WORDLY WISE

IT'S CLEARLY A BUDGET. IT'S GOT A LOT OF NUMBERS IN IT.

— GEORGE W BUSH

The Indian EXPRESS

FOUNDED BY

RAMNATH GOENKA

BECAUSE THE TRUTH INVOLVES US ALL

INCREMENTALISM OVER AMBITION

Budget rightly resists the temptation of a fiscal stimulus. But its inability to take politically tough, but much needed, reform decisions is striking

CREATIVE incrementalism, as opposed to big bang reforms, has been the hallmark of the Narendra Modi government with regard to economic policy-making. That approach can be seen even in the Union Budget for 2019-20, the first after its return to power with a resounding mandate. Many would have expected this political verdict, more remarkable than the one five years ago, to provide an opportunity to announce something more than ordinary — like the budgets of 1991-92, 1997-98 and 2000-01. Moreover, the current backdrop of a deepening growth slowdown and drying up of investments would have demanded such a response to revive the animal spirits of entrepreneurs, a theme well articulated in the finance ministry's Economic Survey. Nirmala Sitharaman's maiden budget has disappointed on that count, as reflected in the BSE Sensex falling by 395 points or almost 1 per cent.

The budget is, however, not without positives. For one, Sitharaman has, rightly, not succumbed to the temptation of a fiscal stimulus. The Centre's fiscal deficit has been budgeted at 3.3 per cent of GDP, below last year's revised estimate of 3.4 per cent and in line with meeting the "glide path" target of 3 per cent by 2020-21. That, along with the bold proposal to raise a part of the government's gross borrowings in foreign currency from external markets, led to a rally in the bond and currency (as opposed to stock) markets: Benchmark 10-year security yields fell from 6.75 to 6.69 per cent, while the rupee gained 8 paise against the dollar. Going in for sovereign bond floatations — an idea mooted first in the late Nineties — will enable the Centre to borrow more cheaply and result in less crowding out of private firms in the domestic market. Only 3.5 per cent of the Centre's public debt is now held by external agencies. At the same time, the prospect of greater scrutiny by global investors on account of the government borrowing directly in overseas markets will impose much-needed fiscal restraint. The Reserve Bank of India's interest rate reductions cannot have the desired impact with a profligate government; it's good that this message has been internalised in successive budgets in the Modi regime.

There are other bright sparks, too, in the latest budget — such as the proposed monetisation of surplus land held by Central public sector undertakings/departments for affordable housing and infrastructure development through public-private partnerships; resolution of the "angel tax" issue by not subjecting start-ups to arbitrary scrutiny by assessing officers in respect of share premium valuations; a reasonably aggressive disinvestment programme of Rs 1,05,000 crore (up from last year's Rs 90,000 crore); and a Rs 70,000-crore recapitalisation of public sector banks. The last measure comes at the right time with their credit growth just about picking up, alongside signs of a bottoming-out of non-performing assets, and non-banking finance companies (NBFC) unable to lend as before. No announcement of any 2008-like special liquidity window for NBFCs, which would have invited moral hazard, is welcome. The bailout has, instead, been limited to providing a one-time partial credit guarantee to banks for purchase of up to Rs 1,00,000 crore of high-quality diversified assets of financially-sound NBFCs. This strategy — of separating the good apples from the bad, even while strengthening the RBI's regulatory authority over NBFCs — makes sense.

BUT where the budget fails is offering a coherent reform vision for investors. The most apt example here is agriculture. What stopped the finance minister from announcing the government's intention to dismantle all provisions in the Essential Commodities Act and Agriculture Produce Market Committee laws that allow restrictions on sale, movement, stocking and export of farm commodities? Such controls have no meaning when consumer food inflation has been in low single-digits or even negative for the last three years and India has transformed from a structurally deficit to surplus producer in most crops. A single statement of intent would have generated confidence among agri-businesses, including large retailers and traders, keen to invest in grading, processing, warehousing, transport and port infrastructure — all of which are necessary to meet the much-talked-about goal of doubling farmers' incomes.

A similar lack of ambition is seen vis-à-vis rationalisation of farm subsidies. For 2019-20, the budgeted figure for food, fertiliser and crop loan subsidies — plus the PM-Kisan income support scheme — adds up to a mammoth Rs 3,57,216 crore. At least half of this amount could be saved by capping sales of subsidised fertiliser (to, say, 20 bags of urea per farmer per year) and physical procurement of foodgrains to not more than 50 million tonnes. The resultant savings would be enough to make the PM-Kisan a genuine direct benefit transfer scheme, providing non-market distorting support of up to Rs 4,000 or so per acre to all farmers.

The inability to take politically tough reform decisions is striking, especially for a government enjoying a decisive majority not seen in decades. Risk-taking is an attribute normally associated with private enterprise. In times such as these, it is the government that needs to think and act like an entrepreneur. An across-the-board reduction in the corporate tax rate to 25 per cent, rather than limiting it to companies with annual turnover below Rs 400 crore, would have been timely. The current budget is proof of caution taking precedence over ambition. That would have been fine in 2015-16, not in today's uncertain global economic environment with India Inc facing a crisis of confidence. Hopefully, this is not a lost opportunity.

