorities.

While improvements in infrastructure are clearly necessary, all indications are that this spending will not improve things for ordinary people, but instead may intensify dispossession and displacement as well as loot of resources that has already been occurring in the country under the guise of industrial corridors, SEZs, etc.

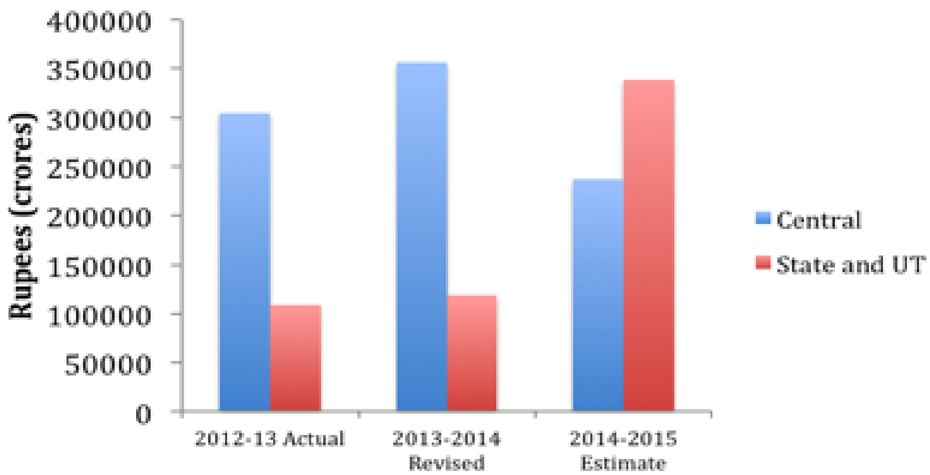
The broader point here is that the neoliberal mantra of “minimal government” is misleading. Government continues to remain active and even expands, but in those areas which ensure the right conditions for capital accumulation and surplus generation, particularly specific kinds of infrastructure, as well as the regulatory changes that ensure access to resources (such as through proposed amendments to the Land Acquisition Act, e-filing for forest clearances, framework for Real Estate Investment Trusts etc.). This, of course, is not new to the NDA government and is a continuation of UPA policies.

Fiscal Federalism?

While all of the Centrally Sponsored Schemes from UPA government, such as MNREGA have been retained, their funding has not been significantly increased (even to account for inflation) and more significantly, the money needed to implement them has been given to State governments. This is a little noticed aspect of the budget and has been done quietly. This shows up the large increase under the heading “Central Assistant for State and UT Plans.” Figure 6 shows the revenue and capital expenditures for the Central Plan and the Central Assistance for State and UT plans. Note the reversal from past practice. This has been noted by a few commentators (see here and here) though it has largely escaped notice.

Several flagship Central schemes such as MNREGA, Pradhan Mantri Gram Sadak Yojana, National Rural Livelihood Mission, Sarva Shiksha Abhiyan, Midday Meal Program (and many others) have been shifted to State plans. This is the reason for the decrease in the Centre's spending on social sector and rural development and increase in the Centre's contribution to State plans. The interpretation put forth is that this is a follow-up on Modi's part on his promise to increase federalism by devolving more resources to the states.

Figure 6: Change in composition of the Central Plan outlays



Previously, money for MNREGA would go directly from the Centre to the implementing agencies (such as Panchayats) on the ground. Now it will be routed through the State governments. This was a demand of the State governments (as outlined in the Chaturvedi Commission set up by the UPA government to rationalize the Centrally Sponsored Schemes), but the Commission had not made this recommendation. The Modi government seems to have given the States what they wanted, in one big step.

Such a move is also consistent with the World Bank's emphasis on decentralization which in reality means competition between States for investment spending and other resources.

But the significance of this change for program implementation is still unclear. A further question is, why this shift to the states has been carried out in a clandestine manner to the extent that the FM did not even mention it when he spoke about changes made to the MNREGA.

Note also that in the present set-up, states have extremely limited ability to collect their own taxes. Most of a state's finance comes from the Centre. So, while the higher allocation for "Central Assistance for State and UT" might seem like a move towards federalism, the states still do not have any real fiscal autonomy because they are ultimately at the mercy of the Centre for resources. It is also possible that this is a way to get States to give up some more of their jurisdiction over taxes as would have to happen with the implementation of a Goods and Services Tax (GST), a development that the corporate sector has shown strong support for.

New Initiatives

The budget speech announced three initiatives that should be monitored over the next few months. First, regarding malnutrition, the Finance Minister noted that

> A national programme in Mission Mode is urgently required to halt the deteriorating malnutrition situation in India, as present interventions are not adequate. A comprehensive strategy including detailed methodology, costing, time lines and monitorable targets will be put in place within six months

It is to be welcomed that the government is not in denial, like some prominent economists on the malnutrition situation.

On landlessness and usurious lending in the rural areas, the speech says:

> As a very large number of landless farmers are unable to provide land title as guarantee, institutional finance is denied to them and they become vulnerable to money lenders' usurious lending. I propose to provide finance to 5 lakh joint farming groups of "Bhoomi Heen Kisan" through NABARD in the current financial year.

This can be juxtaposed vis-à-vis the move to amend the Land Acquisition Act to make it more business friendly particularly removing the provisions of local consent.

Finally on micro, small, and medium enterprises,

> Financing to this sector is of critical importance, particularly as it benefits the weakest sections. There is need to examine the financial architecture for this sector. I propose to appoint a committee with representatives from the Finance Ministry, Ministry of MSME, RBI to give concrete suggestions in three months.

CONCLUSION

The Modi government's first budget has clearly attempted to balance the demands of the corporate sector and the international financial class with the need to manage social tensions and ill-effects produced by the neoliberal growth path. But it unmistakably leans towards corporate interests, a fact which did not go unnoticed in the financial markets. We see a strong push in the pro-corporate direction via increased FDI limits for defense and insurance, a promise to implement the GST, greatly reduced social sector spending as well as spending on rural development, and increased spending on energy and transport sectors. The most that can be said on the other hand is that key social programs such as MNREGA and food security have not been slashed, though as we saw, the increase in allocation does not really keep pace with inflation.

If the growth projected in the budget fails to materialize or revenues cannot be collected according to optimistic estimations, then once again we are back to reducing the fiscal deficit through slashing of expenditures, the brunt of which will be borne by the working majority.

Finally, it cannot be disputed that infrastructure improvements are vital if growth is to be inclusive. The question is, what types of infrastructure will be developed or investment undertaken, and who will benefit as a result. Hence, it is not a question of social spending *or* investment. In fact, much of social spending (education, health in particular) is also an investment (in the country's people) as much as building roads or ports. It is precisely this early investment in people that occurred in China under Mao that was latter taken advantage of during the neoliberal period. Further, these are questions for the people themselves to decide, not for "economic experts." As always, the budget is a political document as much as it is an economic one.

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