FACTUAL CORE

INTERPRETATION

Union Budget: Contours & Dimensions

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It would be good for the government not to pay much attention to the misconceived theories that public provisioning for the poor is equivalent to 'populism' and would lead to higher fiscal deficit and low GDP. On the other hand, steps to improve public provisioning of basic necessities would definitely augur well for the overall growth of the economy by bringing down the levels of social and economic inequalities and would go a long way to achieve a sustained path of development

THE UNION Budget 2014-15 comes as the first holistic policy document of the new government, which is expected to deal with a range of issues plaguing the country through fiscal policy measures. This government is also faced with formidable challenges in terms of fulfilling high expectations of a large number of people from this budget. Expectations from the government in its budget revolved mainly around tackling some of the major challenges confronting the Indian economy. As a run-up to the budget, the government had announced a number of policy changes such as, allowing FDI in defence, reforms in environmental clearances, allowing hike in prices of non-subsidized LPG cylinders, raising train fares by 14.2 per cent and freight rates by 6.5 per cent, and declaring potato and onion as essential commodities by bringing them under the Essential Services Maintenance Act (ESMA).

Major Economic Challenges

At present, the economy is burdened with three major problems. The first is the high rate of inflation led by an almost double digit rate of food price inflation. Food-articles have registered an inflation of 9.5 per cent, over the last year led by an increase in the prices of commonly consumed vegetables such as onion and potatoes and cereals. Second, there has been a significant slowing down of the rate of growth of GDP. The rate of growth of GDP at 4.5 per cent and 4.7 per cent in 2012-13 and 2013-14 respectively has been primarily due to the collapse in the industrial growth rates. The rate of growth of industry, provisionally estimated at 0.5 per cent, implies almost nil absolute increase in outputs in 2013-14 compared to the previous year. The growth rate in the agriculture sector has remained around 4 per cent in the last year. However, the rate of growth of the service sector, although still the highest at almost 9 per cent (Economic Survey 2013-14), has also been affected negatively. Finally, the third and the last problem faced by the economy in on the external side. The increase in the Current Account Deficit (CAD) specifically in the last year had raised the import bills substantially. Although, the Economic Survey 2013-14 reports a decline in CAD from 4.7 per cent of GDP in 2012-13 to 1.7 per cent of GDP in 2013-14, such declines do not appear to be sustainable given the measures, such as increased import duty on gold, to control CAD are temporary in nature.

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However, these problems on the economic front also lead to major challenges of economic and social inequalities confronting the new government. The spending gap between the rich and the poor in India has almost doubled in the last five years. The education and health indicators in India fare poorly in comparison to other developing countries. Every third illiterate person in the world is an Indian. Of approximately 200 million children in the 6-14 age-group, only 120 million are enrolled in school; more than 35 per cent of children drop out from school before reaching class VIII. India accounts for 21 per cent of the world's global burden of disease (WHS, 2013). India is home to the greatest burden of maternal, newborn and child deaths in the world. Infant Mortality Rate at 44 per 1000 live births in 2011 and Maternal Mortality Ratio at 178 in 2010–2012 (RHS, 2012) put India far behind the targets set by the global MDGs.

Access to land is directly linked with the concerns over food security, environmental sustainability and cycles of poverty. In India, rural landlessness has been on the increase as per government's own estimates. Social exclusion, discrimination and exploitation based on caste and gender inequalities in several of the above-mentioned aspects continue to persist. These often form the core of the uneven redistribution of the gains from economic growth.

Apart from health and education, inequality in terms of access to land and livelihood for a large section of rural population also constitute a major problem. Access to land is directly linked with the concerns over food security, environmental sustainability and cycles of poverty. In India, rural landlessness has been on the increase as per government's own estimates. Social exclusion, discrimination and exploitation based on caste and gender inequalities in several of the above-mentioned aspects continue to persist. These often form the core of the uneven redistribution of the gains from economic growth. The evidence for such exclusions is rampant in terms of access to essential services and other aspects of socio-economic development.