IN THE RED

The 'bahi khata' budget signalling a return to roots has evoked mixed feelings, because Indians are not people of one book

IN BAISAKH OF 2018, the red ledger book, in which Kolkata's traders had kept their accounts for at least three centuries, was deemed to have gone out of business. The consecration of new accounts books, a very visible feature of the Poila Boishakh celebrations, had given way to the opening of fresh Excel sheets. But now in Delhi, Finance Minister Nirmala Sitharaman has gone traditional by discarding the customary briefcase of budget papers for a red ledger book. The signalling is excellent, as the BJP's always is, but the signal is mixed because Indian culture is varied.

Sitharaman's north Indian ledger book is the bahi khata, while the eastern version is called a *kheror khata* and is not only a trader's ledger — Satyajit Ray kept over 150 for developing the ideas, storyboards, costumes and music scores that went into his films. Now, people from other regions, most of which use a version of the traditional ledger, want to know what's so special about the northern *bahi khata*, and why the name of the book in their own languages matters less.

Besides, if the finance ministry were to opt for change, many might have preferred modernity over tradition. The budget briefcase is indeed colonial baggage, along with lawyers' gowns, judges' wigs, governmental frippery like *safa*s and official letters which end with "yours sincerely" or, worse, "yours obediently". Sitharaman has said that she opted for the *bahi khata* because it is easier to carry, but a tablet is even more so, and could have served as a better signal for Digital India. Besides, it does not suffer from the principal semiotic deficit of the *bahi khata*, which the movies have seared into the national imagination — as the accessory of the village moneylender, licking his sleek chops as he prepares to suck the life out of generations of farmers.

An artful balancing act

Budget is well-intentioned on the big themes. But execution will be key

SAJJID Z CHINOY

THE FIRST BUDGET of the government's second term was always going to be a delicate balancing act. On the one hand, growth momentum in India — and indeed, around the world — has slowed markedly in recent months. On the other hand, there was no space for a fiscal stimulus, as some had clamoured for. The broader public sector is already eating up virtually all household financial savings. Bond yields have finally witnessed a rally in recent weeks. Any widening of the fiscal deficit would have reversed those gains, pushed up interest rates more generally, and thereby undermined the efficacy of the RBI's monetary easing cycle. How, then, should the government have tried to boost growth, investment and savings without any fiscal latitude?

Given these difficult constraints, the budget is well-intentioned, and hits all the right chords. But the key is going to be in the execution. The devil will, eventually, lie in the details.

First, however, let us talk about the intentions. There is a concerted effort to attract foreign capital to augment declining domestic financial savings. Increasing FDI limits in insurance, aviation and the media are on the anvil. Domestic sourcing requirements for single-brand retail are expected to be eased, foreign portfolio flows (FPIs) will now be allowed to invest in real estate investment trusts (REITs) and infrastructure investment trusts (INVITs), and, KYC norms for FPIs are, more generally, expected to be rationalised. In addition, authorities may float a dollar bond to have access to a broader international investor base. With some caveats, these are welcome moves. In a world of low and negative interest rates, where capital is desperately searching for productive use, the Indian government's intention to seek foreign savings to augment domestic savings is understandable.

Perhaps the area that deserves the most immediate attention is India's financial sector.

> Public sector banks will be re-capitalised by another Rs. 70,000 crore, and some of this will hopefully translate into growth — and not just resolution — capital. Also, eschewing the clamour for a stimulus, the government has shown admirable restraint by pegging the deficit at 3.3 per cent of GDP. All told, therefore, the budget appears well-intentioned on fiscal discipline — as it tries to unclog the financial sector and attract foreign capital flows into India.

Credit markets for NBFCs are frozen, public sector banks have the liquidity but not the growth capital, and private sector banks are stretched to their limits with rising incremental credit-deposit ratios. Here, too, the government has tried to strike the right notes. Public sector banks will be re-capitalised by another Rs 70,000 crore, and some of this will hopefully translate into growth — and not just resolution — capital. On the NBFC front, a temporary and partial credit-guarantee will be offered to public sector banks to purchase high-rate pools of assets from "financially sound" NBFCs — as a means of trying to inject liquidity and break the logjam.

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But intentions apart, much will depend on execution. Take the fiscal math for example. To achieve the fiscal deficit target, gross tax revenues will need to grow at an ambitious 15 per cent over last year's actual outturn, even after adjusting for the tax rate increases for high-income individuals and the excise/custom duty increases. To put this in context, gross taxes grew at less than 9 per cent last year. Therefore, unless growth rebounds sharply and/or GST collections are tightened meaningfully, tax targets are going to remain under pressure all year long, with question marks about expenditure having to be slashed again at the end of the year.

