FM should open like a pinch-hitter

Need For A Bold, Imaginative And Growth-Oriented Budget That Can Pave Way For Meaningful Reforms

Bakul Dholakia

The finance minister is all set to present the Modi government's first full-fledged budget on February 28 in the backdrop of huge expectations of various stakeholders. Within nine months in office, the government can hear noises expressing serious concerns over the lack of visible signs of major changes in policy and business environment marked by the lack of concrete action at the grassroots level. This budget will prove to be an acid test of the government's commitment and ability to move towards fulfilling poll-time promises of quickly regaining momentum of high GDP growth, significantly improving the ease of doing business in India, and generating millions of new jobs in the medium-term horizon. This scenario represents a formidable challenge as well as a huge opportunity for the FM. In this context, the budget 2015 is perhaps the most keenly awaited Indian budget in the past two decades.

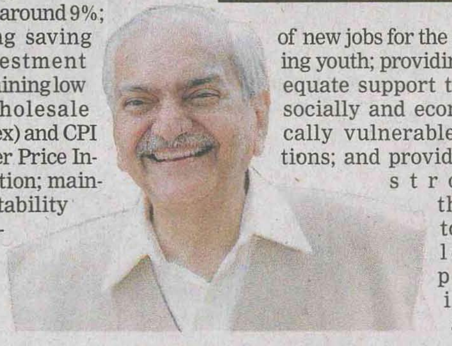
Main expectations from Budget 2015 would be restoring more than 8% GDP growth; accelerating industrial growth to around 9%; improving saving and investment rate; sustaining low WPI (Wholesale Price Index) and CPI (Consumer Price Index) inflation; maintaining stability of the Indian rupee; creating millions of new jobs for the aspiring youth; providing adequate support to the socially and economically vulnerable sections; and providing a strong thrust to the long-pending agenda of economic and administrative reforms. The markets are buoyant on high expectations and foreign investors have already restored their faith in the once famous India growth story. It is now for the FM to ensure that his maiden full budget represents a firm step towards building confidence that such high expectations would be satisfactorily met within a reasonable timeframe. In this context, the FM has no choice — he has to present a growth-oriented, reform-focused and forward-looking budget and avoid populism.

The FM should aim at achieving at least 8% GDP growth in 2015-16 and around 9% in 2016-17, while maintaining effective control on inflation. To achieve this, the first priority should be to remove existing bottlenecks in the execution of infrastructure projects; take all necessary steps to quickly revive stalled projects in the road, power, and mining sectors; and significantly increase public expenditure to start new greenfield projects in several sectors. Special incentives for employment-oriented manufacturing with focus on small enterprises, urban infrastructure, and low-cost housing sectors would make budget proposals more inclusive from the common man's viewpoint.

Sharp drop in international oil prices has reduced the oil subsidy burden, improved our current account position and eased inflationary pressures. Moreover, given the hangover of global economic slowdown of the recent past with the prospects of Chinese GDP growth slowing down in 2015 and 2016, India will have to seriously pursue Make in India strategy with strong focus on the revival of domestic demand through consumption as well as investment routes. Since the available information indicates that both saving and investment rates have not picked up so far, it is essential that government takes the lead in terms of accelerating investment during 2015 and 2016.

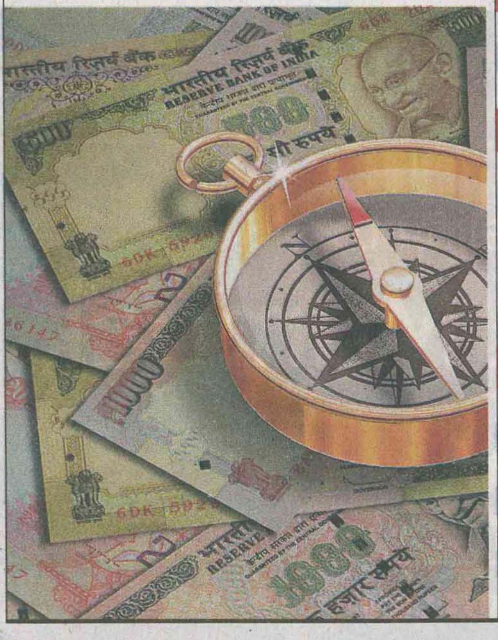
The favourable global factors coupled with reasonable success of divestment programme has created enough room for the FM to go for ambitious public expenditure programme in selected areas. Time has come to accord higher priority to growth without being too conservative on the fiscal front, so long as we do not deviate from the overall path of fiscal consolidation. Under the prevailing circumstances, the FM needs to adopt the confident and courageous approach along the lines so ably demonstrated by Shikhar Dhawan, who played under similar conditions in India's recent encounter with South Africa in the ongoing World Cup, and the result was our first-ever win against this formidable opponent in a World Cup match.

