PANEL DISCUSSION REPORTS

Evaluating India's Annual Budget 2015-2016 and Analysing the Scope of Budget 2016-2017

15th March 2016

Centre for Economy Development and Law

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With CESS, Corporate Appeasement, Social Safety Net, becoming the regular and popular features of every budget policy, document, and presentation, the idea that the government budget is a trade-off between equity and efficiency is forgotten at most of the times, both by the makers and analysts. In this scenario, it is particularly important to note that how the Indian financial institutions and policy makers could resist the International Financial Bureaucracy and the public opinion crafted by them.

PANEL DISCUSSION REPORT

RAPPORTEUR:
AADHIRA VIJAYARAGHAVAN

PANEL MEMBERS:
DR. C. C. BABU, Prof. MARTIN PATRICK,
Adv. V. K. PRASAD, Mr. ANIL VARMA

OPEN FORUM ON EVALUATING INDIA'S ANNUAL BUDGET 2015-2016 AND ANALYSING THE SCOPE OF BUDGET 2016-2017

The Centre for Economy, Development and Law conducted an Open Forum on 'Evaluating India's Annual Budget 2015-2016 and Analysing the Scope of Budget 2016-2017' on 15 March 2016. The programme began at 10:25 am. The Welcome Speech was delivered by Mr. Abhilash Gopinath, Assistant Professor, Government Law College, Thrissur. The Presidential address was rendered by Mrs. Binu Poornamodan Cholayil, Principal, Government Law College, Thrissur. The major highlights of Budget 2016 were pointed out by her as: "Higher but not satisfactory allocation for education, proposed creation of 20 Top International Class Universities, corporate relaxations and relaxations for start-up industries and knowledge-based industries".

Thereafter, the Chairman of the open forum Dr. C. C. Babu, Head of the Department of Economics, Panampilly Government Memorial College, Chalakudy opened the discussion by saying that "Budget is a document which is a manifestation of wishes of a policy maker". He eulogised budget as a key component of national life and extolled the relevance of the discussion. Dr. Babu envisaged the forum discussion would cover both the theoretical framework and the practical impact of Budget on the life of the people. The Chairman then introduced the panel members and invited active participation from the audience.

Professor Martin Patrick was the first speaker. He prefaced his talk by elaborating upon the background in which the Budget was announced. Professor Martin supported the International Monetary Fund's description of India as a 'Bright Spot' amidst the economic slowdown across the world. He pointed certain major highlights of the Indian position, namely,

(a) Lower inflation rate(less than 5%), which is a feature of a sound economy.
(b) Sufficient forex reserves to meet the liability for many months ahead.
(c) Enhanced Economic Growth Rate of 7.5%

Next, Professor Martin brought out the negatives of Indian economy, they are

(a)Poor performance of Capital Market exhibited by the unsatisfactory increase in points at the BSE Sensex soon after the Budget
(b)Agricultural sector being a major worry
(c) Decline of manufacture sector

Professor Martin reminded the audience that there are more positive and negatives of the Indian Economy but stated that he covered only the major ones to develop a balanced approach. He continued by saying that a major challenge faced by the Finance Minister while creating the Budget was the problem of fiscal consolidation. The Fiscal Deficit and Management Act 2003 aims to reduce fiscal deficit in Budget to less than 3%.The present fiscal deficit is 3.9% and the next year plan's object is to further reduce it to 3.5%. According to him, this would amount to an achievement.

Professor Martin iterated that fiscal consolidation versus the growth dilemma was a major concern of all plans. This year's Budget too had a major challenge in maintaining high economic growth with higher fiscal consolidation. Professor Martin then set out to analyse the true colour of the budget. He stated that the newspapers have hailed the present budget as pro-poor, people friendly and pro-rural budget. "But this is not completely true. Though the amount allocated to agriculture sector has been doubled, a careful scrutiny of the budget document would show that, of this, around Rupees 15000 Crores has been injected through interest subvention leaving only a marginal increase in allocation over the previous budget for agriculture. This appears more to be an arithmetical manipulation to advertise the pro-farmer nature of the budget. Further, the fund allocation for MNREGA is surely the highest made for it in any budget, yet it remains unsatisfactory. A good aspect of the budget is the importance given to rural roads and for the first time in 30 years,.. Irrigation projects. However, these measures failed to cater to the aspirations of the agricultural community which expected a growth of 4% instead of the proposed budget growth of 1.1%".

