India, Union Budget 2015-16

The Poor Get Left Behind

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The Union Budget is a political statement of the current Government's aims, with considerable sops being given to corporations. The redistribution of funds from essential schemes to others suggests that the government is more interested in making political hay rather than improving the situation of the poor in the country.

The budget is largely in line with the pro - corporate and anti - poor stance that the National Democratic Alliance (NDA) has been following. After pushing for various ordinances in past few months which will invariably favour the corporates, it was in fact essential for the government to push for reduction of corporate tax so as to supplement its scheme fully. While on one hand it is planning to make a law to tab black money, it has seen to it that more profits benefit the wealthiest in form of reduced taxation.

And yet all budgets are a political statement, and by leaving personal income tax rates untouched while reducing corporate taxes by 5 per cent, the government has indicated clearly where its heart lies. Giving a notional sop even to income tax returns would have given many sections of the aam aadmi who pay taxes some relief. This hasn't happened. In the budget 2015-16 the government has reduced corporate tax from 30 to 25 per cent along with an increase in the service tax by 2 per cent. However, it needs to be seen how this step cleverly leads to (as it has always been) to shifting the financial burden in terms of taxation on to the larger public while providing humongous benefits to a few corporates. On the other hand, one objective of any budget has to be making sure there is balanced treatment across for all sections of society across and this budget hasn't exactly done that, although outside the budget, the government might have taken some pro poor initiatives.

A large part of the Budget leads with the assertion that 'every rupee of public expenditure…will contribute to the betterment of people's lives through job work creation, poverty elimination and economic growth'. Therefore the check we must put on to this budget is whether the growth stimulated by this budget will really enhance the creation of new jobs and accelerate poverty elimination. Similarly, we are troubled about whether this degree of growth will initiate solidity in the economy and what its distributional costs will be for the poor.

In the Budget statement, 'poverty elimination' is accompanied by an across the board decrease in government outlay on social protections and security. The funds provided for the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) programme are constant Rs. 34,000 crores and have now been brought down to a figure of below 2 per cent of total government spending. Expenditure on all social sector outlay - be it health, education, women and child development, housing, drinking water and sanitation, and welfare of SCs, STs and minorities - all put together have undergone budget cuts amounting to 1 per cent of the complete projected spending; or nearly Rs. 10,000 crores. If we space these down and tweak for the increases in the Prime Minister's specially favoured projects like 'Swachh Bharat' and urban housing, then the reductions in the Sarva Shiksha Abhiyan, the Mid-day Meal Scheme, the Integrated Child Development Scheme (ICDS), the National Rural Health Mission and the Indira Aawas Yojana are considerably high.

Aside from not scaling up these important programmes, the condensed monetary provision suggests that the roughly 1 crore 'honorary' large work force deployed in these programmes will have no increase in their slight incomes and will linger close to the poverty line with no change in their quality of life. Mr. Jaitley's budget raises the amount set aside for food subsidy by a sum of Rs. 2,000 crores to Rs. 124,000 crores (possibly to not seem anti-poor). However the full operation of the National Food Security Act (NFSA) in letter and spirit will need a lot more budgetary support than this amount. This means that, the NDA government has a long way to go to accept the Shanta Kumar Committee recommendation of reforming the Food Corporation of India and limiting the reach of the NFSA.

In the current state of the economy where an overwhelming number of people are employed within the informal sector, not much has in fact been done to increase social security measures like health, education or to improve the living conditions of poor through investing in housing. In fact, what we see is the reduction in allocations to some very key ministries which are responsible for implementing policies for the marginalised sections.

The government has now pledged to start a 'universal social security system' for which they will be a commitment of Rs.1200 crores. This will support contributory pension, accident and life insurance schemes which the State will fund for a ceiling of five years. Even through the most liberal calculation, these schemes can just reach 1.2 crore people or about 2.5 per cent of the employed population, and that too in the organised sector.

The NDA government's aim is not to initiate a mechanism of universal social security but to ensure in every area of economic life, the concept of capacity to pay and ability to pay. Having passed on the work of social security to private insurance and pension companies, the government acknowledges that the private sector is not the ideal vehicle for this and cannot really push growth and lacks the competence to participate in the economy to push growth and create jobs, as the Economic Survey has indicated. Even though it clearly recognises in both its 2014-15 and 2015-16 budgets that the PPP model does not work, the current government obligated itself to the PPP model (3PIndia) as the institutionalised patronage of the private sector by government in its 2014 Budget, and now, it goes one step further in cementing this sponsorship.

That the commitment of the present government is to stretch backwards to help the private sector is certainly not in doubt. This task will however not be finished merely by providing loans for private investment. The suite of services provided by the current government's policy issued through the Land Acquisition and Coal Ordinances as well as other legislation represent that for 'ease of business' to succeed, a package of special services must be in place. "A special space" must exist for the private sector so that ease of profit allows the Prime Minister's make in India model to work at great social cost

In addition to all of the above, the government has promised to lower corporate tax – the tax on companies – from the present 30 per cent to 25 per cent over the length of this government. The budget proposes to do away with wealth tax and replace it with a 2 per cent cess on those with incomes of Rs. 1 crore or larger. This will brings in Rs. 9,000 crores a year or about 0.50 per cent of the total budgeted government expenditure for 2015-16. Conversely, service tax will rise from 12.36 per cent to 14 per cent. While on the one hand, the finance minister has decided that he will provide tax breaks on corporate and personal income taxes, by raising service tax and confirming the introduction of the Goods and Service Tax by April 2016, there will be an increased reliance on indirect taxes. Although there is an announcement to bring in a new legislation for hunting down black money abroad, it's scrapping of the proposal for the Direct Tax Code to plug loopholes in taxes and putting the General Anti-Avoidance Rules on hold for now is a sign of how serious the current government is about working to fix loopholes at home.

The overall disposition of the economy is not good and the 'roadmap for the future', as put forward in the Finance Bill, provides little hope for the aam aadmi. We find that the entire monetary context – of taxation and spending as proposed currently will contribute further to inequalities. Also, the enhanced 'sovereign' borrowing to create a conducive environment for investment will be actually tax-free transfers to the wealthy. And then, the reliance on foreign investment coming in pushes up the value of the rupee, which makes our exports more costly overseas and makes it difficult to sell our goods abroad. This portends badly for continued and steady levels of economic progress and so for job creation and earnings with growing disparities.

And yet, perhaps, there is still a chance for achhe din! There is a promise that if the rich pay taxes past expectation (the amount of which remains unspecified), the NDA government will put in an additional Rs. 10,000 crores (or a total of 0.50 per cent of budgeted expenditure) to fund the MGNREGA, ICDS, Integrated Child Protection Scheme (ICPS) and the Pradhan Mantri Krishi Sinchai Yojana. Working people in the men time must live in the expectation that the rich will only get richer by the day – for it is then that the government will throw morsels of relief at them.