Business Standard

# Parthasarathi Shome: Ramifications of Budget 2016-17

**The Budget does not convince after reading between the lines**

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TV discussions would lead one to view the Budget as having a shelf life of 48 to 72 hours. By that count, it is water under the bridge. Yet, listening to its delivery intently, I concluded that its ramifications would be long run, many adverse. Finance Minister Arun Jaitley started by saying we had crossed seven per cent real GDP growth. Juxtaposed on the quarter ending December with a crash in exports and zero growth in the non-financial non-oil sector, his assertion drew critical attention regarding how 2015-16 will turn out. Would it not have been safer to caution his fellow citizens of the impending Ides of March?

The FM's attention to the agricultural sector was direly needed following two seasons of drought for a community with a median income of less than Rs 30,000 per annum (not month). But when it was declared that farmers' income would be doubled in five years, the necessity of an annual growth of 16-17 per cent tumbled out as against its current six to seven per cent. So the question arose how this 10 per cent point per annum difference would be closed.

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India is lucky to achieve agricultural real growth of two per cent. It has achieved four per cent as a windfall after it has had four consecutive years of above-average rainfall. Since the 1970s this has occurred five times or so. Yet if inflation is contained at six to seven per cent, then even four per cent real growth is insufficient for the next five years. Despite promises of rural infrastructure and irrigation, the fact is Indian agriculture remains so deeply rain-fed and irrigation has been so neglected or funds so pilfered that no government can achieve the needed output outcomes within a five-year frame. Would it not have been better for the FM to take Indians into confidence and explain the choices he was facing and had considered?

What, for example, has he done about the promised minimum support price (MSP) of 50 per cent above cost? In fact, available information reveals that for wheat, cost has increased slightly less than MSP in the last three years but, for varieties of lentils, cost has risen faster than MSP, leave alone MSP being 50 per cent higher than cost. There can be little wonder at the spate of farmer suicides borne down as they are with unrepayable debt reflecting the vagaries of nature.

What is an amazing degree of irrationality is the bulk of the intelligentsia crying out for greater funding for recapitalisation of banks than Budget allocation. Given that much of the banks' woes are wayward capitalists and the public sector itself, government's first duty is to announce unconditional forgiveness of farm debt and, for unorganised sector lenders, pay those lenders directly on behalf of farmers. This duty precedes that of buttressing "the elephants that hide amidst the mice" as a Latin American finance minister confided in me once. The introduction of another tax amnesty scheme is another instance of rewarding the undeserving and reveals the government's underlying weakness in favour of short-term resources despite indications that amnesties don't change taxpayer behaviour permanently.

Regarding tax policy, the biggest disappointment was the compromise on the promised corporate tax reduction path. The FM could have reduced headline CIT rate by a half per cent or even a quarter per cent across the board and taken business into confidence why the reduction path would take longer reflecting the slowness in GST introduction. Instead of strongly reducing tax incentives, some of which was done, some were introduced including exemptions for certain SEZ's from MAT. Rather than fundamental reform, to make up for tax revenue loss, distortions were introduced: tripling STT on options, incentives for start-ups, new cesses, tinkering with Cenvat rules and customs duties. Admittedly, the private sector's pre-Budget pushing for incentives even while rooting for CIT reduction revealed a continuation of past individualist behaviour rather than an emergence of maturity, clearly detrimental to the global good of a lower CIT. The discretionary tax measures would yield Rs 23,000 crore in indirect taxes with a negative yield for direct taxes. This is not helpful for raising the direct tax to indirect tax ratio, often taken as a sign of a mature tax system and what had been accomplished by 2006-07. By now that ratio has reversed.

Reflecting low tax effort, the fallout was the heavy if not exaggerated dependence on non-tax revenue to finance and achieve a 3.5 per cent fiscal deficit target. Broad calculations show 45 per cent are from RBI transfers plus dividends, 20 per cent from telecom revenues, 10 per cent from disinvestment. Regarding the RBI, it already transfers all its surpluses to the exchequer; hence windfall transfers are now moot. Regarding dividends, pressure on PSUs and PSBs to cough up more money even as their valuations are dwindling seems fruitless. Instead, concrete plans to privatise both should have been put upfront. This was missing. The budgeted Rs 56,000 crore from disinvestment has never been achieved earlier, even by this government. These expectations are not convincing.

Last but not least, looking at telecom, Rs 99,000 crore are budgeted, of which Rs 22,000 crore are from license and spectrum fees and perhaps achievable, Rs 21,000 crore from arrears and deferred payments including disputed amounts languishing in courts, hence clearly not achievable in a single year, leaving Rs 56,000 crore from spectrum auction of 700 MHz. This implies DoT will have to sell spectrum worth three times, that is, Rs 2 lakh crore since companies only pay 30 per cent upfront. This will not occur within the timeframe even as large telecom operators have already indicated the price set is too high.

Summing up, the Budget has placed too little emphasis on tax reform or tax revenue sources of financing. The tax structure is worse today than on 28 February. Of the heavy emphasis on non-tax revenue, many have insufficient basis within the 2016-17 timeframe. The apparently benign objective of a shift towards the farmer does not stand on firm ground. The big question remains why government missed a genuine opportunity for working out a viable roadmap for fundamental reform, bring individuals and business into confidence by presenting a meaningful social contract, and then adhering to it.