Another half-hearted initiative in the budget, referred to by Professor Martin, was the announcement of the object of doubling the farmer's income within the next 5 years. "However, this is a practical impossibility; as such doubling would require an enormous

15% increase in income per year. The Finance Minister has also desisted from presenting any modalities to ensure the increase in farmer's income". Professor Martin prophesied that if the Finance Minister's statement is even otherwise believed to be true, there is a chance for 12% inflation which would lead to further lowering of income. "The thrust on development of rural roads exhibits the pro-infrastructure character of the budget". However, according to Professor Martin, it would be a fraud to call the budget as pro-poor when 2.2% of fund allocation is made for infrastructure development in rural areas.

Moving on, Professor Martin questioned the correctness of the proposed economic growth percentage of 7.5.He argued that this tremendous growth rate is achieved more by methodological changes in measurement of national income (introduced by the Central Statistical Organisation through shifting of base year of calculation to 2011-12 and the manipulation of manufacturing sector income without specifying details). Thus, according to the Professor, the economic growth-fiscal consolidation dilemma is also planned by exhibiting a higher economic growth where it does not exist.

Analysing from the tax-collection angle, Professor Martin suggested that the tax system would be regressive and more burdensome for poor people. "The Direct-Indirect Tax collection ratio is moving towards 50:80 from the earlier 80:50 ratio. The increase in indirect tax collection directly affects the common man as it is levied on sales". Professor Martin proved that the capital expenditure has also not been increased by expounding that the amount available for capital expenditure is dependent on the revenue and fiscal deficits. "The fiscal deficit has been proposed to be restricted to 3.9% and the budget is constrained by two additional commitments this year, namely the 7th Central Pay Commission recommendations and the One Rank One Pension Scheme". Professor Martin also criticised the increased grant-in-aid to Gram Panchayats without proper capacity building. He concluded by saying that the issue of growth and fiscal consolidation was not given due consideration in the Budget 2016-17.

The Chairman summed up the talk and invited Adv. V. K. Prasad to deliver his thoughts. Adv. Prasad focussed on the philosophical pursuit of the Budget 2016-17.He pointed to the Finance Minister's claim that the Budget was to 'Transform India'. Adv. Prasad stated that he was going to analyse the Budget in an aura of this mantra and also that he would briefly analyse the global headwinds surrounding the Budget. Adv. Prasad opined that the global economic crisis had not receded rather the global economy had further fallen into a deeper crisis. He explained that the economic crisis is actually a demand crisis. “India cannot detach itself from this global situation as it has been integrally integrated with the global economy for some 25 years now. The impact of the crisis is visible too in the form of current account deficit and the coming down of exports”. He elaborated that commodities like Gems, Jewels, textiles and capital goods heavily depend on the purchasing power of the people and due to the lack of the same exports have gone down.

Adv. Prasad then sought to answer the question as to whether the demand crisis had affected India. He stated that the demand crisis had affected the purchasing power of the people in India too. He further enunciated that to tide over this demand crisis, more investment is required which would increase employment opportunities and thus bring money into the hands of people. “This investment can be done by Government or Private Entities. However the latter would shy away from further investments as there is a demand crisis which reduces the chances of profit in business ventures. Moreover, the private entities cannot be expected to bring forth investments solely for the purpose of increasing employment. The Government has also tied its own hands by including fiscal consolidation as its main objective in the Budget. In furtherance of this object, the question arises: What expenditures to be reduced?”. Adv. Prasad answered that the Government had decided to cut down its expenses in social welfare programmes. “In keeping with this policy, the Government has lowered the subsidy amount in the direct benefit transfer scheme; the expenses on Integrated Child Development Programme and Mid-day Meal Scheme have been decreased”. The Government, according to Adv. Prasad, had in this Budget committed the blunder of decreasing expenses in social programmes instead of concentrating on increasing revenue.

