

PANEL DISCUSSION REPORTS  
**BUDGET 2014 &  
BEYOND –  
A DEVELOPMENT  
PERSPECTIVE ANALYSIS**  
24<sup>th</sup> July 2014



Centre for Economy Development and Law



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# BUDGET 2014 & BEYOND – A DEVELOPMENT PERSPECTIVE ANALYSIS

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The Union budget 2014-15 presented by the newly elected Government has been met with myriad reviews. In such a scenario the Centre for Economy Development and Law at Government Law College, Thrissur conducted the discussion on Budget with special emphasis on development perspective. On the whole the discussion on the Union Budget 2014 from the development perspective provided several insights into the Budget Documents and Policy, especially due to the differences in the perspectives of the panelists. The points covered included the real purpose of the Budget document in a democracy and the role it plays in the development of the economy and the nation. When the Panelists differed as to whether the Budget contains the right provisions in the sufficient quantities to ensure that the Indian economy would revive, the one thing all of them agreed was that any hasty judgment would be unfair and that the Government needs to be given a fair time to prove itself and get the economy on track

## PANEL DISCUSSION REPORT

**RAPORTEURS:**  
V P REJITHA, & ROSHINI

**PANEL MEMBERS:**  
SUHRUTH KUMAR. A (Moderator), SURESH KUMAR, DHANURAJ  
MIDHUN VELLAPOYIL, REKHA K.G, NITHIN RAMAKRISHNAN

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## **REPORT ON THE PROCEEDINGS OF THE PANEL DISCUSSION ON BUDGET 2014 AND BEYOND – A DEVELOPMENT PERSPECTIVE ANALYSIS**

Date: - 24<sup>th</sup> July 2014

Time: - 10.00 A.M to 1.00.P.M

The Union budget 2014-15 presented by the newly elected Government has been met with myriad reviews. While some consider the budget a blueprint for the development of India, others consider it a ‘Chidambaram Budget with a saffron tinge’. The budget has also been discussed against the backdrop of the performance of previous NDA government as well as the condition of Indian economy under the UPA Government. It is in this scenario that the Centre for Economy Development and Law at Government Law College, Thrissur conducted the discussion ‘BUDGET 2014 AND BEYOND: DEVELOPMENT PERSPECTIVE ANALYSIS’. Each of the panelists had a different perspective to offer which added to the informational value of the discussion.

### Panel Members

- **Mr. SuhruthKumar. A** (Moderator)
- **Dr Suresh Kumar** (Retd. Head of the Department of Economics, Attingal Government College of Arts and Science)
- **Dr Dhanuraj** (Director, Centre For Public Policy Research)
- **Midhun Vellapoyil** (Asst. Professor in Economics, Government Law College, Trivandrum)
- **Mrs Rekha K.G.** (Asst. Professor in Management Studies, Government Law College, Thrissur)
- **Adv. Nithin Ramakrishnan** (Fellow, Centre for Economy, Development and Law)

### **Prof. Suhruth Kumar. A (Assistant professor Govt Law College Thrissur) – Moderator**

The moderator Prof. Suhruth Kumar by introducing the topic indicated that the discussion would be of an academic nature and suggested that the panellists focus on analysing the developmental aspect of the new budget.

**Dr. Suresh Kumar (Retd. Head of the Department of Economics, Attingal Government College of Arts and Science)**

The first panellist Dr. Suresh Kumar chose to analyse the Budget from an economist's point of view. He opened the discussion by pointing out some noteworthy criticisms raised against The Union Budget 2014 such as:-

- It is a "Chidambaram Budget in a Saffron colour"
- Sonia Gandhi criticised it as a budget having no direction
- Leftists opined that the budget only supports the Corporate and the govt is not willing to tax the rich and use that for the benefit of the poor.

In the opinion of the panellist, if one was looking for a single global model for growth in 21<sup>st</sup> century for the entire humanity, one would have to resort to capitalism as suggested by Adam Smith who in 1776 said that the two driving forces of growth are capital and labour productivity. Only growth can ensure enhancement in the living condition of the people. In India there are 125 million people and 25% of the population are below poverty line. In order to cater to the needs of the whole population, India has to make use of capital and technology. Additionally the panellist mentioned that, in the pre globalisation period even if India followed a particular model we have not achieved visible development. The poverty ratio was almost 50%, the poor growth rate was 3.5% and it was unable to meet the basic needs without using capital.

