

The Interim Budget (2019) and a five year direction

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The Interim Budget presented by Shri Piyush Goyal today marks a high point in the policy directions that the Government headed by Prime Minister Shri Narendra Modi has given to this nation. Interim Budgets which are presented in the Election Year seek a Vote on Account for a limited period till the post-election Government can decide the further direction of the economy. However, past precedents have conclusively shown that urgent steps are required in the larger interests of the economy and they can be taken. We have the immediate precedents of the year 2009 and 2014 where significant taxation changes were brought about in the Interim Budgets.

Interim Budgets are also an opportunity for the Government of the day to introspect their performance of the last five years and place its facts before the people. The Government also outlines its vision for the future of the Indian economy. This is precisely what Shri Piyush Goyal's Budget Speech has done.

Let me try to expand and illustrate the performance of the past five years and the further direction which the Interim Budget has given.

The political thrust

The political thrust of the past five years both through budgetary outlays, tax policy and legislative and administrative steps have been to create a Government which is decisive, compassionate and clean. The economic reforms undertaken have unshackled Indian economy, unleashed its potential and made us a global leader in growth. India is the fastest growing major economy in the world and is becoming a nation where it is easier to do business. The Prime Minister's leadership has provided India with a decisive Government which is capable of even taking difficult decisions.

Reforms

Reforms have been undertaken with the idea of enhancing growth and the benefits of high growth have gone predominantly to the poor, the rural and the farm sector and infrastructure creation. Major reliefs have been provided to the taxpaying segments of the population. The anti-corruption and pro-transparency thrust of the Government involved elimination of routine permissions and approvals, ending of discretions in determination of contracts, licenses and natural resources. They would be allowed only through a market mechanism. An enhanced payment of State support through the Direct Benefit Transfer eliminated all leakages.

The major reforms undertaken by the Government involved significant steps like the GST, elimination of human interface in both the Direct and Indirect Taxes, the lowering of both

Direct and Indirect Taxes and the expansion of the tax base. The Government has undertaken a major investment through capitalization to revive the banking system which was stressed on account of past legacy issues. The Insolvency and Bankruptcy Code being enacted, major credit schemes like the MUDRA loans, low-cost insurances and pensions and a major thrust towards funding the MSMEs, have all been key Banking Sector Reforms. The Demonetisation was a major assault on a high-cash economy which generated black money, tax evasion and even corruption. Demonetisation proved to be a major step towards formalization of the economy significantly enhancing India's tax collection and a movement towards the digitalisation of the economy. The long pending reform was enacted in terms of the Monetary Policy Committee of the RBI. The Unique Identity Number provided by AADHAAR is a significant reform which is peculiar only to India. This covers 99% of India's population.

Social sector reforms such as financial inclusion, connecting every family to banking, every home to electricity, every kitchen to cooking gas, every home to a toilet have been witnessed in the past five years.

India has become the largest recipient of FDI thanks to a liberalized policy. Our infrastructure sector in highways, ports, airports and civil aviation, power, smart cities, Metro systems, improved urban facilities has made a significant contribution.

The Government personnel, both Government employees and as those of the armed forces and para-military forces have benefited by the enhanced benefits being given to them through the implementation of the 7th Central Pay Commission, OROP and by the improvements made in the New Pension Scheme.

Macro-economic data

India's macro-economic stability has unquestionably witnessed 2014-19 as perhaps the best-performing period in Indian history. The GDP growth during this five year period will be about 7.5%. The inflation will be in the range of 4%. The average fiscal deficit in the past five years has fallen from UPA 2's figure of 5.3% to 3.7%. We will close a five year period by a figure of 3.4%. We would ordinarily have maintained a target of 3.3% but have a major announcement involving extra expenditure being made in the current Budget. The Current Account deficit from the UPA 2's five year figure of 3.3% with a high of 5.6% has fallen during this period to an average of 1.5%. Similarly, external debt to GDP has fallen from 23.9% to 20.5% till March, 2018. Foreign exchange reserves are comfortable at US\$396 billion and touched an all-time high of US\$ 425 billion. It is, therefore, obvious that India is being hailed as a bright spot in the global economy.

The Indian Middle Class

Shri Piyush Goyal has today made a significant announcement wherein income earners earning upto Rs. 5 lakhs have been exempted from payment of Income-tax. This effectively strengthens the great Indian Middle Class whose expansion of purchasing power holds the key for India's future.

