Distributing the rewards of reform

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

- 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

- 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.
- 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.
- 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.

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.
- 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.

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.

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

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