Keeping in mind the major economic and social problems, there is thus, a growing need for government intervention through pro-active policy interventions to remove such discrepancies. It also requires adequate provisioning in social sectors through annual budgetary outlays. The total budgetary spending on social sectors in India used to be a meager 5.3 per cent of GDP in 2004-05. Though it has increased over the last decade, the figure still lingers around 7 per cent of GDP. Of this 7 per cent of GDP of public spending on social sectors, the direct contribution from the Union Budget (i.e. excluding the direct spending from the State Budgets) has been around only 2 per cent of GDP. This level of public spending on social sectors is significantly lower than that of the developed as well as many developing countries.

The poor quality of infrastructure in these sectors (e.g. schools, hospitals, Anganwadi Centres etc.), the shortage of qualified and trained human resources for delivery of services (e.g. teachers, doctors, para medical personnel, Anganwadi Workers etc.), the shortage of human resources for management of the programmes (e.g. staff for monitoring and supervision as well as finance and accounts staff), the unacceptably low levels of unit costs for provisioning of various services in these sectors, are all manifestation of the deficiency of public resources in social sectors in India.

It is also disconcerting that India's public spending on social security payments for the poor has been negligible. The country's total public spending on social security for the poor (comprising the old age pension scheme, widow pension scheme, and disability pension scheme etc.) has been less than 0.15 per cent of GDP even in the most recent years.

It is in this context that the Union Budget 2014-15, raises expectations in terms of providing a comprehensive roadmap for addressing the above issues.

Policy Priorities

The budget speech of the Union Budget 2014-15 begins with a mention of most of the challenges indicated above. However, the policy priorities underlying the proposals and allocations in the budget do not seem to be much different from those of the erstwhile government. The policy paradigm followed in the last five years specifically was that of fiscal parsimony, with a certain adhocism in the approach towards public provisioning of essential services and social protection for the underprivileged sections. In the wake of the government's inability to step up the tax-GDP ratio, the approach was marked by expenditure compression policies followed by the government in order to contain the fiscal deficit, which eventually resulted in inadequate provisioning for the social sectors.

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The new government, on the other hand, has also been under pressure from the private sector to showcase its commitment towards a sustained, long term high rate of growth of GDP in its policies, implying a continuation of similar policy direction, minus the minimum adhoc support to social

Table A: Total outlay of Union Budget (in Rs. Crore)					
	2012-13 (Actuals)	2013-14 (BE)	2013-14 (RE)	2014-15 (IB)	2014-15 (BE)
GDP (at current market prices)	10113281	11355073	11355073	12876653	12876653
Total Union Budget	1410367	1665297	1590434	1763214	1794892
as % of GDP	13.9	14.7	14.0	13.7	13.9
Total Plan Expenditure	413625	555322	475532	555322	575000
as % of GDP	4.1	4.9	4.2	4.3	4.5
Total Non-Plan Expenditure	996747	1109975	1114902	1207892	1219892
as % of GDP	9.9	9.8	9.8	9.4	9.5

Source: Union Budget 2014-15

sectors displayed by the previous government. However, it is important to look at the Union Budget 2014-15 carefully in order to ascertain the broader policy direction that the new government has adopted, given that budgets are considered as one of the major fiscal policy instruments for the government that provides a roadmap for future policies.

Union Budget :Overall Magnitude

The total size of the Union Budget in 2014-15 has been pegged at Rs. 17.94 lakh crore as compared to Rs. 17.63 lakh crore in the Interim Budget (IB). Of this increase of Rs. 31000 crore, between the IB and the main budget, two-third is in the Plan Expenditure domain, which has increased from Rs. 5.55 lakh crore to Rs. 5.75 lakh crore while the remaining one third has been accounted for by Non-Plan Expenditure. The total expenditure in the Union Budget, 2014-15 is 13.9 per cent of GDP, compared to 13.7 per cent of GDP in the IB (Table A).

