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India Budget 2011-12: Scoring Low on Politics

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Abstract

Politics, not economics, was the main worry for the Government of India on the eve of the latest budget. The budget tried to maintain economic momentum and also address concerns over black money and governance. While it scores reasonably well on the economic front, this paper argues that its political impact may be diluted due to lack of signals on a firm action agenda.

The pre-budget annual *Economic Survey* forecast India's real GDP (gross domestic product) to grow by around 9.0 per cent in 2011-12. With GDP growth rates of 8.0 per cent and 8.6 per cent in 2009-10 and 2010-11, the forecast appeared realistic. Few would have also disagreed with the *Economic Survey*'s assessment that the economy had not only recovered from the slowdown caused by the financial crisis, but that the turnaround was 'fast and strong'.

Backed by recovery in GDP growth, pick up in savings and investment, recovery in exports, and signs of distinct improvement in government deficit indicators, most felt that the budget could have hardly had better fundamentals. Other than inflation, which has assumed chronic proportions and refuses to be tamed by either monetary or fiscal measures, there were hardly any other macroeconomic anxieties for the Finance Minister and the United Progressive

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Alliance (UPA) government. The main worry for the UPA government and its managers as they went into the latest session of the Parliament and prepared for the budget was the shadow cast by allegations of corruption and the establishment's perceived inability to address it.

The last year saw the Indian establishment getting rocked by various scandals. Scandals are not new to India. But the latest disclosures were shocking in terms of their implications on 'rising' India's main sources of pride such as the private corporate sector, telecommunications and the independent media. Reports flew thick and fast on the nefarious nexus between corporate lobbyists, industry and politics in manipulating business opportunities such as allocation of telecom spectrum. There were also allegations over accumulation of unaccounted resources or 'black money' by people occupying public offices. For a government about to enter the second phase of its five-year tenure in office, it was crucial to demonstrate willingness to address these issues. A cosmetic reshuffling of ministerial portfolios a few weeks ago had failed to convince people about its sincerity in addressing the concerns.

The Finance Minister in his budget speech mentioned: 'Certain events in the past few months may have created an impression of drift in governance and a gap in public accountability. Even as the Government is engaged in addressing specific concerns emanating from some of these events in the larger public interest and in upholding the rule of law, such an impression is misplaced. We have to seize in these developments, the opportunity to improve our regulatory standards and administrative practices. Corruption is a problem that we have to fight collectively.'[2]

Few expected the budget to be an instrument for the Government to signal a positive intent for addressing corruption. But it has tried to do so by announcing a five-point strategy for unearthing black money. Various bilateral double tax avoidance treaties and tax information exchange agreements have been concluded. The capacities of the Enforcement Directorate have been strengthened for addressing money laundering complaints. The Finance Ministry is commissioning a study on unaccounted income and wealth. A national policy on handling the trafficking of narcotics is on the anvil. A group of ministers is expected to study various issues on corruption. And finally, India has been actively engaging various international forums engaged in preventing money laundering and financial integrity.

While the action plan for controlling black money is expected to send out a positive signal on corruption, announcing transfer of cash subsidies to the poor is expected to do the same on delivery of public services. Subsidies provided through the budget on refined petroleum products [eg. kerosene and liquefied petroleum gas (LPG)] have often been criticised for their

[2] Budget 2011-12, Speech of Pranab Mukherjee, Minister of Finance (28 February 2011), p.2, paragraph 7, http://indiabudget.nic.in/ub2011-12/bs/bs.pdf. Accessed on 2 March 2011.

inability to reach the targeted beneficiaries. Providing direct cash subsidy to the poor for availing these commodities will serve two purposes. First, only the poor will benefit from the facility as intermediaries will be removed. Second, the subsidy bill in the budget will be reduced leading to a reduction in revenue and fiscal deficits of the Government. The subsidies, however, will probably remain 'off-budget' items and would be financed from the Government exchequer thereby continuing to remain financial commitments of the Government. The effectiveness of the system will depend upon accurate identification of people below the poverty line. This is not easy in a huge country like India. The Government's long-term plan may be to identify the targeted people for subsidies on the basis of the unique identity numbers being prepared. The task force set up on cash transfer of subsidies certainly has its task cut out in preparing the modalities of an effective system.

A few other initiatives announced can make differences to the access of the poor to basic needs. These include the announcement to introduce the National Food Security Bill (NFSB) in the Parliament during the current year, indexing wage rates under the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) to consumer price indices for agricultural labour, introducing pre-matric scholarships[3] for students belonging to scheduled castes and tribes and expanding the scope of the Rashtriya Swasthya Bima Yojana (RSBY) – the state health insurance scheme. Like in the earlier years, the budget retained the emphasis on agricultural credit and rural infrastructure through the Bharat Nirman programme.

From an economic perspective, the budget was well-placed to maintain the growth momentum and continue fiscal consolidation. Riding on the buoyant economic activity encouraging a positive outlook for revenue collections, the budget has projected increase in both tax and non-tax receipts. Better revenue collections and expenditure management is expected to maintain fiscal consolidation, which has seen revenue deficit declining to 3.4 per cent in 2010-11. The budget expects effective revenue deficit[4] to decline to 1.8 per cent of GDP in 2011-12. Fiscal deficit is projected to decline to 4.6 per cent of GDP in 2011-12 from 5.1 per cent in 2010-11. While these targets are promising and indicate that the Government is back on the track of fiscal consolidation, lowering the fiscal deficit will depend upon mobilisation of capital receipts through sale of equity in public sector undertakings. The track record of the Government has not been particularly good in this respect. Unless public sector equities are sold off in a planned manner, revenue receipts may not be adequate, since unlike the last year, receipts from 3G telecom auctions are not going to materialise this year.

How does the budget score on economic and political objectives? On the economic front, there may be some disappointment over the delay in introducing Goods and Services Tax (GST). There will be cheer though over operationalisation of the Direct Taxes Code (DTC) from 1 April 2012. The budget appears to have performed reasonably well within the

[3] These are scholarships for children below the 10th standard.
[4] This is excluding grants for creation of capital assets.

confines of its mandate though many might have expected some innovative measures for tackling supply shortages and price rises. On the political front, the budget has made an attempt to answer criticism on growth of black money and corruption. In view of the impending state elections and the discontent among people over high prices and bad governance, it has tried to placate people by avoiding sensitive measures like cutting subsidies and by extending income tax reliefs. But these may be too little to influence outcomes in upcoming elections. The budget's political impact might be diluted due to lack of signals on a firm action agenda.

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