Shopping for votes

The interim budget casts away established conventions and targets votes with sops

As election-eve budgets go, Interim Budget 2019-20 must rank as one of the most politically expedient ones this country has seen. The shadow of the general election falls squarely on the budget proposals, which are aimed at seeking votes in the name of various schemes that rain cash on beneficiaries. Whether the strategy will work at the hustings remains to be seen. But there is no denying that a lot of thought has gone into identifying and targeting the sections of population across social segments that are in distress and unhappy with the Centre for a variety of reasons. There is an income support scheme for farmers who are reeling under the impact of falling realisations for their crops, and a pension scheme for informal sector workers earning up to ₹15,000 a month. There are income tax concessions for the middle class that have been carefully framed to target the lower rung. The ₹6,000 a year income support to farmers will benefit 12 crore households, which is almost half of the total number of households. Similarly, the increase in standard deduction from ₹40,000 to ₹50,000 may be small but it will cover three crore taxpayers, which is again almost half of the 6.8 crore taxpayers. The income tax rebate on those with taxable annual income of up to ₹5 lakh a year will benefit three crore middle class voters that includes traders, small businesses, those who have just joined the formal workforce and pensioners.

While these sops will benefit sections of the population, the question is whether it is correct for a government that will be in power for less than two months in the next financial year to write into the statute books proposals that are permanent. Though some past governments have announced sops in their interim budgets with an eye on elections, this budget has gone much further by announcing very significant measures. In political terms, the strategy cannot be faulted as it appears to have put the Opposition in a difficult spot – protesting too much about the concessions given to those in distress may be counter-productive. That said, some of these ideas may actually work in economic terms as they put money in people's hands. The housing-related tax proposals can give a leg-up to the real estate sector, which is a job-creator and is now in trouble. The sops come with a cost, though. The Centre will miss the glide-path for reducing the fiscal deficit, yet again. The estimated slippage of 0.10 percentage point is not significant if we assume that the concessions will spur spending by the beneficiaries. This is, of course, assuming that the gross tax revenue projection of ₹25.52 lakh crore, which is a 13.5% growth over the revised estimates of 2018-19, is achieved. But this arithmetic will be the headache of the next government.

Back to crisis

The handling of the fresh unrest in Zimbabwe by Mugabe's successor belies hope of change

The bloody unrest in Zimbabwe suggests that President Emmerson Mnangagwa's political honeymoon is over. The veteran of the struggle for freedom was the beneficiary of the overthrow of strongman Robert Mugabe in November 2017. Mr. Mnangagwa raised hopes in the run-up to the July general election, promising free and fair polls and inspections by international observers. But his victory proved controversial as allegations of vote-rigging by the ruling ZANU-PF machinery in the rural areas began to bear echoes of the Mugabe era. In six months since his election, the ex-security chief's pledge to distance himself from his military legacy and open the economy for foreign investment has been put to severe test. A case in point is Mr. Mnangagwa's handling of the fallout of the recent steep fuel price hike in which over 10 protesters are said to have been killed. Zimbabwe's defence forces have come under severe condemnation for the general crackdown, involving arbitrary detentions, torture and a country-wide Internet blackout. Harare's main opposition, the Movement for Democratic Change, has faced attacks on its main office, while trade unions behind the nation-wide strike appear resolute in their bid for redress. The crisis forced President Mnangagwa to call off his trip to the World Economic Forum in Davos. But his attempt to put the blame both on the security forces and the protesters may merely point to his own political vulnerability. The official response to the mass opposition against fuel price hikes were directed by his deputy, Constantino Chiwenga, when the President was away. Mr. Chiwenga was the mastermind behind the 2017 coup, and the man he installed must assert his authority to ensure accountability and respect for the rule of law.

