Budget has prepared the field for a thriving India to emerge. But some questions are up for asking

A BUDGETARIAN DIET

Economic Good, Political Good

Arvind Panagariya

If the last full budget of the government prior to the parliamentary elections eschewed populism and focused on giving the long-term interest of citizens primacy, it is because the PM and FM appreciate that good economics is also good politics. They appreciate that it is sustained improvement in people's fortunes rather than small giveaways aimed at each identifiable group that wins votes. From my viewpoint, Budget 2023 has delivered nearly everything that I had asked for. For starters,

▶ It has stayed course on fiscal consolidation. The increases in expenditures and reductions in revenues, forced by the pandemic, has left India with elevated fiscal deficits and debt-to-GDP ratio. The latter now stands at about 84%, up from pre-pandemic 70% that itself was considered excessively high.

While the fiscal deficit in 2022-23 is estimated to have come down to 6.4% of GDP from 6.7% the previous year, the budget proposes to bring it further down to 5.9%. The FM has announced her intention to bring the gap between revenues and expenditures down to 4.5% by 2025-26.

▶ The budget has committed to raising capex to 3.3% of GDP from its estimated level of 2.9% last year. This is an impressive increase for two reasons:

▷ With committed liabilities accounting for a very large proportion of the total fiscal resources and high debt-to-GDP ratio, GoI faces a tight fiscal situation.

▷ Only three years ago, this proportion stood at just 2.2%, which was itself significantly higher than in any preceding year since 2013-14.

GoI has shown unprecedented efficiency in implementing infrastructure projects on scale, and often in record time. Despite the passage of 75 years, India is still in the building phase. Given how past governments have struggled to make rapid progress, it is a necessity that GoI put its strengths in effective implementation to good use.

The expenditure on railways illustrates how far GoI has come as regards capex. In 2023-24, it proposes to invest ₹2.4 trillion in the sector. This amount is about nine times its level in 2013-14, the last year of the UPA government. It is no surprise that citizens can practically see railway connectivity and service improving in front of their eyes in real time.

▶ While GoI has reformed indirect taxation through the goods and services tax (GST) and direct taxation of corporate profits by replacing a complex regime by one largely free of exemptions, personal income taxation has remained subject to complex exemptions and high tax rates. By subjecting taxpayers with the same income to different tax liabilities depending on how they earn or spend their incomes, the system violates the important principle of horizontal equity in taxation.

In 2020-21, the FM had introduced an alternative tax schedule with lower tax rates provided the taxpayer chose to forgo several of the exemptions. But since these tax rates remained too high to be attractive against the existing exemption-ridden regime, most taxpayers continued to file their taxes under the latter regime.

In a recent article, I had pitched for the replacement of the high tax rates in the alternative tax schedule by sufficiently lower ones to make it more attractive. In the present budget, the FM has done just that. It now appears highly likely that taxpayers will begin to shift to this new regime in large numbers.

▶ The budget also makes a modest effort to rationalise custom-duty regime. The finance minister has cut the number of basic custom duty rates on goods, other than textiles and agriculture, from 21 to 13. While this may or may not result in any substantive liberalisation, it does lower the incentive to misclassify imported products and contributes to transparency.

In some cases, the FM has also tweaked duty rates to eliminate duty inversion whereby inputs are subject to higher tariffs than final products. As an eternal optimist, it is my hope that these changes represent the beginning of a process that would lead to greater liberalisation of the trade regime in the coming years.

▶ A commendable overarching theme of the budget is to give yet greater impetus to the expansion of the country's digital infrastructure. Proposals contributing to this expansion are wide-ranging:

▷ Building digital public infrastructure for agriculture.

▷ Funding for agri-startups.

▷ A national digital library for children and adolescents.

▷ Digitisation of 1,00,000 ancient inscriptions.

▷ Simplification of the know-your-customer (KYC) process.

▷ One-stop solution for identity and address updation.

▷ Use of the Permanent Account Number (PAN) as the common identifier for all digital systems of specified government agencies.

