Budget for 2014-15: Not much different from the interim budget

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The new government got a little over a month to carry out the budget preparation process, which usually takes up to five months in every financial year. Hence, it would not be very reasonable to expect significant changes in this Union Budget for 2014-15 as compared to the interim budget for 2014-15 presented in February this year by the erstwhile UPA - II government. But, more importantly, the erstwhile UPA - II and the present NDA government seem to have the same fundamental views on fiscal policy. As a result, the first budget of the new government offers few changes in terms of policy priorities from the interim budget, but it does reinforce some of the pro-market inclinations that had defined the last three budgets of the UPA - II government.

The total size of the Union Budget in 2014-15 was projected in the interim budget to be Rs. 17.63 lakh crore, while this budget proposes a slightly higher figure of Rs. 17.94 lakh crore. Of this increase, between the interim budget and the main budget, of Rs. 31000 crore, two-third is in the Plan Expenditure domain (going up from Rs. 5.55 lakh crore to Rs. 5.75 lakh crore) while the remaining one third has gone up in the Non-Plan Expenditure part (from Rs. 12.07 lakh crore to Rs. 12.19 lakh crore).

It is worth noting here that the Planning Commission, which supervises and recommends the allocations for all Plan schemes across various development sectors, has not been revived by the new government yet. Given the recent media reports on calls for taking away the budgetary role of the Planning Commission, one also wonders what would be the fate of this institution in future. In this context, we must note that there have been a number of problems with the way the Planning Commission has influenced public expenditure policies over the last decade, especially those pertaining to the imposition of a greater centralization of the public expenditure framework in the country and numerous conditionalities in the central schemes that States have been objecting to. However, withdrawing the budgetary role of the Planning Commission altogether could be akin to throwing the baby out with the bathwater. There is a still a strong need for such an institution to perform a role in the budgetary process for channelizing public resources towards disadvantaged regions and vulnerable sections of the population across the country.

On the resources side, the additional receipts for the Union Government to finance the incremental spending in the current fiscal year (as compared to the spending proposed in the interim budget) are going 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. 90229 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 services, roads and bridges, and receipts from power, petroleum, coal & lignite, new & renewable energy etc.). It needs to be scrutinized in detail what could be the possible impact of this higher dependence on Non-Tax Revenue from Economic Services in a period of high inflation.

The taxation side of the budget is the arena, which has been closely observed by the private sector and the better off sections of the population. And, we do see attempts by the new government to showcase their pro-market orientation in the tax proposals in this budget. 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. However, 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 % 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 budget does not have any strong measure towards reducing the significant amount of tax revenue forgone due to the plethora of exemptions in the central tax system. The budget speech of the new Finance Minister did make substantive references to the proposed transition to *Goods and Services Tax* and the *Direct Taxes Code*; however, these proposed reforms would bring in stability in the tax laws as demanded for by the private investors but they might not help the government at all in stepping up the country's tax-GDP ratio.

As regards the expenditure side of the budget, the allocations for most of the sectors have been retained in this budget at the same level as those proposed in the interim budget for 2014-15 or increased by a small extent; for instance, the allocation for MGNREGA is pegged at Rs. 34000 crore and that for Food Subsidy at Rs. 1.15 lakh crore. However, with a deficient monsoon this year, the allocations for MGNREGA should have been stepped up. The budget for 2014-15 has also proposed more or less the same amounts of resources for the flagship social sector schemes like SSA, NRHM, ICDS etc. as the interim budget did.

A number of new schemes and pilot projects for safety of women and gender sensitization were listed out in the budget speech, but most of these have meager allocations. Shortage of staff in health and education sectors has been acknowledged in the Economic Survey for 2013-

14, but the budget has not paid any attention to this serious problem plaguing the critical social sectors in many States.

The new government needs to focus on stepping up the coverage and quality of public provisioning of essential services and social protection measures for the poor instead of paying too much heed to the misconception that public provisioning for the poor is equivalent to ‘populism’.

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