Resource Mobilisation Policies

On the resources side, the budget proposes to finance the incremental spending in the current fiscal year from the additional receipts targeted to come mainly from higher Non-Tax Revenue. This budget projects a total receipt of Rs. 2.12 lakh crore from Non-Tax Revenue while the figure for this head projected in the interim budget was Rs. 1.8 lakh crore. This is because the new government expects higher amounts to accrue from 'Dividends and Profits' (up from Rs. 77,229 crore to Rs. 90,229 crore, which includes Dividends from PSUs as well as Surplus of RBI, Nationalised Banks and Financial Institutions to be transferred to the government) and 'Non-Tax Revenue from Economic Services' (such as communication

Table B: Revenue and Capital Receipts as Share of GDP						
		2012-13 Actuals	2013-14 BE	2013-14 RE	2014-15 IB	2014-15 BE
A	Revenue Receipts	879232	1056331	1029252	1167131	1189763
	as % of GDP	8.7	9.3	9.1	9.1	9.2
	Of which,					
	Net Tax Revenue	741877	884078	836026	986417	977258
	as % of GDP	7.3	7.8	7.4	7.7	7.6
	Non-Tax Revenue	137355	172252	193226	180714	212505
	as % of GDP	1.4	1.5	1.7	1.4	1.7
B	Capital Receipts (net of Borrowings and other Liabilities)	40950	66468	36643	67452	73952
	as % of GDP	0.40	0.59	0.32	0.52	0.57
C	Fiscal Deficit	490190	542499	524539	528631	531177
	as % of GDP	4.8	4.8	4.6	4.1	4.1

Source: Union Budget, 2014-15

Note: A+B+C sum up to 13.9 percent which is the size of the current budget. The tax revenue figures are net of states' share. The gross tax revenue to GDP for India has been around 17 percent in the last few years.

Table C: Budgetary Outlays for Select Union Ministries

(Figures in Rs. Crore)

		2012-13 (Actuals)	**2013-14 (BE)**	**2013-14 (RE)**	**2014-15 (IB)**	**2014-15 (BE)**
1	**Agriculture** (including Special Central Asst. for State Plans, like, RKVY)	24254.42	29772.83	26070.87	29962.94	31062.94
	as % of GDP	0.24	0.26	0.23	0.23	0.24
2	**Consumer Affairs, Food and Public Distribution**	86676.52	91591.45	93339.86	115948.99	115952.63
	as % of GDP	0.86	0.81	0.82	0.90	0.90
3	**Defence** (including Defence - Civil Estimates)	230642.11	253346.51	253788.01	279202.87	285202.87
	as % of GDP	2.28	2.23	2.24	2.17	2.21
4	**Drinking Water and Sanitation**	12968.63	15265.70	12006.24	15266.85	15266.85
	as % of GDP	0.13	0.13	0.11	0.12	0.12
5	**Health and Family Welfare**	27885.19	37330.00	30847.31	38737.82	39237.82
	as % of GDP	0.28	0.33	0.27	0.30	0.30
6	**Housing and Urban Poverty Alleviation** (Figures for 2014-15 IB and BE include the BSUP and IHSDP components of JnNURM, which were earlier reported under MoF)	933.18	1468.02	1207.72	6008.62	6008.62
	as % of GDP	0.01	0.01	0.01	0.05	0.05
7	**Human Resource Development**	66054.67	79451.00	74621.30	81441.10	82771.10
	as % of GDP	0.65	0.70	0.66	0.63	0.64
8	**Minority Affairs**	2174.29	3530.98	3130.84	3734.01	3734.01
	as % of GDP	0.02	0.03	0.03	0.03	0.03
9	**Petroleum and Natural Gas**	97423.04	65188.41	85566.13	63543.00	63543.00
	as % of GDP	0.96	0.57	0.75	0.49	0.49
10	**Road Transport and Highways** (Figures include the Special Central Asst. for State Plans)	22536.58	31302.14	30338.53	31257.20	34345.20
	as % of GDP	0.22	0.28	0.27	0.24	0.27
11	**Rural Development**	53180.99	80250.50	61863.93	82261.46	83852.46
	as % of GDP	0.53	0.71	0.54	0.64	0.65
12	**Social Justice and Empowerment**	4939.72	6725.32	5723.35	6845.63	6845.63
	as % of GDP	0.05	0.06	0.05	0.05	0.05
13	**Tribal Affairs** (Including Special Central Asst. for State Plans)	3072.63	4295.94	3896.05	4397.96	4497.96
	as % of GDP	0.03	0.04	0.03	0.03	0.03
14	**Urban Development**	8465.00	10363.75	9548.20	19589.46	20009.46
	as % of GDP	0.08	0.09	0.08	0.15	0.16
15	**Women and Child Development**	17035.72	20440.00	18285.65	21093.88	21193.88
	as % of Total Union Budget	1.21	1.23	1.15	1.20	1.18
	as % of GDP	0.17	0.18	0.16	0.16	0.16