Similarly, disinvestment targets are higher, but questions linger. Will the approach be true strategic sales/asset recycling to the private sector — which is more efficient at operating many of these assets/enterprises? Or will one arm of the government simply buy out another? Will asset sales fund more public investment or simply cover for tax shortfalls, which is akin to selling the family silver to pay the credit card bill?

On the financial sector, bank recapitalisation is positive. But only if (i) the allocation of capital is meritocratic to ensure incentives and monies are aligned; and, (ii) bank governance reforms (read the P J Nayak Committee Report) proceed in tandem. Capital without reforms risks engendering another public sector bank NPA crisis down the line. On the NBFC front, there is a fine line between ensuring illiquidity does not spawn an insolvency crisis and stoking moral hazard. The credit guarantee should, therefore, be temporary and very targeted. And if this temporary lifeline does not work, one cannot ignore the long-run fix anymore: An asset quality review.

On the external front, attracting foreign capital is well and good. But FPI flows are notoriously fickle and pro-cyclical — elusive when most needed. They can only temporarily substitute for boosting domestic financial savings. While the sovereign dollar bond could attract a new class of investors, there is a risk of it cannibalising existing FPIs that hold rupee assets. A small issuance in international markets may not materially change things but if FPIs are willing to hold rupee assets, why not further liberalise and induce FPI flows into the domestic market, so that they — and not the sovereign — bear the currency risk? What we don't want over time is a dollar bond in international markets — over which policymakers have no control — disproportionally impacting domestic yields, as investors eventually arbitrage across the two markets.

All told, the budget has performed an artful balancing act against a difficult macro backdrop. The big themes — financial, external, fiscal — are all well-intentioned. Now, the authorities must walk the talk with equal skill.

The writer is chief India economist at J P Morgan. Views are personal

NOT FOR THE FARMER

With little allocation for agriculture R&D, irrigation, budget sends a worrying signal

ASHOK GULATI

IN HER first budget speech, Finance Minster Nirmala Sitharaman reminded us of the famous quote from M K Gandhi, that the "soul of India lives in villages". She also said that for Gramin Bharat, her focus is on "gaon, garib, and kisan". She spelt out certain schemes but the overall focus was on strengthening infrastructure such as through the PM's Gram Sadak Yojana (PMGSY), making *annadatas* also *urjadatas* (converting farmers into producers of solar power), strengthening e-NAM, focusing on fisheries through the Matsya Sampada Yojana, etc.

She also reiterated the PM's promise of supplying piped water to every home by 2024, while reminding that 1,592 blocks in the country are critical and over-exploited in terms of water supply.

These are all laudable steps, although one will have to see how they are achieved in due course. One notable thing in the various schemes announced for agriculture was the absence of emphasis on doubling farmers' real incomes by 2022. Perhaps the reality that this is an uphill task has dawned on the government — it may not achieve even half the target.

But to know the real action in agriculture, one has to see the expenditure budget for the Ministry of Agriculture and Farmers' Welfare, which has jumped from Rs 6,78,00 crore in 2018-19 (revised) to Rs 1,30,485 crores for 2019-20, (budgeted), a jump of more than 92 per cent. And this is mainly coming from PM-Kisan, which jumps from Rs 20,000 crore to Rs 75,000 crore. This is the biggest policy shift, a move towards direct income transfer, which was an election promise. As far as other schemes are concerned, there is marginal change, and nowhere near PM-Kisan. No significant reforms or strategies have been announced for boosting agriculture and farmers' incomes.

> The rate of return from agri-R&D is one of highest. This neglect of agriculture R&D will haunt India in the years to come. Already, the rate of growth of agriculture exports in the first five years of Modi government has been negative. So, the whole talk of doubling agri-exports in five years, or even doubling farmers' incomes by 2022, sounds hollow in the face of such low expenditures on agri R&D. Without continuous research, and augmenting productivity, the competitiveness of Indian agriculture will soon be lost.

It is most disappointing to see that the allocation for agriculture R&D has remained almost constant. The budget for the Department of Agriculture Research and Education (DARE) has been kept at Rs 8,078 crore, compared to Rs 7,953 crore for 2018-19 (revised). This is less than even one global company's expenditure, say Bayers, on agriculture R&D. The Economic Survey had highlighted that India spends only 0.37 per cent of agriculture GDP on agriculture R&D. The global consensus is that developing countries need to spend at least 1 per cent if they want to raise productivity in a sustainable manner and ensure food security, and also augment farmers' incomes.

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The finance minister also spoke of "zero budget" agriculture. Organic farming is fine for niche markets, but for mass production at low cost, the answer is science. One wonders, is Modi 2.0 anti-science and anti-R&D?