(The author is director general, Indian Management Institute, Delhi)



Trends in growth rates of real GDP

Sector	Agriculture	Industry	Services	GDP
2008-09	0.1	4.4	10.0	6.7
2009-10	0.8	9.2	10.5	8.6
2010-11	8.6	7.6	9.7	8.9
2011-12	5.0	7.8	6.6	6.7
2012-13*	1.2	2.4	8.0	4.9
2013-14*	3.7	4.5	9.1	6.6
2014-15*	1.1	5.9	10.6	7.5



Growth of industrial production and exports

* Based on data for 8 months (April to November)

Category	2008-09	2009- 10	2010-11	2011-12	2012-13	2013-14	2014-15*
Basic Goods	1.7	4.7	6.0	5.5	2.4	2.0	7.6
Cap. Goods	11.3	1.0	14.8	- 4.1	- 6.0	- 3.7	4.8
Inter. Goods	0.0	6.0	7.4	-1.0	1.6	3.0	1.6
Cons. Goods	0.9	7.7	8.5	4.4	2.4	- 2.6	- 6.3
Overall (IIP)	2.5	5.3	8.2	2.9	1.1	- 0.1	1.9
Exports	13.7	- 3.6	37.5	22.1	-1.8	4.1	4.6

Domestic savings & investment rates (as % of GDP)

* Based on New Series of GDP
** Projected Figures

Indicator	2008-09	2009-10	2010-11	2011-12*	2012-13*	2013-14*	2014-15**
Domestic Savings	32.0	33.7	33.7	33.0	31.1	30.0	29.6
Gross Investment	35.5	36.3	36.5	38.2	36.6	32.3	31.1

Trends in inflation rates

Category	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
WPI	8.1	3.8	9.6	8.9	7.5	6.0	3.8
Food Articles	5.2	8.6	14.5	11.4	7.2	9.3	9.4
Fuel & Power	11.6	-2.1	12.3	14.0	10.3	10.1	4.8
Mfg. Products	6.2	2.2	5.7	7.3	5.4	3.0	3.3
CPI- IW	8.1	10.8	12.0	8.9	9.1	9.5	7.0

Trends in global stock markets

* For the period January 1 to February 20, 2015

Country	Index	2009	2010	2011	2012	2013	2014	2015*
India	NSE Nifty	71.5	17.3	- 24.9	27.3	5.2	31.4	6.6
USA	Dow Jones	15.4	9.4	4.7	5.7	23.6	8.4	1.7
Japan	Nikkei	16.6	- 4.0	- 18.7	21.4	52.4	9.7	5.1
UK	FTSE	18.7	7.3	- 7.3	3.5	14.4	- 2.7	5.6
China	Shanghai	74.2	-13.4	- 22.9	4.6	- 7.1	53.3	-3.1
Brazil	Bovespa	70.4	- 1.1	- 18.9	5.4	- 18.0	- 2.9	5.6

Bowl clean rates: No tax googlies

Lower tax rates have always yielded higher revenues

	1997-98	2005-06	2008-09	2010-11	2012-13	2014-15
Exemption limit	40,000	1 lakh	1.5 lakh	1.6 lakh	2 lakh	2.5 lakh
Income limit for max rate	1.5 lakh	2.5 lakh	5 lakh	8 lakh	10 lakh	10 lakh
Income Tax In Rs cr	6,731	57,308	1,06,046	1,39,069	1,96,512	3,00,474* *Budgeted

Mukesh Patel

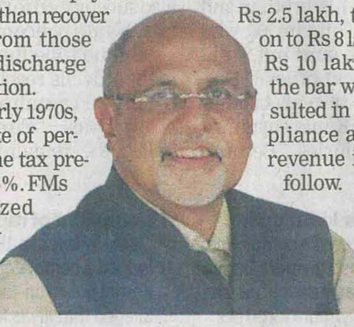
It is time the FM undertakes the exercise of rationally restructuring the tax rates, which should come as a welcome relief for the middle class tax payers, who have high expectations from Budget, 2015. Similarly, all taxpayers, including companies and partnership firms, deserve a clean max-tax rate of 30%, with the removal of the clutter of surcharges, which effectively result in the maximum tax rate being as high as 33.99%.

Believe it or not, India with a population of 120 crore has just 3.5 crore taxpayers. This works out to a meagre 3% in comparison to the 45% of the US, which boasts of around 14 crore taxpayers in a population of 31 crore. More shocking were the statistics revealed by the Standing Committee on DTC (Direct Taxes Code) two years ago, that India had only around 4 lakh taxpayers declaring income of more than Rs 20 lakh, and just around 42,800 who admitted income above Rs 1 crore.

The unlisted super rich in India may perhaps far outnumber the listed super rich! The real challenge before the FM lies not in taxing but hunting the super rich. In this context, the logical and objective approach should be to deepen the tax base and ensure better tax compliance. It would be far more just and equitable to tax those who don't pay their dues, rather than recover more tax from those who fairly discharge their obligation.

In the early 1970s, the peak rate of personal income tax prevailed at 97.5%. FMs soon realized the meaningful relevance of the economics principle of the 'Laffer Curve': lower taxes lead to higher tax collections. The tax rates were gradually scaled down to 72%, 60%, 50%, 40% and finally 30% in the late 1990s.

While the max-tax rate of 30% has remained unchanged since then, the past decade since 2005 witnessed the restructuring of tax rates and the raising of the threshold income limit for max-tax from Rs 1.5 lakh to Rs 2.5 lakh, then Rs 5 lakh, on to Rs 8 lakh and finally Rs 10 lakh. Every time the bar was raised, it resulted in better tax compliance and higher tax revenue in the years to follow.



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