The sudden doubling of fuel prices has amplified Zimbabwe's chronic shortage of U.S. dollars to sustain the import of basic goods. Following the hyper-inflation of the previous decade, the country abandoned its own currency. The electronic alternative, "bond notes" that were introduced without physical backing, unleashed a vicious cycle of hoarding and price inflation. The decline in the value of the surrogate currency against hard money has caused distress among public servants. Many businesses have folded up for want of adequate foreign currency. Mr. Mnangagwa's government has moved to reduce the issue of electronic debt, and to curtail the ballooning fiscal deficit. While these may be steps in the right direction, they are too small as incentives to entice a deeply sceptical investor community that was once turned away. Mr. Mnangagwa has his task cut out: to shore up his own base in the ZANU-PF establishment and to restore calm across the country. Equally, he cannot abandon the difficult path of reform, which is the only guarantee of stability in the long term.

Distributing the rewards of reform

The expansive Budget reflects the fruits of fiscal consolidation, tax reform and streamlined delivery of subsidies

ASHIMA GOYAL

SANDEEP SAXENA

Since Budget 2019 is the last before the general election this year, it was widely expected to be an assessment of the government's performance. There was a debate on whether the Budget should have announced any substantive measures since they would bind the next government, post-election.

It turns out the report card is good enough to create space for some substantial measures. Painstaking fiscal consolidation, tax reform, more efficient delivery of subsidies, and a rise in the share of capital expenditure, have created the space to reward tax-payers as well as announce a relief measure for farmers in distress without substantially compromising fiscal consolidation. It is fair that this government, which imposed the painful reforms and undertook difficult action, should also distribute some rewards of that reform.

Rewards of higher growth

It may be asked how payment of ₹20,000-₹75,000 crore can be made to farmers and the tax benefits given with only a marginal impact on the fiscal deficit. But a larger size economy can afford to spend larger absolute amounts with only a small rise in deficit ratios and borrowing requirements. The fact that India is the sixth largest and fastest growing economy in the world has some advantages as well as responsibilities to equitably share the rewards of growth.

Demonetisation, the goods and services tax (GST) and other steps towards formalisation increased the tax base, and it follows that tax rates can themselves be cut. Again it is fair that the aam aadmi, who bore some of the costs of reform, should now benefit from the success of these. It makes good economic sense to move towards a system of a wider base and lower rates. Tax receipts have grown from 10% of GDP – a level at which they had stagnated since the tax cuts after the global financial crisis – to 12%. Although the GST has not yet resulted in a rise in indirect tax ratios above 5.5%, it is likely to do so in the future as it stabilises. The transfers to farmers and tax cuts amount to only 0.4% of GDP this year and are partially funded by a 0.3% rise in tax ratios.

The JAM (or Jan Dhan-Aadhaar-Mobile) complex is the other major set of reforms that enable a smaller expenditure to have a larger impact on social welfare. Jan Dhan bank accounts opened through the country and the Aadhaar data base make a cost-effective Direct Benefit Transfer (DBT) possible for farmers.

Rewards of lower inflation

A slight rise in fiscal deficits to fund transfers to farmers does not threaten macroeconomic stability when inflation is low and food prices are crashing. In fact they are likely to help stabilise prices so that farmers do not cut production in the next crop cycle.

Moreover, this year, the revenue deficit has been maintained, the primary deficit been reduced, and expenditure on capital account been increased. Better quality of government expenditure as well as the GST tax cuts, reductions in obstacles to inter-State trade, and soft commodity prices will keep inflation low.

The Budget points out that highways are being built at the rate of 27 km per day, which makes India the fastest builder in the world. Railway safety has improved. Better implementation and reduction in waste brings down costs across the board. The shift in the Budget date to earlier in the year and the focus on spending in the first half have resulted in a better achievement of sectoral spending targets this year.

Government borrowing

The size of government borrowing is larger than what the market anticipated, and this has raised G-Sec rates. The rise in gross borrowing is because of higher redemptions but net borrowing is similar to that last year. There was a sharp rise in G-Sec yields that year. As a result, interest payments as a ratio to GDP rose to 3.2 against the budgeted 3.