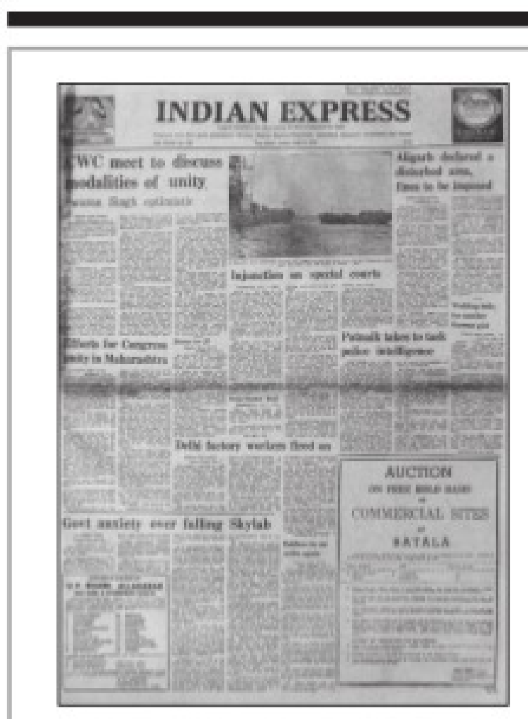
Since PM-Kisan is the government's flagship scheme in agriculture, one would have expected it to be fine-tuned and expanded to cover the fertiliser subsidy, and even hint at bringing the power subsidy under it. But nothing has happened on any of these fronts. The fertiliser subsidy has gone up from Rs 70,000 crore to about Rs 80,000 crore. The pending bills of about Rs 30,000 crore for fertiliser industry remain as they were, demoralising the fertiliser industry.

On the irrigation front, the situation remains alarming. Despite highlighting 1,592 blocks being overexploited in 256 districts, the budget for the PM Krishi Sinchai Yojana (PMKSY), though up by 17 per cent, remains minuscule at Rs 9,681 crore. This is not enough to take care of the irrigation needs of agriculture or promote the efficient use of water. Within the PMKSY, the per drop, more crop scheme is budgeted at just Rs 3,500 crore.

With all of this, if there is no big push towards agri-research (read better and high-yielding seeds), any rationalisation of fertiliser subsidy, and with meagre investments in water, what is the future of Indian agriculture and the millions of farmers dependent on it? The budget does not auger well for India's peasantry. Is it that PM-Kisan is cutting into much needed investments and agriculture R&D?

Gulati is Infosys Chair Professor for Agriculture at ICRIER

JULY 6, 1979, FORTY YEARS AGO


INDIAN EXPRESS

ALIGARGH TENSE

THE UTTAR PRADESH government declared Aligarh a disturbed area and empowered the local administration to impose punitive fines in the localities where incidents of violence are reported. These two measures were announced by Chief Minister Banarasi Das after prolonged discussions with his Cabinet colleagues who had gone to Aligarh to study the situation. A notification was issued under the Provisions of the Disturbed Areas (Special Courts) Act, 1973, providing for the establishment of special courts and expeditious trial of offences committed in the disturbed areas. Das explained that the law would cover the period from May 9 when the Aligarh Muslim University students on their way to Delhi were attacked at Dadri railway station. The subsequent incidents of arson, loot and murder on May 9 and 10 in Aligarh, and then the series of incidents from June 17 until July 4 — in which 14 persons had been killed — would be covered.

CONGRESS UNITY

THE CONGRESS WORKING Comjnittee will soon meet to discuss the modalities of uniting the Karnataka Congress and the Congress. Swaran Singh, Congress president, and Devaraj Urs, Karnataka chief minister, will have consultations on the subject. Singh said that there should be no real difficulty in working out suitable modalities. The convention at Bangalore passed a resolution calling for a merger of these two parties.

SKYLAB TO CRASH

THE SKYLAB HURTLING down towards earth is clearly no laughing matter any longer. The cabinet secretariat called a meeting of officials to consider the dangers involved in the 80-tonne space station which, because of a technical fault, is coming 100 yards closer to earth with every revolution of the globe. Current calculations indicate that this stranger-than-space-fiction phenomenon, of a spaceship actually striking this planet earth, might take place between July 10 and 18.