After Globalisation the growth rate increased from 3.5% to 7% and then 9%. The capital and economy played a major role behind this development. From 2008 owing to recession, the Indian economy has been in a state of deterioration. India has been experiencing rampant corruption especially in the economic sector. The Policy deficit resulted in the people yearning for a change, which manifested in the form of the 2014 election results. In total Present budget exclusively Focuses on growth perspective and the targets about 7% to 8% increase within the next 3 years. Another point of focus is on fiscal consolidation, limiting the deficit at 4% this year and up to 6% in the coming year.

In order to achieve growth, the panellist conveyed that it is necessary to borrow in a way that causes an increase in fiscal deficit. The present growth rate is 10.2% and it is to be enhanced up to 10.6% in the coming year. A further increase of 11.2% is expected in the following year. In order to raise tax revenues, the growth rate is to be increased and for increasing the growth rate, improved allocation of capital, rationalisation and improving the efficiency of the available resources are to be realised.

In the concluding remarks Dr. Suresh Kumar evaluated that the budget takes on the three sectors of Indian economy with a developmental approach. A boost in infrastructure development such as port development, aviation development etc is expected. Moreover in the manufacturing sector small and medium enterprises are given more importance, these enterprises can play an important role in growth if invested properly. Care has been given to the agriculture sector also. Restructuring the Food Corporation of India has been suggested. Also, Measures to tackle the climate change issues which affect our primary sector time to time too have been discussed in the Budget.

**Mr. Dhanuraj (Director, Centre For Public Policy Research)**

The second panelist Mr. Dhanu Raj started on by communicating how the Union Budget 2014 evaluated largely depends on the person evaluating it. For instance the teaching professional assess tax exemptions schemes to promote women entrepreneurs, schemes announced to ensure safety for women while travelling etc. has brought out positive reactions. The corporate sector has mixed feelings because of the incentives on one side and the announcement regarding the retrospective legislation on the other. The entertainment industry expected certain tax exemptions which were not met. There is also an opinion that this budget offers nothing new and is merely a repetition of the Previous Budget with a 'saffron tinge'. Also, certain economists have opined that the government has tried to compromise on the capital expenditure.

The current government came to power riding on a lot of expectations. The Budget is being evaluated in the light of such expectations. Unfortunately, the people of India are yet to realize that the Budget is not a document that can bring forth drastic changes and ensure its delivery. The present budget needs to be evaluated by keeping in mind that the Government has been in power only for a mere 45 days. Generally, the preparations for a Budget that is to

be presented towards the end of February, starts from the month of September. Hence it cannot be expected that this Budget will reflect the expectations of the voters who voted for the new Government. Another point to be considered in evaluating the Budget is the difficulty in meeting the expectations of 125 crore plus population of India. In addition to this, the needs and expectations of individual States depend on their economic well being as well as political views of the respective State Governments.

Continuing the discussion the Mr. Dhanu Raj said that, to bring to light certain tangents to the Budget, one can start with 'inflation'. Inflation is a reality and is a part of growth. However when it goes beyond, say 9% or 10%, it is not a good sign. The Budget does not seem to have addressed the Inflation issue. However, whether the Budget should address the inflation issue itself is a debatable question. There are numerous reasons for inflation in India. One of them is the Poverty Alleviation Program which increased the wages of labour in rural areas and in turn raised the prices of agricultural products. Another reason is the supply chain constraints like deficient warehousing and storage facilities. The Budget takes steps towards privatization of warehousing. The Budget also talks a lot about PPPs although the track record of PPPs does not prove optimistic.

The union budget 2014 announces a disinvestment of 63000 crore rupees. The question is whether this can be achieved or not. Explaining this panelist described, from 1991 to 2013 times disinvestment was attempted 23 times, the expected target could be achieved only 7 times. Achieving the proposed disinvestment in the coming 8 months does not seem possible when one considers the long process the activity requires. This is one of the areas where the Budget has been criticized for not laying down the details regarding how the Government plans to proceed with the announcements. On the other hand, the budget allocates 100 crores to 29 projects. Questions have been raised on the quality of these announcements and the framework the Government plans to follow.