Source: Union Budget, 2014-15

services, roads and bridges, and receipts from power, petroleum, coal & lignite, new & renewable energy etc.). Also, it is important to be aware of the possible impact of a higher dependence on Non-Tax Revenue from Economic Services in a period of high inflation. The government also projects to raise Rs. 58,425 crore by way of divesting PSUs as compared to the target of Rs 51,925 crore in the IB. However, it is to be kept in mind that the targets are difficult to achieve given that in the fiscal year 2013-14, the disinvestments receipts have been at Rs. 20,841 crore compared to the targeted Rs. 55,814 crore.

The tax revenue, the most important source of revenue for the government, has been estimated at Rs. 977,258 crore as against the figure of Rs. 986,417 crore in the IB. Putting in place a 'stable and predictable tax regime' to spur growth and ensure an investor-friendly environment was shared as one of the top priorities for this government. In this regard, the primary focus in the domain of taxation should have been on efforts to step up the country's tax-GDP ratio, which is much lower than that in most developed countries and a host of other developing countries. At around 17 per cent of GDP, India's tax-GDP ratio constrains the fiscal policy space available to the government for providing resources for public provisioning of essential services and social protection for the poor and underprivileged sections. The revenue situation as per centage of GDP is provided below in Table B. It clearly shows that Net Tax Revenue as share of GDP remains stagnant and the rise in revenue receipts is based on marginal increases in non-tax revenue collection.

The budget speech of the Finance Minister did make substantive references to the proposed transition to Goods and Services Tax and the Direct Taxes Code. These proposed reforms would bring in stability in the tax laws as demanded by the private investors but in its present form, these would not be enough for the government to augment the country's tax-GDP ratio.

Also, according to the Union budget 2014-15, the aggregate amount of revenue foregone due to all kinds of exemptions in the central taxes is projected to be Rs. 5.73 lakh crore. This is equal to to 5 per cent of GDP for the year 2013-14, which is less than the 6 per cent of revenue foregone in 2012-13. The government has announced the retention of retrospective amendments which would help in curbing tax dodging. However, the budget proposals do need to have stronger measures towards reducing the amount of tax revenue foregone due to the plethora of exemptions in the central tax system. The budget speech of the Finance Minister did make substantive references to the proposed transition to *Goods and Services Tax* and the *Direct Taxes Code*. These proposed reforms would bring in stability in the tax laws as demanded by the private investors but in its present form, these would not be enough for the government to augment the country's tax-GDP ratio.

Public Expenditure Priorities

On the expenditure side, the allocations for most of the development sectors in this budget have either been retained at the same level as those proposed in the IB or have been marginally increased. As has been mentioned at the outset that Rs. 31000 crore more has been allocated in Union Budget 2014-15 compared to IB. Given this, major increases in allocations have been observed for Ministries of Defence and Road Transport and Highways by Rs. 6000 crore and Rs. 3000 crore respectively. Apart from this, allocations for most Ministries pertaining to social sectors have been retained at the same level or have been increased marginally. While most social sector Ministries such as the Urban Development, Health and Family Welfare, Women and Child Development show meagre increases by Rs. 500 crore and Agriculture and Human Resources by a little more than Rs. 1000 crore, the high allocations for Defence and Road and Transport does reflect policy priorities of the current government (Refer Table C).