WHAT THE OTHERS SAY

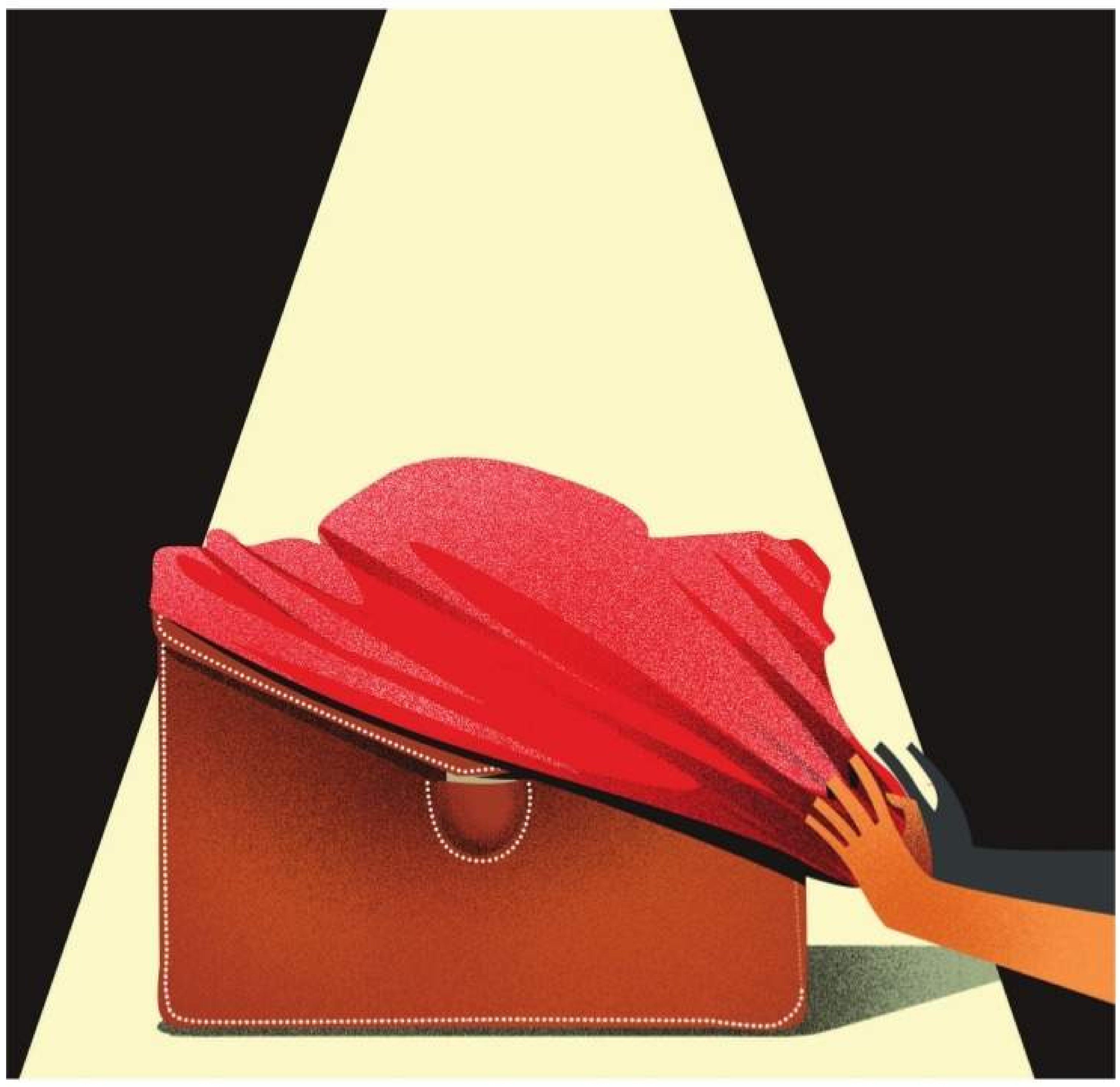
"With the gathering pace of CPEC — anathema to the separatists — the Balochistan Liberation Army appears to have taken a yet more proactive role in the insurgency."

—THE GUARDIAN

Why I give budget a 'B'

Budget misses the opportunity to weigh in on some big issues. It lacks bold ideas

BHASKAR CHAKARBORTY



Suvajit Dey

THE FINANCE MINISTER ditched the sombre briefcase of her predecessors and went with a very handsome package, seemingly right out of a Khan Market boutique. You have to give the Narendra Modi administration high marks for inspired packaging. Unfortunately, the track record from Modi 1.0 has been that what you find inside the package is, usually, not as inspiring. This budget upheld that tradition.

Nirmala Sitharaman blew it. With her interim predecessor having struck all the populist notes earlier in February and a hefty electoral mandate behind her, she had a chance to present some big ideas. She didn't. Instead, she cut a wide swathe and hit many of the requisite topics/areas one is expected to pay homage to in a budget speech: Boosting investment in select industries, investing in infrastructure, cutting taxes for some while raising those on others, simplifying "ease of living", promises to select constituencies, some more stuff on Swachh Bharat, facilitating ease of business for MSMEs, a grab bag of measures on education, female empowerment, banking, real estate.

By the time she was done, I was trying to put my finger on what was memorable and I was left with little other than the bits about the Gandhi-pedia, a TV channel for startups and a "social" stock exchange. Oh yes, I also caught the number 3.3 per cent — a lower target for the fiscal deficit for the coming year — and was wondering which poor analyst had been left to do the arithmetic on that one. How do you make spending cuts and promise corporate tax breaks without some heroic assumptions about the economy? According to the government's own estimates, the shortfall in tax collections this year is likely to hit Rs 1.6 lakh crore ($23 billion). I doubt that this budget's plan to raise taxes from the highest income brackets and on petrol will close that gap.