One of the major difficulties of a financial minister is to balance GDP growth on the one hand and inflation on the other. Curbing inflation requires a coordinated effort from all the State Governments, different departments and ministries. For instance the duty of the Ministry of Consumer Affairs is to ensure that the Public Distribution system is functioning well. The food grains that ensure this come under the responsibility of the Ministry of Agriculture. The Ministry of Agriculture in turn depends on a number of other Ministries

like the Ministry of fertilizers, Ministry for Heavy Industries, Ministry of Power and so on. Unfortunately the activities of these Ministries are not coordinated as much as it should be.

The panelist put in plain words that a Budget cannot solve all the issues at once. The present Budget should not be evaluated in haste as it is too early to say anything about the style and functioning of the new Government. Besides, an economy needs capital. It should be able to attract capital. Unfortunately actions taken towards building an attractive economy will lead to unwarranted political issues. The current budget does take the issue into account and has managed to avoid a political backlash.

Further the Mr. Dhanu Raj added, much highlighted positive aspect of the Budget is the huge push it gives the infrastructural development in the country. The second UPA government witnessed stagnation in infrastructural development. The PPP model had failed and Land Acquisition proved to be an obstacle. The new Government too will have to work out an investor friendly Bill for the purpose of Land Acquisition. The budget allocates heavy amounts on national highway development and other road development, gas pipelines etc. which would also contribute towards employment generation.

The budget also includes schemes for boosting agriculture which include schemes to allow the farmers to procure agricultural equipments with the help of bank loans, starting a 24 hour channel Kissan Tv for the farmers etc. A remarkable factor of the Budget is the attention it has given to the North East of India. It may be the first time in the history of independent India that the Government is investing so heavily on infrastructure, agriculture and tourism in the north eastern states. Winding up the session Mr. Dhanu Raj said that the government has done a decent job given the very little time it had to its disposal.

**Mr. Mithun Vellopoil (Asst. Professor in Economics, Government Law College, Trivandrum)**

Mr. Mithun initiated the session by expressing that a budget is not a book of accounts or a balance sheet. Evaluation of the Budget should be done only in the light of the vision of the Budget, the period in which it is presented and the macroeconomic variables prevalent at the time. The present Budget is presented in a country where economic reforms as a result of globalization have been going on for the last 20 years. The Budget signifies the changing role of the Government in the economy.

According to studies conducted worldwide, globalization affects an economy in certain distinct ways. The panelist summarized it as follows:-

- Firstly, it reduces the power of the Government to take an independent decision regarding its economy;
- Secondly, the role of the Government increases in providing education, ensuring public health, efficiently managing the crisis due to volatility in capital availability, tackling the issues in agricultural sector etc.

In the view of Mr. Mithun an economy should never be lead by ‘capital’. The democratically elected Government should be leading the economy forward. Unfortunately, it has been observed that the pressure from the corporate sector tend to influence the policies of governments in general and weak ones in particular. This in turn results in further weakening of the role of Government in the economy. A government should maintain a control over the economy while promoting the inflow of capital and private investment. The present Government, by virtue of its large majority is more likely to succeed in leading the economy in that direction. The present growth rate is another matter of concern. In 2003-07, the growth rate in India was about 7%-8%. After 2008 it can be observed to have dropped to 4.6%-4.7%. The main reason for this is the decrease in investment, specifically the private corporate investment. To tackle this issue the Budget need to propose policies to attract private capital. The current Budget has done this.

The panelist continued the session explaining reducing the fiscal deficit is another step which can improve growth rate although achieving it is not an easy task. One of the methods the Government adopts for this is to increasing growth, which will in turn increase the tax. A second method is the disinvestment in the public sector. Reduction of the subsidies is also a proposed method. The crucial issue here is the lack of institutional framework in areas like land acquisition, labour, finance capital etc. which would hinder the progress of these proposals. The right solution will be the time consuming process of strengthening these institutional frameworks and then increasing the growth.

Another issue in the present Budget talks about development only in terms of fraction programs like MGNREGA. The history of Indian rural economy signifies that Government

investment in rural areas has reduced over the years. The panelist criticized it as “job less growth” and explained that growth happened but there was no employment generation.