In terms of some of the major Centrally Sponsored Schemes such as the National Rural Employment Guarantee Scheme (NREGS), National Rural Health Mission (NRHM), Sarva Shiksha Abhiyan (SSA), etc, the allocations however, have been retained at the same level as the IB figures. This implies inadequate increases over allocations made in the 2013-14 RE (Table D). The allocation for MGNREGA is pegged at Rs. 34000 crore and that for Food Subsidy at Rs. 1.15 lakh crore. However, with the apprehension of drought conditions in certain parts of the country this year due to deficient monsoon, the allocations for MGNREGA and Food Security needed to be stepped up. Also, there is an unpaid wage bill of Rs. 5000 crore pending since last fiscal year in MGNREGA. Removing that component of pending wages, the allocations seem to be largely inadequate. On the food security front, the deficiencies in financing the National Food Security Act (for which CBGA's estimation indicates the requirement of resources worth Rs. 1.37 lakh crore for 2014-15) would persist this year as well.

While most social sector Ministries such as the Urban Development, Health and Family Welfare, Women and Child Development show meagre increases by Rs. 500 crore and Agriculture and Human Resources by a little more than Rs. 1000 crore, the high allocations for Defence and Road and Transport does reflect policy priorities of the current government.

Table D: Allocations across Major Centrally Sponsored Schemes (in Rs. crore)				
Major Schemes	**2012-13 (Actual)**	**2013-14 (RE)**	**2014-15 (IB)**	**2014-15 (BE)**
Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA)	30274	33000	34000	34000
Ajeevika/National Rural Livelihood Mission (NRLM)	2195	2600	3859	4000
Indira Awaas Yojana (IAY)	7869	13184	16000	16000
Pradhan Mantri Gram Sadak Yojana (PMGSY)	8884	9700	13000	14391
Jawaharlal Nehru National Urban Renewal Mission (JNNURM)	5357	1040	11247	11270
Swarna Jayanti Shahari Rozgar Yojana (SJSRY)/ NULM	794	778	1003	1003
Rashtriya Swasthya Bima Yojana (RSBY)	1002	789	1434	1434
Sarva Shiksha Abhiyan (SSA)	23873	26608	27758	28258
Mid- Day Meal (MDM)	10849	12189	13125	13215
Rashtriya Madhyamik Shiksha Abhiyan (RMSA)	3172	3123	5000	5000
National Health Mission (NHM)	18047	16396	24691	21912
Pradhan Mantri Swasthya Suraksha Yojana(PMSSY)	989	1377	1456	1906
Rastriya Swasthya Bima Yojna(RSBY)	1002	789	1434	1434
National Rural Drinking Water Programme (NRDWP)	10490	9700	11000	11000
Nirmal Bharat Abhiyaan (NBA)	2474	2300	4260	4260
Rashtriya Krishi Vikas Yojana (RKVY)	8400	7089	9864	9954
National Food Security Mission (NFSM)	1723	1738	2205	2030
National Mission for Empowerment of Women (NMEW)	10	31	90	90
Integrated Child Development Services (ICDS)	15712	16432	18691	18691

Source: Union Budget documents, 2014-15, 2014-15 (I).

In terms of universalizing healthcare, the budget proposes free medicines for all and long term interventions for improved health infrastructure. The intention of setting up new institutions under healthcare, such as the four new AIIMS, rural health research centres and new medical colleges, expressed in the budget, is certainly a welcome step. Also, the increases in excise duties for tobacco and related products and aerated colas would also have a positive impact. The budget does acknowledge the shortage of staff in health and education sectors but is yet to make adequate provision to this respect. However, the issue of shortage of allied healthcare professionals, specialized Doctors and Nurses for better delivery of public healthcare services as well as that of shortage of staff in school education, both of which have been acknowledged in the latest Economic Survey, do not find much emphasis in this budget.