Speaking of that other pesky thing, the economy, that is, I was also left wondering how Sitharaman's scattering of pebbles would pave the way to the grand goal of a $5 trillion economy in time for the next election. Her pebbles were also unlikely to slow the four horsemen of the economic apocalypse: Slow-growing GDP rendered even slower once purified of all statistical skullduggery, record-high unemployment, bottom-of-the-barrel scores on the state of well-being of the average Indian, and, a global economy awash in trade wars and talks of recession.

Wait, you might say, isn't that asking for too much from a mere budget speech? You may have a point there, if you look for the annual exercise in showcasing the finance minister's oratory as a way to find out whose taxes went up or down, or whether the cess (gotta love that word) on diesel was changed. But if the budget is about articulating a vision, a proposal for how a government that has been returned to power with a landslide intends to take a transformational role, then one cannot help feeling somewhat disappointed. What were some of the big missing pieces in this budget? Let me name three.

First, during Modi 1.0, we heard a lot about Make in India and the imperative to grow the manufacturing sector. While the budget proposes incentives for high-tech manufacturing in products such as photovoltaic cells, lithium storage batteries, solar electric charging infrastructure, computer servers and laptops — a much more comprehensive plan across a wider range of job-creating manufacturing opportunities is needed.

Second, we had also heard during Modi 1.0 about Digital India. This budget was minimalist in this essential area. There are incentives to continue a shift towards digital payments and some platitudes about upskilling India's youth with education in the usual cliched areas — Artificial Intelligence, Internet of Things, Robotics and Virtual Reality — but little else. At The Fletcher School, we are about to release a major study on the ease of doing digital business around the world, and India has a big distance to cover to become globally competitive. There was little in the budget that offered hope for any breakthroughs around the corner.

Third, the budget left the pressing issue of climate change out in the cold. Other than lowering GST on electric vehicles and tax benefits on loans for such vehicles, there was silence on the central existential issue of our time. Maybe it was because the monsoon had finally made an appearance in Delhi in time for the budget speech, that the issues of scorching heat and horrendous air quality had not been in the foreground.

What did I like in the budget? Let me cite three thing. First, I liked the proposals to boost foreign direct investments in the targeted industries. Any move to bring in global resources to boost sectors such as aviation, insurance and the media, are welcome. I would hope more will be done to lower barriers to investments across a wider set of industries.

Second, I liked the focus on infrastructure development, both in terms of national highways and state roadways, as well as on the Pradhan Mantri Gram Sadak Yojana connecting rural areas. The complementary emphases on aviation and increasing cargo volume on major riverways, such as the Ganga, is sorely needed.

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Third, I also liked, in principle, a goal to ensure that by 2022, every rural family will have electricity and cooking gas as well as an intention of undertaking sustainable solid waste management in every village. I sincerely hope the good intentions are followed by even better execution.

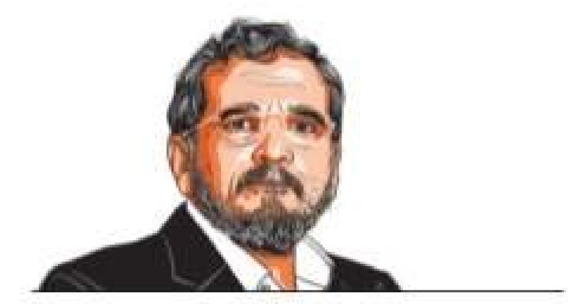
There were some ideas that were in the category of intriguing but annoyingly half-baked. Let me cite the one that I found the most annoying: The "social" stock exchange. What is that supposed to be? In theory, it would be a place to list social enterprises and enable them to raise funding. It feels very much like some member of the budget drafting team did some quick searches on "cool" ideas on the internet, and threw that in there. The track record on this is non-existent to thin. One of the early movers was an exchange that apparently originated in Singapore, that is now listed as an "impact exchange" in collaboration, inexplicably, with the Stock Exchange of Mauritius. Surely, we have bigger fish to fry in a high-profile budget proposal.

I would give this budget a B. Sitharaman will get another chance next year. I worry that without bolder ideas, the colour of her packaging of this year's budget may reflect the forthcoming financial state of the country. Yes, that lovely *bahi khata* was a lovely bright red. Let's hope the Khan Market boutique has a few other colours in stock for next year.

The writer is Dean of Global Business at The Fletcher School at Tufts University, founding executive director of Fletcher's Institute for Business in the Global Context and a non-resident senior fellow of Brookings India

Faint lines in water

Finance minister has signalled intent for a paradigm shift in water management. But Jal Shakti ministry needs to make urgent course corrections



MIHIR SHAH

INDIA IS NOT a water-short country. We have merely managed our plentiful water very poorly. What we need, therefore, is a paradigm shift in policy. Could the finance minister (FM) be said to have risen to this challenge?