The immediate implementation of the 7th Central Pay Commission, the resolution of the long-pending OROP, improvement of the New Pension Scheme, grant of crores of loans under the MUDRA Scheme to aspirational entrepreneurs, provision for housing subsidies for Middle Income Group, downward reduction of both direct and indirect taxes, containing the double digit inflation left by the UPA to what is now a little over 2% itself brings relief to the middle class.

However, in each of the Budget's of Prime Minister Narendra Modi's Government, there has been significant relief to India's middle class. The tax exemption limit was first raised from Rs. 2 lakhs to Rs. 2.5 lakhs. Thereafter, without altering the slabs, people earning upto Rs. 3 lakhs were exempted from payment of taxes. In a further calibrated move, those in the income bracket of Rs.3 to 5 lakhs witnessed their tax liability being halved from 10% to 5% and today this category has been completely exempted. To this, if the other tax reliefs under the Income-tax Act are added, the number of beneficiaries will further rise. For payment of interest on housing loans, the deduction limit was expanded from Rs. 1.5 to Rs. 2 lakhs. The section 80C deduction limit was expanded from Rs. 1 lakh to Rs. 1.5 lakh. The Government believes that salary-paid employees whether in the Government or in the private sector are an honest set of tax assesses. Their entire tax is deducted at source. Last year the Government restored the benefit of Standard Deduction to them at Rs.40,000/-. This year this benefit is being extended to Rs.50,000/-. For Senior Citizens, the limit for benefits accruing on account of health care, tax payment and insurance is higher. Thus if all these benefits given to India's Neo-Middle Class and Middle Class are added, a person earning about Rs. 8 lakhs a year can get away by paying almost no tax.

As the tax base increases, which it has, the Government's abilities in future years to move in this direction will further increase.

The GST was enforced 19 months ago. It has already brought down most taxes on goods from 31% tax to the 18%, 12% and the 5% bracket. Never in the history of India during the five year tenure of a Government, we have witnessed tax reduction and a Middle Class relief of this magnitude. Lower taxes, higher base and larger collections are the high point of the past five years. This has been made possible because an anti-corruption regime made non-compliance more difficult.

Inflation being contained from a Double-digit inflation during the UPA Government to be within the mandated range of 4% itself has led to the reduction of interest rates which also has provided relief to those seeking credit for building houses and other economic activities.

A recent global study has shown that India's Middle Class from 18% in 2005 expanded to 29% in 2015 and will reach 44% in 2025. We want this direction to not only continue but to be further expedited putting more money in the pockets of the Middle Class will ensure this.

Infrastructure

Infrastructure does not recognise caste, creed or religion. It is a facility that the State provides to all. We are today the fastest highway developer in the world. Our port sector both in the government and the private sector is expanding its capacity and making large profits. On the Civil Aviation front, we are amongst the fastest growing Civil Aviation economies of the world with already 100 functional airports. Our national Inland Waterways have been put to effective use. The Indian Railways are not only expanding each day but improving upon quality of their services and performance. Our power sector has expanded its capacity to ensure that every household has an electricity connection. Our current emphasis on non-conventional energy is producing results. Each of the last five year's Budgets has expanded the expenditure on infrastructure. The Interim Budget maintains the same direction.

The poor

The Government has been guided by Gandhi ji's Talisman, "Recall the face of the poorest and the weakest man whom you may have seen, and ask yourself, if the step you contemplate is going to be of any use to him. Will he gain anything by it?".

The Government valued the above dictum and worked in that direction from day one. India's Financial Inclusion program the Pradhan Mantri Jan Dhan Yojana has been globally recognized. The Unique Identification ensured that pilferages, leakages and misuse of Government support programmes does not take place. The money spent from this was also directed at the poor. The Pradhan Mantri Suraksha Bima Yojana, Pradhan Mantri Jeewan Bima Yojana, Pradhan Mantri Mudra Yojana were all an extension of this inclusion programme. The urban and rural AAWAS Yojanas have ensured that by 2022 there should not be a single roofless family in India. The right to food has been ensured by making the largest ever allocation for cheap ration to a large section of India's population. Almost doubling the actual expenditure on MNREGA has ensured that the rural unemployed can get a livelihood source. To make the right of life respectable in a short span, the government ensured that the overwhelming number of rural houses get sanitation. The BPL families are switching over to the cooking gas. Every willing household has been connected with electricity.

The last five years have seen liberalization of the criterion and eligibility of Bonus, Gratuity and several other benefits by India's working class. In the same direction is the major scheme ensuring a pension of Rs. 3,000/- to each unorganized sector worker. The employee and the Government would make an equal contribution. Effectively, it is one more step in the direction of making India a greater pensioned society to ensure social security.