But 3.4% of GDP is not a large fiscal deficit, and market conditions are likely to be more supportive of government borrowing this year. First, the international rate rise has peaked, with the U.S. Fed turning dovish and indicating that there will be no more rise; it is likely to maintain its balance sheet. Emerging market inflows are set to rise, creating demand for G-Secs up to the current cap of 6% of the domestic market. Soft oil prices will encourage foreign investors to return to Indian markets. But since global growth is slowing, inflows are unlikely to be as large as they were in 2017. Therefore, there will be more room for open market operations (OMO) from the Reserve Bank of India that support the debt market. Softening interest rates will also make banks more willing to hold G-Secs.

When international demand is slowing, it is important to maintain domestic demand. Therefore, tax cuts, more income to farmers and various schemes to improve demand for housing, which has been under stress, are all appropriate.

While the budgetary contribution to capital expenditure remains at about 1.6% of GDP there is a rise in internal and extra-budgetary resources, which are now larger than gross budgetary support. But public enterprises must be able to raise and use internal resources. This is a healthy sign of efficiency, market viability and reduced dependency on the government. Even market borrowing by such enterprises used for investment when private investment remains low, is likely to crowd in (rather than crowd out) private investment. It will raise demand which will induce more private investment. The latter remains still constrained by low demand at present, except for a few sectors where capacity constraints are appearing.

Improving efficiencies

Coming back to the issue of binding the next government, post the election, it is necessary that sharing of growth benefits is done in ways that sustain growth, reduce distortions, and improve capabilities to participate in growth.

Well-targeted transfers can be made without destroying fiscal consolidation and creating macroeconomic vulnerabilities. As competitive populism creates talk of unfunded universal income schemes, or farm loan waivers that hurt growth of farm credit, it is better to bind the next government to schemes that are less distorting.

The Budget continues the effort to reduce transaction costs and improve compliance incentives. Stamp duty amendments that seek to tax just one transaction, which will be shared across State governments, on the basis of the domicile of the buying client, will reduce a major market irritant, increase transactions and take the country further toward becoming one effective market.

As income tax returns rise, a less than 0.05% will be selected for scrutiny in non-discretionary, machine-based ways without any interface between the tax-payer and the examining officers, thus reducing potential tax-payer harassment.

India is a very difficult country to change. Problems remain, but the rewards are beginning to appear and should be greeted with cheers.

Ashima Goyal is a member of the Prime Minister's Economic Advisory Council

The return of targeted cash transfers

Schemes promising cash to the poor absolve the state of its responsibility to provide basic services like health

HIMANSHU

With the announcement of a minimum income guarantee (MIG) scheme by the Congress president, the agenda of universal basic income (UBI) has moved from an academic discussion to the political arena. As of now the proposal of MIG is only an electoral promise with no further details available. On Friday, the general budget announced a scheme, Pradhan Mantri Kisan Samman Nidhi, under which vulnerable landholding farmer families, having cultivable land up to 2 hectares, will be provided direct income support of ₹6,000 a year. The appeal of some form of income transfer is now seriously being discussed by all political formations. The idea is not new and has been in discussion for some time among academics in India but attracted attention after it was proposed in the Economic Survey of 2017.

Who will benefit?

In simple terms the proposal of transferring some income to every citizen is built on the twin principles of universality and a notion of minimum basic income to those living at the poverty line. The principle of universality is at the core of it given the problems of targeting. But some form of income support to those who are unable to participate in labour market has been there in most countries in some form or other including in India, like the National Social Assistance Programme (NSAP) pensions for widows, elderly and disabled.