Adv. Prasad moved on to answer the question: “How the Government had dealt with taxes in the Budget 2016-17?”.Firstly, he explained the reason for the increase seen in the indirect tax collection in the previous year by taking the example of Petrol. He stated that the Government had increased the tax on petrol even when the price of the same had decreased; this was done to increase revenue. Adv. Prasad said that the Government had increased cess on tax in the budget (“thus we see a number of new cesses, Krishi Kalyan , Swachh Bharat cess etc.”) instead of directly increasing the taxes. This action, according to Adv. Prasad, was prompted by the 14^{th} Finance Commission Recommendation to share 42% of tax collected by the Central Government with the State Governments (the largest sharing percentage ever recommended). “The increase in cess need not be shared with the State Governments like taxes. The State Governments are further affected by the decision of the Central Government to give up many of its programmes in favour of the State Governments”. Adv. Prasad opined this situation had resulted in the State Governments being further burdened without receiving equivalent share in revenue. Another feature noted by Adv. Prasad was the large number of tax exemptions given to the corporate. Adv. Prasad elaborated “Internationally preferred tax to GDP ratio is 16-20%, but in India it has been reduced from 11% last year to 10.8% this year. The Government has instead of properly extracting taxes from the 1% rich population controlling 52% net wealth of India, focussed on giving more and more tax exemptions to the corporate sector”. Adv. Prasad suggested that the Finance Minister’s bid to ‘Transform India’ through the Budget has been restricted to the corporate sector.

Adv. Prasad concluded his talk by bringing out the critical Budget highlights, namely, naked corporate favouritism through privatisation schemes and allowing of FDI in food processing industry and asset reconstruction companies and the anti-federal structure of taxation.

Mr. Anil Varma was then called upon to give his thoughts on the budget 2016-17.He analysed the impact of budget based on the following aspects:

(a) Education

Mr Anil stated that the human resource quantity and quality was determined by higher education sector. “Rupees 72394 Crore allocation is made for higher education sector. Education sector has been allocated 4% of total budget expenditure and 5% of GDP”. Mr. Anil compared this allocation to the Kothari recommendation of maintaining 6% of GDP as share of education. He also directed the audience’s view to the 17.3% decrease in UGC fund allocation which, according to him, would affect benefits to students in the form of fellowships and scholarships. He opined that the expense reduction policy of the Government would badly affect the higher education sector. “The Government has identified 20 universities (of which 10 are private institutions) which would be raised to world-class status”. Mr. Anil summarised the expert views on this move by saying that the private institutions role in education had been recognised and that teaching would get promotion but research would not be favoured. “Rupees 1000 Crore collection through CSR initiative would be pumped to higher education sector”. But Mr. Anil criticised the Government’s policy of neglecting the marginalised student population and capability building programmes like teacher’s training. He felt that the higher education sector would steepen into a deeper crisis.

(b)Marginalised Sections

“The Government was requested by the NGOs and other social workers to allocate Rupees 70,000 Crores for the welfare of the marginalised sections. However, the budget envisaged only Rupees 30,000 Crores of which the direct benefit derived by the marginalised is only Rupees 8000 Crores”. Further, according to sources referred to by Mr. Anil, most of this fund allocated in the Budget is generally given away for other pursuits without benefiting the marginalised.

(c)Rural Sector

Mr. Anil stated “Indian Rural Sector is undergoing a crisis especially with regard to agriculture which is draught-affected. Further, agriculture is limited by the availability of cultivable land, the lack of formal irrigation facilities due to worn out irrigation infrastructure”. Mr. Anil opined that a significant amount of investment is required in agriculture sector.

Moving on, Mr. Anil enlightened the audience by stating that the shrinking global demand for Indian commodities could be resolved by increasing domestic demand or increasing public investment or by increasing external demand. He added that the proper solution would be increasing the domestic demand from the poor population as they are more likely to create demand for commodities than the rich (who are more likely to invest).”This demand by poor could be increased by government investment in rural areas. Income Deflation in rural areas is a major impediment and so funds must be allocated to rural programmes”. Mr. Anil reminded that MNREGA was the most important rural programme and brought out the statistics like this; “ In the last Budget, Rupees 36,000 Crores was allocated during a period of 9% inflation rate; In this Budget, Rupees 38,000 Crores is allocated during a period of 5% inflation rate. The real allocation is measured as Nominal Allocation divided by the Inflation

Rate. The Real allocation is further hampered by the huge arrears of salary for MNREGA". Mr. Anil ridiculed the Government's long claims of providing a pro-poor, pro-rural, Centrist Budget when it only made only a marginal allocation for the rural sector.