The political act of the Government to provide a 10% reservation for the economically weaker sections of the non-reserved category in educational institutions and jobs. The Government healthcare programme Aayushman Bharat has been globally recognized. 40% of India's population encompassing the weakest is now entitled to hospital treatment free upto Rs. 5 lakhs a year at State cost. The Government's concern for naming 115 under-developed Districts as the aspirational Districts has been guided by the Antyodaya philosophy.

Conventionally, the poor of this country were bluffed by attractive slogans which had short-term impact and no lasting value. As observed by Nobel Laureate Gary Becker that poverty perpetuates not because poor are no less capable than the rich but because the poor can be habituated for making myopic choices because of the daily constraints that force them to always focus on survival.

India's poor only got the benefit of slogans in the past. Today they have seen resources being actually transferred to them. They are today all candidates who are aspiring to enter the neo-Middle Class.

Agriculture

Last year in the Budget, the Government had announced that the recommendations of the Swaminathan Commission would be implemented and every farmer would be entitled to get 50% more than his input cost. Prof. Swaminathan himself has appreciated the Government decision. The others had only promised it, the Government delivered it. However, in view of the inadequacy of the procurement system in certain States, many farmers did not get the full benefit and had to sell their produce at softer prices. The Government has made massive efforts to improve the quality of rural life. It has enhanced agricultural credit, ensured a crop insurance scheme, enhanced investments in irrigation and still the requirements of the economy are that the Indian farmer who gives us the surplus produce deserves a lot more. The farmer's welfare cannot wait. In another step in this direction, the Budget has announced today a significant income support scheme for every small and marginal land owning family involved in agriculture. They will each be entitled to a sum of Rs. 6,000/- annually. This will be a major step to put more money in the pockets of our food producers. This necessarily expand the Government expenditure in the FY 2018-19 as also in the future years. This has had marginal impact on our projections of the fiscal deficit but we are confident of being on the glide path as per the recommendations of the FRBM Committee. Improving the lot of the Indian farmer and adding to his purchasing power in the long run will help the economy much more than the expenditure being undertaken.

The future vision

The future vision is to make India a Five Trillion Dollar economy. By the middle of the next decade we will achieve this and thereafter, target doubling that size of the economy. With the present growth rates, we are on track to achieve this. This involves a commitment to make sure that we work for every Indian and not just for the unduly privileged dynasties. We envisage an India where poverty is eliminated, the Eastern regions of India grow at par with other parts of the country, rural India having urban-like facilities, and that female employment in India in the formal sector expeditiously increases. Challenges of the future are going to be met by special emphasis on food processing, green energy, health care, world-class educational institutions, multiplying tourism potential, global quality infrastructure, making India a hub of electronic manufacturing, textile and apparel with a special focus on organic farming and non-conventional energy. More modern cities and urban renewal will be the focus.

We are growing at a rate faster than other comparable economies. We are proud of our performance. Yet we are impatient. We wish to grow faster than even our present status of the world's fastest growing economy so that we can cover up for the missed historical opportunities.

Finally a Response

Two comments have recently been made by various individuals. The first relating to job creation in the economy and the second on the impact of demonetization on the GDP.

The last five years have seen an average of about 7.5% real GDP growth. If the inflation figure is added to this, the nominal growth, on an average will be between 11.5 to 12%. Is it possible to conceive that such high nominal growth despite controlled inflation will not lead to any job creation. Several datas including the EPFO data have given a detailed indication of the job creation. If there is no job creation, as alleged, there should have logically been a great social unrest in the country. Past five years have passed off without a single major protest movement.

There were no globally established models on the immediate impact of demonetization on the GDP growth. The former Prime Minister's statement that it will lead to a 2% drop in the GDP captured the imagination of the Government's critics. Neither the original data for 2016-17 and 2017-18 nor the first revision proved that. When India had a large parallel economy we were all told that our growth figures do not correctly capture the GDP growth because a lot of activity takes place outside the formal economy. When demonetization led to depositing the entire cash into the banking system and led many future transactions to be more recordable, logically the GDP had to grow post-demonetisation. The impact of demonetization could only be transient as the Government always maintained. The present data conclusively establishes this. This is further fortified by the high tax collections both in the direct and indirect taxes during 2016-17

and 2017-18, Tax payments do not rise when the economy is not adequately expanding. Growth figures are based on estimates, tax collections are real.