Further Mr. Mithun observed, the last few years have seen the increase of contract and temporary employment. This sector is not covered by the Labour laws in the country. Social security schemes, pension etc. are not applicable to such employees; they receive only meager wages and have very poor bargaining power. An increase in such kind of employment which is of poor quality is not a positive sign. The service sector also has seen an increase in employment. This includes the employment generated as a result of the increase in Shopping Malls and Super Markets. Here too wages are low, which again affects the quality of the employment generated.

Speaking about the flagship programs the panelist articulated government does not interfere with the price determination. Even today the rural laborers are given income via back door. Cash transfers empower them to purchase from the open market, our market fluctuations are still controlled by forces of demand and supply.

In the agriculture sector, the cash borrowings from money lenders are still on increase. If it was 10% in 1991, it increased to 26% in 2006. Majority of the farmers who borrow from the nationalized bank are with large land holdings. Farmers with small land holdings still prefer to depend on money lenders due to many reasons like easy accessibility, minimal documentation etc. On the whole the farmers who are in real need do not avail of the credit benefits proposed by the government.

During jobless growth, agricultural distress happened and farmer suicides reached its peak, the female population of the country, who had so far kept away from the labor market, entered it. This showed an increase in employment. As soon as the economy started to do better, the new entrants retreated.

Growth is very important as far as a govt. is concerned. Without growth the fiscal deficit cannot be kept under control. It is also important in dealing with current account deficit. How the government plans to ensure that the ‘growth’ translates into ‘development’ and the benefits of that growth reach the common households of the country is what the budget should lay down.

Concluding his words Mr. Mithun made it clear that we can see only a minimal level of infrastructure development in rural areas. And only time can tell how much of it will last for long or trickle down soon. Growth in agriculture has been very low in the past; it has even been negative at times. The government should understand that it can function effectively only if growth and development are balanced.

**Rekha K.G (Asst. Professor in Management, Government Law College, Thrissur)**

The next panelist Mrs. Rekha K.G approached union budget 2014 from the perspectives of an investor. A major problem faced by the Indian economy is its instability. We cannot quantify the real effort and the work behind each budget. The criticism put forward by the opposition parties that the budget is the continuation of the Chidambaram's budget may be countered with the view that there is nothing wrong with continuation and stability once in a while.

The whole of corporate sector of a particular country cannot be reflected in a single number. However, the impact of even the slightest fluctuation in the sensex over the Indian market and economy proves that a single number can indicate the direction in which an economy is headed. The new budget proves to be a positive step toward the direction of achieving long term goals.

In the opinion of panelist new budget attracts more private investors. A lot of institutions invest in bulk. Earlier, the defense sector had only 26% of FDI and now it's 49%; it is relevant because the maximum FDI in any sector can have is 49%. It is only reasonable that India embrace FDI in defense too after its successful implementation in the fields of advertisements, telecom etc. By allowing this, the defense sector would definitely benefit from the improved and high standards, as the competition would improve quality. In her opinion this was a bold decision taken by the new government.

In the concluding remarks Mrs. Rekha mentioned the idea of capital and growth put forward by Adam smith (as discussed by first panelist) can be relied upon. Real estate investment is mainly based upon trust. Investment was not easily possible in real estate.

**Adv. Nithin Ramakrishnan (Fellow, Centre for Economy, Development and Law)**

In the last session Adv. Nithin Ramakrishnan addressed the audience about the "Directional Budget 2014" with a question "where do the directions take us?" He started off with the

significance of viewing the Budget, which is an income expenditure sheet; as a policy document to analyse from where does the idea of directions come from. He insisted upon looking the budget as a policy statement/ document, or more or less as a macro economic framework. Above all Budget is to be considered as an agenda.

Then the panellist explained his tools of interpreting the directions are:

- Economy Survey(E.S) – it helps in the factual representation of current scenario
- Fiscal Policy Statement and Macro-Economic framework statement
- Budget speech, expert opinions and governmental justification
- And most predominantly the language used as such in budget document and speeches.

Being a lawyer, he said he believes affirmatively in the fourth tool and would like to use it for the day's presentation and analysis. He quoted many of the statements from the Budget Document and cited them as examples for identifying the inclination and bias of the policy makers.