Although the idea of UBI has been in discussion for decades, no country has implemented it. While a proposal for UBI was rejected by a three-fourth majority in Switzerland, Finland which started a pilot has now discontinued it. But even in Finland, the pilot was not a strict UBI but a social protection scheme aimed at only the unemployed. While there have been some pilots by NGOs in developing countries in Asia and Africa, they have varied in content of transfer and coverage with only few being fully universal and only the Namibia pilot experiment provided income transfer to people in the poverty line.

The proposals in the Indian context have mostly been for a targeted income transfer scheme and not UBI. In developed countries, the UBI is supposed to supplement existing social security provisions and a top-up over and above universal provision of health, education and so on. In the Indian context, most arguments in favour of UBI are premised on the inefficiencies of existing social security interventions and seek to replace some of these with direct cash transfers.

GETTY IMAGES

Not leakage proof

It is not just the fascination for targeting the poor which is at the core of these proposals but also a belief that all existing forms of social security transfers are inefficient. While there is certainly some exaggeration in such claims, it is not true that the system of cash transfers is efficient and therefore leakage proof. Several studies on cash transfers including one by J-PAL South Asia for NITI Aayog found that cash transfers are not greatly superior in terms of leakages compared to other schemes of in-kind transfer such as the public distribution system (PDS). On the other hand, numerous studies have documented that a move towards universalisation and use of technology enabled Chhattisgarh and Tamil Nadu to reduce leakages in the PDS. But the real message from these experiments is also that universalisation is the key to efficient delivery of services against targeting proposed by these cash transfer schemes.

The obsession with cash transfers also comes with an understanding that these will take care of all problems. The current sets of proposals claim these as silver bullets for agrarian crisis to malnutrition to educational deficit and also a solution for the job crisis. This is a tall order with different reasons for persistence for some of these. A good example is the public distribution system (PDS) where it is clearly established that in-kind transfers are twice as effective in increasing calorie intake compared to equivalent cash transfer.

The real issue with the approach of a targeted cash transfer scheme is that it envisions the role of the state to only providing cash income to the poor. This kind of 'Robin Hood' approach seeks to absolve the state of its responsibility in providing basic services such as health, education, nutrition and livelihood. But it is also iniquitous since it seeks to create demand for services without supplying the services, leaving the poor to depend on private service providers. There is now sufficient evidence which shows that privatisation of basic services such as health and education leads to large scale exclusion of the poor and marginalised. In any case, India is among the countries with lowest expenditure to GDP ratio as far as expenditure on health, education and so on are concerned.

Jobs, best antidote

The best antidote to poverty is enabling citizens to earn their living by providing jobs. For those who are willing to work, schemes such as the Mahatma Gandhi National Rural Employment Guarantee Scheme should be strengthened to enable them to earn decent incomes. Similarly, the crisis in agriculture is unlikely to be resolved by income transfers. But even with free and universal access to public services and access to livelihood opportunities, there may be a role for cash transfers, particularly for those who are unable to access the labour market or are marginalised due to other reasons. The NSAP seeks to do exactly that by providing pensions to elderly, widows and disabled. But even for these vulnerable and marginalised groups, the Central contribution to pensions has been only ₹200 per month. If governments cannot ensure decent incomes to the poor, then the issue is not of details of minimum income transfers but that of intent of those who are promising to eradicate poverty through income transfers. On this, there is no ambiguity.

Himanshu is Associate Professor, Centre for Economic Studies and Planning, School of Social Sciences, Jawaharlal Nehru University, New Delhi

LETTERS TO THE EDITOR

Letters emailed to letters@thehindu.co.in must carry the full postal address and the full name or the name with initials.

Budget 2019

The Budget is to be seen more as an election manifesto than what it is – an interim budget. The government has chosen to kick the can down the road. How resources will be found and whether the schemes announced will be realised is anybody's guess. About the pension scheme? How much funding will be needed to ensure an assured pension? The inability to present the customary Economic Survey and the controversy around unemployment data reflect badly on the government.

