Making Sense of this Year's Budget

V Kumaraswamy,
CFO, JK Paper

This is perhaps the Budget with the widest sweep since Independence – in terms of the percentage of people whose lives it will impact, mostly positively. Our Budgets, both pre- and post-reforms have shown excessive focus on industries, stock markets, and on standard deductions and personal investment incentives for the salaried class. Not many of them would have had an impact on more than 20 per cent of the people.

Budgets have mostly been elitist. The economists' macro sense stopped with fiscal deficits and growth numbers, and hardly cared of how benefits were delivered at the door step of the common or poorer man.

> The Centre has taken several steps to reduce income volatility, but this year's Budget goes a step further, attacking one of its prime causes: health emergencies

Budget – a link in the chain: Poverty and what is being done within and outside budget

The problems of the poor are (i) low incomes; (ii) high variability even within that limited income; and (iii) very high interest rates, which kills any commercial ventures they might own, or hope to. The Government has announced an MSP pricing formula, which will hopefully push more incomes into rural areas more systematically. Many more gas connections and a proposal to buy surplus electricity from solar systems will add to their comfort and income. Healthcare spending in rural areas will also create good employment and enterprise opportunities. And as Dr Devi Shetty (of Narayana Health) points out in the Times of India (February 1), there is a great opportunity to create 5 million jobs for paramedics and nurses with 2-3 years' education after the 10th or 12th standard. This Budget will create the necessary demand for such services. If only we had tackled healthcare the first thing after Independence, maybe even our population would have stabilised by now.

In the last 2-3 years, the Government has tried to substantially tame the volatility in rural incomes. Crop insurance has already increased significantly – maybe to 40 per cent of farm produce during the current year, from negligible levels three years before. Life insurance coverage of Rs 200,000 (for a cost of just Rs 12) is already taking effect.

Steps such as GST, DBT and Jan Dhan are formalising the economy and bringing many more people into the tax net

The Budget has laid out a blueprint for tackling the next most significant reason for the poor falling into a debt trap: health emergencies. With these changes, the variability of poor families' cash flows will come down sharply over time.

GST is formalising the economy. A more formalised economy widens the reach of cheaper formal credit from banks. This can, in turn, bring down the interest rates facing the poor, which can be as high as 750-1,000 per cent, to a more sanguine number. (In his book 'Who Moved My Interest Rates?', RBI ex-Governor Dr Subbarao reveals that this is what pushcart vendors get charged on an annualised basis.) Imagine what can be achieved if such costs can drop to 30-40 per cent per annum, which is what a Rs 3 trillion additional allocation, together with Mudra, direct delivery mechanisms, Aadhar authenticated loans, Jan Dhan, and so on, can achieve. Entrepreneurship would bloom in rural areas.

The Government has to work on a few more things. One is animal health, which also throws the rural poor into debt traps. Agriculture productivity has been increasing year on year by 2-3 per cent on average, but bumper crops only play spoil sport due to high price elasticity. MSP helps, but food-processing and exports are the real solutions.

Rebalancing gains and losses

The Government's actions in the last 18 months are fundamentally re-balancing the economy – bringing in large sections into the formal fold through GST, DBT, Jan Dhan and digitisation, and into the tax net. These steps are also making a difference to the family budgets and welfare of poor households, and most importantly, they are bringing the rural sector into the economic mainstream. This is happening at a rapid pace, and is bound to throw up some gainers and some losers. It is but inevitable that the rich 1 per cent who are garnering 73 per cent of annual incremental wealth (according to Oxfam) will lose to the balance 99 per cent who

Poor people have a much higher propensity to consume than the rich, so these steps should give a boost to consumption-led growth

Fiscal Deficit (% of GDP)	
Year	**%**
2007-08	2.5
2008-09	6
2009-10	6.5
2010-11	4.8
2011-12	5.9
2012-13	4.9
2013-14	4.5
2014-15	4.1
2015-16	3.9
2016-17	3.5
2017-18	3.5

Source: Economic Surveys

garner a measly 27 per cent of the wealth as of now.

But this rebalancing will also open up great opportunities. Even if it is just a transfer of wealth and income from rich to poor, given that the marginal propensity to consume (MPS) of the transferee poor is 90-100 per cent (instead of 50-60 per cent for the rich), it will create conditions ideal for consumption-led growth.

Those who doubt the growth potential of the Budget are missing the long-term impact. Our consumption base is far too low, and it is only the top 20 per cent of income earners who count for anything. When the penetration level of basic hygiene items like sanitary pads is as low as 17 per cent, and that of adult diapers is in the low single-digits, there is a compelling need to expand the base. This Budget kick-starts the cycle. Better incomes for the rural and urban poor will enable better FMCG growth in the next 2-3 years. Healthcare products and services will follow suit and create significant opportunities in the ensuing 6-7 years. Without this expansion, our growth would have been slave to a minuscule share of the population, as it has been so far in the post-reform period.

Critics and their failure to see opportunities

A persistent fiscal deficit of 4-6 per cent (see accompanying table) seemed appropriate to tackle the global meltdown whose effect on India proved to be marginal, but a marginal slippage while effecting very fundamental structural changes seems unpardonable. How myopic and hypocritical!

Little do those who lament a lack of tax cuts appreciate that their economic efforts are rewarded by the society by higher income and wealth. The nation has given them access to markets and consumption, and they need to pay for this access, without which their wealth could never come about. It is two-way transaction. It's sad that so much noise is being made about LTCG, when a retired pensioner cannot index his interest income and pay tax only on real interest rates.

Of course, some of these initiatives will take 7-8 years to clear the cobwebs of culture, habits and bureaucracy to take full effect.

This Budget reflects a great grip and understanding of the poor man's budget, and the constraints on his reaching 'escape velocity' in the flight from hunger and poverty. It has constructed a national budget from the common person's kitchen upwards. Each of the line items is such that inclusions of various kinds, the delivery of programmes, and poverty and hunger removal, become integrated with budget-making.

The usual commentators, including the economics fraternity, have scarcely picked up the fundamental directional shifts. They have dusted and delivered the same old cribs. In Cricketese, they are playing hook-shots to Yorkers, because that is the only shot they know. ■

The writer is the CFO of JK Paper, and the author of 'Making Growth Happen in India'. This article appeared, in a slightly modified form, in the Financial Express on 20 February, 2018.