Adv. Nithin Ramakrishnan subsequently then referred to his analysis of those words and language used in the text of budget documents and interprets as follows:-

- Budget in *toto* reflects a pro-business attitude. The first 28 pages of budget (Chapter 1) contains the term investment 162 times, industry 56 times, poverty four times and human development 8 times. More examples spotted by the panelist are, four out of six structural constraints in the state of economy talks about problems created thereby in the ease of doing business. The slowdown in services, in particular the internal trade, transport, and storage sectors, could be attributed to the loss of momentum in commodity-producing sectors.
- Light hearted approach of the budget towards issues like poverty and human development requirements, environmental demands can be discerned. Secondly the panelist severely criticizes tendency to establish Indian situations are comparatively better. This was in reference to the usage of Income-gini coefficient and quintile income ratio to establish that Indian Society plays fair when comes to equality. The

reference to higher income levels leading to higher savings by households and reduced the share of consumption is also an example for the same.

- Thirdly he argued sustainable growth in primary sector production is almost taken for granted as there is no adept reference on the points on improving the primary sector efficiency in the budget documents.
- Fourthly confirming, the Panelist laments the budget document for containing the term labour only six times and the term labour condition not even once. This makes it clear that labour and employment conditions are far away from the focus of the present budget.
- However the Panelist appreciated the budget documents for their voices are stern, loud & transparent.
- Finally Adv. Nithin Ramakrishnan remarked that austerity to people (liberalization for business) had bring no laudable outcomes in the past, even then the present government is trying to bring in more liberalization (austerity).

Then Adv. Nithin Ramakrishnan addressed the question where do these directions take us? He asked whether the present regime and its directional preferences are towards an authoritarian rule (positive sense - decisive) tapping in more capital development and growth or an authoritarian (dangerous note) leading to class struggle? Then the panellist without answering directly and conclusively the question enlisted a few indicators by which one can ascertain what is it the Present Government up to

The following are the indicators of a Positive rule:

- Identifying state of economy crisis as a crisis of a political system, not just as a structural problem in the administration.
- See the crisis as an opportunity for progressive forces of 'LEFT.'
- New alliances across borders as well as the formation of broader movements.
- Need to build on the experience of the labour, gender activists, environmentalists, anti-racists and other movements such as those struggling against the commodification of social and public goods.
- Austerity is not the solution for people – realise actual strength of 'Indian Labour.'

His set of negative indicators included:

- Pampering of passive neo-middleclass.
- Creation of Clientelistic State and Society. All capitalist social formations need mechanisms to spread the gains of the market to some less privileged social groups.
- Use of Austerity as a class project - as opportunity by capital to strengthen its position vis-à-vis labour - as opportunity to finish the neoliberal modernizing project in terms of reducing wages and pensions, dismantling labour protection, and undertaking an even more radical program of privatization
- Transcending capitalism.

The panelist further perceives unfortunately if India government is to follow the European trends then it would second type of rule. As a way ahead he suggested Indian Policy makers must realize the importance of labour reforms in betterment of the economic development. He said Budget 2015 must identify and address these issues comprehensively. The aims of such an inclusion are:

- To ensure wealth as well as enough decent and high-quality jobs with a future, especially for young people.
- To make involve the social partners in strengthening social dialogue, collective bargaining and worker participation, particularly in relation to economic governance process at national and institutional levels, education and training and labour market reform
- To go hand in hand with tax policies that can encourage investment that fosters growth in high-quality employment and encourages companies to adopt socially-responsible behaviour.
- To set out rules for the market and provide policy orientation, thereby also steering private investment toward innovative projects for the future.
- After all, the Panellist believes workers and taxpayers having borne the main burden of the crisis, it is now time for the wealthy and rich to also participate in one off funding of capital for the growth and development.

In the conclusion Adv. Nithin Ramakrishnan strongly argued that the government must first of all answer itself that who exactly is out of trouble, the people or the financial system. He also reminded the government, quoting it from a Famous TV serial Game of Thrones, that the people doesn't care who is to rule but cares about the rains and sows

On the whole the discussion on the Union Budget 2014 from the development perspective provided several insights into the Budget Documents and Policy, especially due to the differences in the perspectives of the panelists. The points covered included the real purpose of the Budget document in a democracy and the role it plays in the development of the economy and the nation. When the Panelists differed as to whether the Budget contains the right provisions in the sufficient quantities to ensure that the Indian economy would revive, the one thing all of them agreed was that any hasty judgment would be unfair and that the Government needs to be given a fair time to prove itself and get the economy on track.