DECCAN HERALD   MARCH 2 2015

"Giving Economy a Big Boost"

Budget 2015- by S L Rao

__Has this Budget met the expectations from the Modi government, thayt were dashed by Mr jaitley's earlier Budget? The answer must be that it has, though not to the extent that it could have.

The Railway Budget set the tone by giving a five year vision and programme, setting the customer at the cnetre and not vote catching announcements like new trains, lower fares, etc. He offered a huge boost to the economy with a Rs8.5 lakh investment over five years, in double tracking the network, investments for maximizing safety, cleanliness and hygiene, and other amenities like digitization allowing advance reservations, etc. Mr Jaitley has not been as much of a visionary but his actions doe paint a vision.

Standard and Poor said they were awaiting a clear sign that the fiscal deficit would be brought down. Mr Jaitley has kept to the target of 4.1 %, but by revising the GDP growth figures upwards through changes in base year. Despite this he has extended the achievement of the 3% target (laid down by the Fiscal Responsibility Act) by one more year. He has thus signaled that fiscal balance is less important than stimulating growth. Since foreign investment is coming in at record levels e is probably right in ignoring the S & P warning. Addition to tax revenues is only about 1% of the total.

Mr Jaitley has taken the XIV Finance Commission recommendation to increase to 42% the central transfers to states. However it appears that the transfers of many centrally sponsored schemes to the states, the reduction in central plan assistance, and revenue expenditures, will leave the states with no real extra revenues. States must also delegate mor powers to panchayats and municipalities.

Considerable resources are devoted to agriculture. The intention to reform agricultural marketing and so improve farmer realizations on crops is good but could have been finalized with the state governments earlier, not postponed as he has done.

Mr Modis' slogan of "make in India" and raise manufacturing in GDP from 17% to the 30 or more in many Asian countries, is satisfied by the provisions for Defense, roads, railways, ports, urban and rural housing, etc. He has not confined investments to the public sector and has provided sovereign guarantees in part to infrastructure investments in public-private-partnerships. Skills development programmes, digitization to reduce inspector raaj, and ease the doing of business, stimulus to innovation, research and local startups will add to private investments. So will measures to add to foreign investment. Tax-free bonds, long term infrastructure development bonds and a special fund, partial sovereign guarantee to public private partnerships in infrastructure are other measures. He could have tapped on provident, gratuity and insurance funds to finance private public partnerships. Plug and play projects (presumably assuring all clearances in advance) like the five new ultra mega power projects, with similar ones in other infrastructure, will boost investment, will encourage private investment.

Provisions for disinvestment are at record highs. However the need for privatization of state owned enterprises and so add to GDP through improved efficiencies is not mentioned. Disinvestment merely adds to revenues in one year. Privatization could add to GDP.

Many issues are unaddressed awaiting committee recommendations: expenditure reforms, tax administration reform, mendments to laws so that multiple prior approvals for new investments are avoided, reducing the amount of reporting required by various levels of governments, from all industries, amendment in consultation with states to the agricultural produce marketing act to improve farmers' realizations on crops, and bankruptcy laws as in USA.

The target of reducing marginal corporate tax rates over three years, while reducing exemptions and incentives, abolish wealth tax and introduce a surcharge on very high incomes, will reduce disputes and litigation, and add to revenues. MAT rates have not been reduced, a key demand from industry. Tax administration is also to improve further with greater computerization. GARR is postponed by two years, not abandoned. GST is to be effective on April1, 2016, welcome for ease of business. Retrospective taxation will not be used.

Black money (within and without India) are about much more stringent penalties. There is nothing to prevent its generation, for example, public funding for elections, introducing severe penalties on candidates who overspend, encouraging state governments to reduce property taxes, eliminating differential capital gains taxes given to investments from some countries, anonymous overseas investments, etc. Proposals to hold gold by individuals in interest bearing bonds must be watched for effectiveness in gold mad India.

Amendments to FEMA and to combined treatment of foreign portfolio and direct investments will certainly promote foreign investment. While growth is the focus, social welfare expenditures get attention. Rrural employment guarantee scheme and a slew of schemes to help higher education of poor youth, support to senior citizens, a universal pension scheme, health and life insurances at low rates, support to women, higher education in schools within 5 kilometers from any village, setting up more institutes for advanced work in medicine technology and management in some more states, social safety net, etc illustrate this. Quality improvements in social services and dealing with severe shortages of faculty in all fields are neglected. The budgets for health and education are lowered.

This Budget will give the economy a big boost. There is still no total change of direction from a statist economy.

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