▷ Setting up of an Entity DigiLocker for use by micro, small and medium enterprises (MSMEs), large businesses and charitable trusts.

▷ Launch of a unified Skill India digital platform.

It is as though the next generation is poised to see a very different India emerge.

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BUDGET 2023

Well-bowled, Nirmalaji

Cheerful, With Some Posers

Ashok V Desai

The Economic Survey this year was a pleasant surprise. Surveys are generally long-faced and boring. They lay out economic data about the country and the world around it, and describe the context in which the budget was designed. This year's Survey was unceasingly related good news about the economy. The economy sounded like a paradise-in-making.

The description was not inaccurate. Last financial year had been terrible for the economy on account of the pandemic and the terrible effect it had on employment and business. Since then, the economy has revived. So, there was much to cheer up the ministerial economists.

The cheer also touched Nirmala Sitharaman. Her budget speeches are generally detailed and technical. She reportedly holds the record for making the longest budget speech for an Indian finance minister. She has been administratively active, and tends to cover administrative and legal matters at some length in her speeches. This time, however, her speech was relatively brief, and that was because she economised on administrative changes.

She could also afford to be kind to taxpayers. Once again, the economy is experiencing a minor boom. Business is doing better. So, her tax revenues have bounced, bringing down the alarming deficits she ran for a couple of years, and giving her hope of a further fall in fiscal deficit over the next couple of years. That is comforting also because a general election has to be held within 16 months. It may be thought that given the prime minister's performance and the opposition's weakness, the coming election is hardly worth worrying about. But any FM would think twice before raising taxes or cutting down populist expenditure at a late date in the election cycle.

Still, to her credit, she has not increased populist expenditure. Instead, she has considerably increased capital expenditure, which is good for infrastructure and balances to an extent against the states' lack of interest in it.

Sitharaman has not reduced indirect taxes that hurt the common man. Instead, she has gone on to reduce direct taxes that annoy the uncommon rich — or, to be polite, let us call them the middle class. But that is understandable, since they need a friend, considering the fact that the opposition often declares its love for the poor.

The budget covers so many schemes named in Sanskrit after the PM that it would be easy to miss their importance. But the one for houses in his name is a good idea since such a large proportion of our rural population still live in fragile, poorly equipped mud huts. Promoting electric vehicles is also a good idea because India lags behind in the replacement of carbon-based fuels that are warming Earth. One question, however, should still be asked: how far is the electricity they use generated from carbon-rich coal and oil?

The budget aims to increase *effective* capital expenditure from ₹10.5 billion to ₹13.7 billion. It would have been interesting to know what will be the increase in ineffective capital expenditure.

So much for the tangible part of the budget. Now to the sloganistic part. Innovative startups for agriculture sounds good. But startups are no more sexy than established enterprises — it makes no difference who does the innovations. Innovations will fail unless someone buys and pays for them. Enterprises pay for them because they give them competitive advantage.

Farmers are too many and too small to pay for innovations. And if one does get an innovation, his neighbour will adopt it without paying for it. The legal framework for innovations and patents that serves industry is impossible in farming. Someone needs to work out how innovations in agriculture occur and spread by asking the Israelis, Germans and Brazilians.

The big funds announced for credit to farms and small businesses ignore the fact that both are good at not repaying loans. Indian financial firms should know this well, including the government's banks. One innovation that has worked in Bangladesh is loans to fund microcredit to women. The finance minister should find out why — and why it has not worked in India.

Interest, dividends and profits bring considerable income to the government. Why do they fluctuate so much? At one time, this government had decided that it was no good at running private enterprises, and was going to sell them off to private parties. Why did it not? Why does it not create a powerful holding corporation to run them efficiently?

Capex in the private sector builds up assets and brings profits. Capex in government does not necessarily bring profits — roads, for instance. It should not be called capital expenditure. It is expenditure that extends across many years. Such expenditure should be put into a multi-year budget. Let us wait till next year to see if the finance minister does anything on the points I have raised here.

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