A number of new schemes and pilot projects for safety of women and gender sensitization have been listed out in the budget speech, but most of these have small allocations. The announcements do raise doubts about utilization of even the existing amount of resources available under the Nirbhaya Fund in 2014-15. There have been few initiatives taken by the Union Ministries to seek these resources for carrying out substantive interventions for tackling violence against women. A large number of schemes with an allocation of Rs.100 crore or less have been proposed for a range of sectors/sections of population including senior citizens, tribal development, rural youth, welfare of girl children, safety of women and gender sensitization, minorities, urban transport, good governance, climate change, R&D in agriculture, tourism and so on, without any clear guidelines for implementation. While these announcements do cater to the much needed sectors/sections of the population and are in the right direction, the allocations are paltry and there are no guidelines. These would need to be developed and allocations would have to be stepped up immensely for such schemes to have the desired impact.

As regarding agriculture and allied sectors, the emphasis on crop insurance, soil health, agricultural marketing, animal husbandry and fisheries etc. is certainly welcome. However, the issue of income security for farmers seems to have missed the attention of the government. The creation of a Price Stabilization Fund (for cereals and vegetables) with an allocation of Rs. 500 crore is perhaps the only concrete measure in the budget to deal with the problem of rising prices of essential commodities, however the guidelines for the need to be spelt out.

There has also been a growing need for additional resources for strengthening the administrative machinery like the Central Board of Direct Taxes (CBDT), Central Board for Excise and Customs (CBEC), Financial Intelligence Unit, Enforcement Directorate etc. that deals with issues of black money. These institutions have been struggling with shortage of staff to the tune of 30,000 as of 2012 as per CBDT's figures. In order to tackle the problem of corruption, a lot was expected from the budget on this front.

Finally, the new proposals in the Union Budget 2014-15 seem to be centred heavily around the development of infrastructure and transport based on a renewed approach to the PPP model of development. However, the budget speech did not mention any policies or interventions to address the possible concerns of displacement due to urbanisation and land acquisition issues.

Centre-State Sharing of Resources

Apart from the above concerns, another important concern linked to the long-term expenditure commitments of the Centre pertains to the sharing of resources between the Central Government and the State Governments which would have a long term bearing upon stable and responsive governance in the country. Over the last two decades, i.e. since early 1990s, fiscal policies adopted in India have strengthened the Central Government's position vis-à-vis the States in terms of control over fiscal resources. The overall quantum of fiscal resources transferred from the Central Government to the States has not kept pace with the growth in expenditure commitments by the States. Moreover, the composition of the overall quantum of fiscal resources transferred from the Central Government to the States has changed in terms of the share of untied resources within such total transfers falling in the last one and a half decades. The policies of the Central Government seem to have neglected the need for greater magnitudes of untied resources being transferred to State Governments.

The B. K. Chaturvedi Committee on restructuring the CSSs, which submitted its report in 2011, had recommended increasing the Central Assistance (CA) to State and UT Plans. In a bid to accept the Committee's recommendations, the erstwhile government reported a large part of the money meant for CSS under CA to State Plan in the Interim Budget. Now, Union Budget 2014-15 has followed the same format of reporting allocations for the large CSS under CA to State Plan. As a result, there has been a drastic increase in the quantum of the Central Assistance to State Plans from Rs. 1,11,313 crore in 2013-14 RE to Rs. 3,30,764 in 2014-15 BE. However, this method of reporting has only inflated the CA to State Plan artificially. In practice, in most of the schemes reported under the CA, there would only be a 10 per cent flexible component in the funds for the States and the rest of the funds would still be tied to the respective scheme guidelines.

However, in terms of transparency and accountability of government finances, the decision to discontinue completely the contentious practice of Central scheme funds bypassing the State Budgets, the Union Budget 2014-15 comes as a welcome step towards increased accountability for government finances.

Under the given economic circumstances of increased inflation and low GDP growth, it is most important for the new government to focus on generating livelihood opportunities as well as stepping up the coverage and quality of public provisioning of essential services and social protection measures. It would be good for the government not to pay much attention to the misconceived theories that public provisioning for the poor is equivalent to 'populism' and would lead to higher fiscal deficit and low GDP. On the other hand, steps to improve public provisioning of basic necessities would definitely augur well for the overall growth of the economy by bringing down the levels of social and economic inequalities and would go a long way to achieve a sustained path of development. ❑

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