Historically, India has suffered from "hydro-schizophrenia", wherein the left hand of drinking water did not know what the right hand of irrigation was doing. When the drinking water aquifer was also used to irrigate water-intensive crops, it led to an exhaustion of drinking water. The formation of the Jal Shakti Ministry is a positive first step in overcoming this problem. As the FM says, "This new Mantralaya will look at the management of our water resources and water supply in an integrated and holistic manner."

The main water-related announcement in the budget is of "piped water supply to all rural households by 2024". The FM has rightly spoken of a "focus on integrated demand and supply side management of water at the local level, including source sustainability and management of household wastewater for reuse in agriculture". This is a very welcome departure from the earlier focus only on the supply side.

But for this scheme to be a success certain preconditions must be met. First, we need a clear understanding of the aquifers to be used for water supply. The National Aquifer Management Programme and the Atal Bhujal Yojana are both pioneering initiatives but they have failed to take off, primarily because the requisite multi-disciplinary capacities are missing within government. Paradoxically, as groundwater has become India's most important source, groundwater departments, at the Centre and in all states, have only become weaker. We need to urgently reverse this trend. We must also recognise that aquifer management at this unprecedented scale cannot be left to government alone. It demands a large network of partnerships with relevant stakeholders, across the board.

We also need to ensure that the entire water supply system is operated and managed by local institutions led by women, adequately empowered to do so. They should decide upon tariffs for this water in a transparent and collective manner. Only then can these systems become sustainable and overcome historically inherited gender, caste and class inequities.

While drinking water is the first priority, we must remember that 90 per cent of India's water is consumed in agriculture. Without reducing this number, we can never hope to meet the domestic water needs of rural and urban India. Irrigation is monopolised by a few water-intensive crops like wheat, rice and sugarcane, even in chronically drought-prone states. A small reduction in the area under these crops would go a long way in addressing India's water problem. Any player in the stock market knows that to counter market volatility, we must diversify our stock portfolio. Farming faces an additional risk: Unpredictability of the weather. For such a risky enterprise to adopt monoculture is patently suicidal. But that is what policy has implicitly driven farmers to do. We have failed to incentivise crop diversification.

Farmers grow water-intensive crops mainly because these are the only crops with an assured market, thanks to government procurement or private purchase. We need to urgently diversify public procurement to include less water-consuming and more nutritious crops such as traditional millets and pulses. If we were to introduce them into the diets of the Integrated Child Development Services and Mid-day Meal Programs, globally the largest nutrition initiatives for children ever, we would create a large and steady demand for these crops, while also generating multiple win-wins: Greater water security, better soil health, higher, more stable net incomes for farmers and robust consumer health.

The most encouraging announcement in the budget in this direction is the historic decision by government to "go back to basics" by promoting zero-budget natural farming. I have some reservations about the possibility of farming becoming totally zero-budget. But there is no question that we urgently need to explore all possible alternatives to the 20th century paradigm of chemical agriculture. Here, what is not so encouraging is the fine print of allocations in the budget tables. It is disheartening to find that a government committed to natural farming continues to provide as much as Rs 79,996 crore in chemical fertiliser subsidy, a rise of nearly Rs 10,000 crore over last year.

Most of this subsidy (which in any case accrues mainly to fertiliser companies and not to small and marginal farmers) must be urgently diverted to facilitating the production of organic inputs by Farmer Producer Organisations and women's SHGs, to meet the huge demand likely to arise from the move towards natural farming. Only then can the FM credibly claim that "steps such as this can help in doubling our farmers' income in time for our 75th year of Independence".

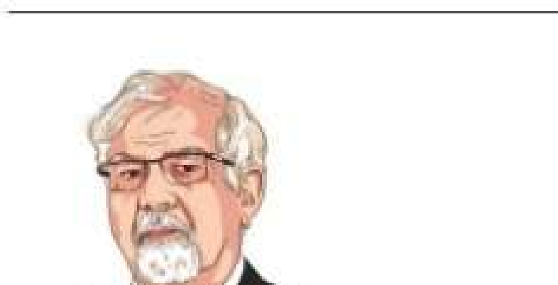
It also appears that the Department of Water Resources within the new Jal Shakti ministry has not yet had the time to shake-off its outmoded pattern of budgetary allocations and its silo-based approach to surface and groundwater. This is totally in conflict with the refreshingly bold pronouncements of the new Jal Shakti minister who seems fully committed to holistic, bottom-up river-basin management and river rejuvenation. It is also very strange to find that the watershed programme is not within the Jal Shakti Ministry, even though it is part of the PM Krishi Sinchai Yojana. Pathetically low allocations for this key programme are also a cause for serious concern.

I remain optimistic that the Jal Shakti ministry will make urgent course corrections so that India can head towards a real paradigm shift in water management, the intent for which has been clearly signalled by the FM in her maiden budget speech.

