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India Budget 2016: Old Economics, New Politics

India's latest Budget focuses on the rural sector and the economically vulnerable sections and makes large allocations for agriculture and social sector programmes without compromising on fiscal discipline. It also shows the intention of the Narendra Modi Government to acquire a pro-farmer and poor-friendly image by deploying politically powerful economic tools like rural employment guarantee and direct transfer of subsidies. These measures, initially employed by the previous Congress administrations, are now being used by the ruling Bharatiya Janata Party (BJP) for securing political capital.

Amitendu Palit¹

Most commentators on India's latest Budget – the third from the Narendra Modi Government and presented by Finance Minister Arun Jaitley on 29 February 2016 – describe it as an overtly 'political' budget. The more critical among the experts label the budget as the BJP's effort to appease politically significant constituencies, primarily the rural population, small businesses and lower-middle-income salaried households; as a response to the party's poor performance in the Bihar State Assembly elections a few months ago; as well as an economic package with an eye on the State elections that

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loom large on the horizon now (in Assam, Kerala, Tamil Nadu, West Bengal and Uttar Pradesh).

Budgets in India are always tailored to achieve political objectives. While these might be implicit and overshadowed by larger macroeconomic objectives, the allocation of the Central Government's public finances through the budget is never disconnected from securing subtle political goals. The success of a 'good' budget, measured by its acceptance in different constituencies – rural, middle class, industry, stock market and, of course, the 'pundits' – depends on its ability to combine good economics with good politics. Like all its predecessors, the current Budget too tries hard to combine good economics with good politics.

Rural Sector, Economics and Politics

The context of the Budget was set a day before its presentation by the Prime Minister himself, when he announced the grand target of doubling farmers' incomes by 2022.² The Budget articulated the road map for achieving the target by announcing a slew of measures aiming to augment rural infrastructure and provide greater support to livelihoods including ramping up irrigation and ground water resources, modernising agricultural marketing and reducing the debt burdens of farmers.³ An interesting proposal, which could otherwise have attracted political opposition, was carefully woven into the larger framework of revitalising the farm sector: 100% foreign investment in the marketing of food products manufactured in India. This would allow foreign retailers to expand their foothold in India's huge food and agro-processing industry.

While this was an example of good economics complementing good politics, the emphasis on the rural sector included another couple of similarly virtuous aspects, notably 100% electrification of villages by May 2018 and revamping the programme

² 'PM Modi: Target to Double Farmers' income by 2022', *The Indian Express*, 28 February 2016; <http://indianexpress.com/article/india/india-news-india/farmers-rally-bareilly-target-to-double-farmers-income-by-2022/>

³ 'Key Features of Budget 2016-17', <http://indiabudget.nic.in/ub2016-17/bh/bh1.pdf>

of modernising national land records. The large devotion of funds to the MNREGS (Mahatma Gandhi National Rural Employment Guarantee Scheme), however, makes one wonder what the government's strategy for reviving rural incomes and consumption would have been, at least in the short-run, had the earlier government not institutionalised this rural jobs programme.

More Economics and Politics

The Budget carried forward good politics by connecting to vulnerable sections of the society, which cut across rural and urban areas, and include the poor, elderly and the middle class. The targeted focussing of subsidies by providing cooking gas connections to the BPL (Below Poverty Line) households is a rational use of the savings on subsidies secured as a result of affluent households giving up subsidies on cooking gas. An expanded health-care cover for senior citizens is also a welcome measure, though the establishing of national scheduled-caste-and-tribe hubs in partnership with industry associations appears a knee-jerk attempt to deflect the criticism of the Government's perceived lack of commitment to societal and caste-based reservations. The last burst of good politics in the garb of good economics was the effort to provide income tax relief to the urban middle class – a core constituency of the BJP – by enlarging deductions on income tax at the lower end of the income tax slabs and facilitating home loans.

Fiscal Consolidation

The challenge in committing large resources to the welfare of politically important constituencies was to manage the public finances in a manner that would not endanger fiscal consolidation. The Budget has not deviated from the Modi Government's commitment in this regard and has stuck to an annual phased reduction in fiscal deficit as a proportion of the Gross Domestic Product (GDP).⁴ This is in spite of a major debate

⁴ Fiscal deficit for FY 2015-16 has been maintained at 3.9% of GDP, as indicated in the earlier Budget, while the deficit for FY 2016-17 has been budgeted at 3.5% of GDP. <http://indiabudget.nic.in/ub2016-17/bag/bag11.pdf>

in the run-up to the Budget over whether the government should abandon fiscal prudence and adopt expansionary fiscal policies for reviving investment in the economy.

Maintaining fiscal consolidation in the face of large step-ups in rural and social sector expenditures required mobilisation of greater revenues from some quarters. Some of these will be accruing from greater tax collections, particularly the additional surcharge on taxes collected from the highest income group and more indirect taxes, such as the new infrastructure, clean energy and agricultural duties levied on taxable services. But proportionally greater revenue would be mobilised from non-tax sources. The fine print in the Receipts Budget reveals the more important among these sources as greater dividends from the Central public sector enterprises, and most importantly, receipts from communication and energy services.⁵ The former points to mobilisation of revenues from telecom spectrum auction and licence fees from existing and new telecom service providers and the latter indicates efforts to earn revenue by granting new energy exploration licences. Needless to say, not all of these assumptions are entirely fool-proof and will depend heavily on the government's ability to invite new investments in telecom and energy.

Political Course Correction

The key political content of the Budget is in the distinct shift it underlines in the targeted focus of the current government, which is keen on shedding its popular image of primarily serving the interests of business and industry in favour of a perception that aligns itself more closely to the farming, rural and economically vulnerable constituencies. This probably explains why 'Make in India' was hardly mentioned in this Budget compared with its conspicuous reference in the earlier budgets.

All these constituencies, traditionally, are those that the Congress has nurtured over the years, more so during the time when it steered the United Progressive Alliance (UPA) governments. The BJP is clearly keen on snatching these constituencies for long-term

⁵ Receipt Budget 2016-17; <http://indiabudget.nic.in/ub2016-17/rec/ntr.pdf>

political sustenance and is not hesitant to use politically powerful economic tools, such as the MNREGS and direct transfer of cash subsidies, for the purpose. Ironically, these were all measures introduced by the Congress and are now being utilised in a bid to marginalise the Congress. The Congress failed to reap the political capital of the economic measures it took. It remains to be seen whether the BJP will succeed in doing so.

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