(d)Corporate

Mr. Anil pointed to the huge tax exemptions given to the Corporate.

(e)Fiscal Consolidation

Mr. Anil then detailed that Fiscal Deficit and Management Act required the Government to reduce Government Expenditure to meet the fiscal deficit. He agreed that the Revenue deficit had to be reduced but posed the query " Why fiscal deficit needs to be reduced?"He explained that fiscal deficit cannot be decreased without decreasing development fund. Mr. Anil then narrated an interesting fact that the United States Presidential Elections Campaigns were seen promoting Financial Transactions Tax (the proceeds of which would be used for Higher Education Universalisation) whereas in India proposed equity transactions tax(the proceeds of which could be used for universalising Health facilities in India) is highly criticised.

Mr. Anil concluded that the Government's claim of pro-poor policy is exposed in the Budget which due to its fiscal consolidation obligation fails to cater to the needs of Rural sector and the Higher Education Sector, both of which required urgent revamping through Government Funding.

Thereupon, The Chairman invited questions from the audience. The questions raised were:

(1) Shouldn't the Corporate-friendly nature of the Budget be seen as a move to promote private investment which is necessary under the circumstances?

(2) Is Cess imposed by Government used only for the said purpose or is it diverted for other uses too?

(3) Can MNREGA be seen as a durable asset?

(4) Would the promotion of farmer's income in the Budget bring actual changes in the standard of living of the farmers?

(5)Would the austerity measures in the Budget affect the poor?

(6)Does the Budget say anything about the Health Sector, especially in relation to price of medicines?

(7)Can the allocation of funds for MNREGA be seen as a government's safety valve for pacifying the farmers with little benefits while allowing huge tax exemptions for corporate on the other hand?

(8)Would the pumping of funds to Panchayat benefit the marginalised?

(9)Is the Equity transaction tax practical? Why is it not being implemented?

(10)Would allowing 100%FDI in the asset reconstruction companies promote black money?

(11) Do the international Financial Institution's policies affect the higher education sector?

The answers were given by each of the experts respectively as follows:

Professor Martin answered that providing a social safety net for the poor was not the only purpose of the Government. "Any Budget of a Government must be based upon a trade-off between equity and efficiency. The problem arises as to what percentage has to be allocated to each. MNREGA is an income/employment policy and not a security measure. Practically, it has not generated much income nor has it raised the standard of living of the people (only 33 man days of work and fixed low income of 217 Rupees). Earlier the government had thought of withdrawal of the scheme but now it has allocated 38,000 Crore Rupees for it. Asset creation, as such, is not done under the scheme".

"Private Investment is necessary and the Budget favours the corporate exactly with this objective". Professor Martin stated that cess was a theft in economy, he opined that it should be stopped. "Transparency is required in its actual use". He furthered answered that the health sector had not been emphasised in the Budget. "Drug Prices are likely to increase". He added that normative considerations have given way to positive considerations in the Budget.

Adv. Prasad opined that the Government was overdoing itself in pleasing the corporate. "If Cess was earlier an exception, now it has become a rule. There is no social audit for the actual use of cess. A scientific reimplementation of MNREGA is the need of the hour. Allowing of FDI in asset reconstruction companies is a major step which has to be scrutinised carefully”.

Mr. Anil stated that MNREGA had to be applauded for certain changes, it reversed the income deflationary rate, increased women employment, raised the social development status of states like Kerala. “However, it is also besieged by several problems. Implementation problems should not be the basis of questioning the theoretical background of a programme. Anyhow, the present fund allocated to MNREGA is not sufficient. The non implementation of equity transaction tax may be traced to the pro-corporate nature of the Budget”.

The experts further opined that policies implemented in India were generally modelled on policies of International Financial Organisations. “International financial bureaucracy is governing the RBI(internationally trained persons head the institution).The GATT agreement will effect higher education as it envisages a level playing field for private investment”.

The Open Forum concluded with expression of vote of thanks from Sreejith, Student of Government Law College Thrissur.