MANOHAR ALEMBATH,
Kannur, Kerala

■ Many within the Bharatiya Janata Party are well aware that even with a flood of promises, most people are not going to believe them as the ruling party has been unable to fulfil any of its significant and earlier promises. The fact is that the BJP did not pay much attention to issues of public interest even after four and a half years of rule. The Opposition did take some of the wind out of the sails of the BJP. Sugar-coated interim budgets by the government at the fag end of its term are only to win the elections.

MOHAN ARIMBOOR,
Thrissur, Kerala

Big data on jobs

It is very clear that there has been a yawning gap between what was promised by Prime Minister Narendra Modi and what the common man got on his plate (Page 1, "'Unemployment data based on draft report'," February 1). Demonetisation is sure to have had an impact on employment, with the informal sector badly hit. It was a move that did not help root out black money either, as trumpeted. With the general election round the corner, the BJP-led National Democratic Alliance government has little time to resort to any course correction in an issue which is critical to nation development. It is unfortunate that industrial bodies too have not made an effort to make their own evaluation of the job market or even cautioned the government about its fallout on the economy. There would not have been any need for 10% reservation for the economically backward had the government, soon after assuming power, tackled in right earnest the issue of employment generation.

V. SUBRAMANIAN,
Chennai

■ It is unfortunate that the issue of unemployment is being raked up by the Opposition only at election time even as millions of unemployed youth are still struggling to make a decent living. Whatever may be the facts in the NSSO report, on unemployment data, the ground reality is that the rate of unemployment is growing by leaps and bounds every successive year. Job creation is grossly disproportional to the exponentially growing numbers of employable youths in the country. Agrarian distress caused by vicissitudes of the monsoon and low farm prices of produce as a result of middlemen and government policies have made farming less attractive for rural youth. There need to be aggressive transformational structural reforms to attract huge private investment which in turn facilitates massive job creation.

N. SADHASIVA REDDY,
Bengaluru

■ The all-time high unemployment rate can be safely cited as a manifest failure of the government. It is no wonder that jibes such as 'Pakodanomics' and 'Nomo jobs' stick and gain currency.
Modi-nomics has come to be equated with 'jobless growth'. The hope and expectation that the Prime Minister would tackle the obstinate problem of unemployment has come to nought. The ranks of the unemployed are swelling by the day.

G. DAVID MILTON,
Maruthancode, Tamil Nadu

MORE LETTERS ONLINE:
www.hindu.com/opinion/letters/

CORRECTIONS & CLARIFICATIONS:

In the graphic, "The new Arctic normal" (World page, Feb. 1, 2019), in the fourth point under the heading "How it is linked to global warming", the reference to *solar* vortex should be corrected to read as *polar* vortex.

The headline, "BJP eyes to harness discontent in *JD(U)* and Congress" (Feb. 1, 2019, some editions) is wrong. It should have been *JD(S)* and Congress.

The last paragraph of the report headlined "Jaya panel calls doctors for re-examination on Feb. 5, 6" (Feb. 1, 2019, some editions) talked about an affidavit filed by the Apollo Hospitals which was subsequently *withdrawn*. Actually, it was *returned*.

An OpEd page article titled "The case for minimum basic income" (Jan. 31, 2019) wrongly expanded KALIA as Krushak Assistance for Livelihood and Income *Assistance*. It should have been Krushak Assistance for Livelihood and Income *Augmentation*.

It is the policy of The Hindu to correct significant errors as soon as possible. Please specify the edition (place of publication), date and page. The Readers' Editor's office can be contacted by Telephone: +91-44-28418297/28576300 (11 a.m. to 5 p.m., Monday to Friday); Fax: +91-44-28552963; E-mail:readerseditor@thehindu.co.in; Mail: Readers' Editor, The Hindu, Kasturi Buildings, 859 & 860 Anna Salai, Chennai 600 002, India. All communication must carry the full postal address and telephone number. No personal visits. The Terms of Reference for the Readers' Editor are on www.thehindu.com