The writer is Distinguished Professor, Shiv Nadar University and former Member, Planning Commission

She (almost) conquered

FM could have been bolder. But budget is heavy on vision and inclusive growth



SURJIT S BHALLA

BUDGETS USED TO be an accounting statement — and finance ministers indulged their favourite industrialists to reveal who was favoured and who was not. Excise taxes went up for those the FMs wanted to punish, and down for those they wanted to encourage. Then came GST. Now 18 months old, and with the GST Council making all the decisions, there is precious little for the FM to do on indirect taxes. We await the finalisation of the direct tax code. Until then, the Union Budget can tinker around (this time more than tinker) with corporate and individual tax rates. The good news is that the corporate tax rate was reduced from 30 per cent to 25 per cent for all but 0.7 per cent of firms. Why not all firms is a question everybody is asking.

And then, there was the tinkering with income taxes and surcharges on the super-rich. Call it a (unsuccessful) balancing act to reduce corporate tax rate or a pointer to the fact that tax authorities still have not graduated from their "increase tax rate and get lower tax revenue" axiom of the Indira Gandhi era. So, bowing to Thomas Piketty, the tax rate for the super-rich was increased, via an increase in the surcharge to near 40 per cent, a rate last observed before the dream tax budget of 1997.

How much extra tax revenue would the Ministry of Finance get from this exercise? Don't ask embarrassing questions, but likely the same amount they got from imposing the long-term capital gains tax — that is, a tax loss rather than a tax gain. Why? Because tax avoidance (a favourite Indian habit) creeps in and absolutely fewer super-rich people will accurately report their super-rich incomes. And given that the highest corporate tax rate is 28 per cent (25+3 per cent surcharge), there will now be a 12 ppt gap between the corporate tax rate and the rate for rich individuals — likely to be the largest such gap observed in the world today. A very predictable consequence is individual incomes will go down, corporate incomes will go up and total direct tax collection will come down. This underlies the urgency of reaching a direct tax code so the FM's hands are tied (like they are for indirect taxes). So this budget may be the last one for the tinkering of direct taxes.

But all is not lost for those wanting to "intervene". The budget of the future, likely next year, will be one where the only tax rates tinkered with will be custom duties. For example, the present budget imposed a 5 per cent custom duties on imported books. Most of us want to believe that such purchases should be subsidised, especially since the budget (correctly) laid emphasis on education and the National Research Foundation. The total value of imported books (children picture books, etc, harmonised code of 4901) in 2018-19 was $154 million or 0.03 per cent of total imports. At 5 per cent tax rate that will yield a tax revenue of Rs 54 crore.

But that is where the bad news ends. Besides these guffaws (and maybe a few others I missed), Nirmala Sitharaman's budget speech was what budget speeches ought to be. A vision statement of what the government plans to do. She set the tone of her speech in an honest and direct manner. She was presenting the budget because the BJP had achieved an overwhelming mandate. She emphasised the build-up of the foundation of equality — infrastructure, water, sanitation, housing, power, roads — and women empowerment. The provision of these public goods are the essence of good governance — and what inclusive growth is all about.

Future budgets should be like this — no longer an accounting statement, like past budgets. Accounting should be left to accountants, or accounting economists. Thankfully, the FM presented the fiscal deficit as an afterthought — at 3.3 per cent for 2019-20, down marginally from the interim budget estimate of 3.4 per cent. The implied nominal GDP for 2019-20 is a 12 per cent increase over 2018-19. Even if nominal growth is 11 per cent, this would mean that the fiscal deficit will be at the originally budgeted 3.4 per cent. Revenues are budgeted to increase by 13.5 per cent — even with slippage on both revenues and GDP, the likely fiscal deficit will be 3.5 per cent of GDP. Finally, and thankfully, such small differences in fiscal deficits are not only not a talking point, but, at best, a footnote.

We await the future, perhaps as early as February 2020. One can't expect a budget to be a perfect statement of intent and vision. But Sitharaman's premier budget statement is a good start.

The writer is contributing editor, The Indian Express. Views are personal

LETTERS TO THE EDITOR

UNPREPARED AGAIN

THIS REFERS TO the editorial, 'Mumbai's tragedy' (IE, July 4). Every year, the lack of preparedness during the monsoon season causes floods in Mumbai and leads to heavy financial losses and the loss of lives. There should be a proper flood forecasting system to identify the flood-prone areas so that adequate measures can be taken in advance. The proper cleaning of a clogged drains in urban areas and desilting of adjoining canals must be done from time to time so that excessive water during flooding can pass to safer areas.

Harvinder Singh Chugh, *Jalandhar*

FOR ART'S SAKE

THIS REFERS TO the article, 'Art from above' (IE, July 4). The writer has unnecessarily sought to make caste a factor in understanding and appreciating art, particularly cinema. An artist's talent is what matters, and that has nothing to do with caste. Just take the example of Manoj Bajpai and Pankaj Tripathi. Satyajit Ray may have been upper caste, but his adaptation of Premchand's *Sadgati* examined and criticised caste atrocities. A reform of the caste system should begin with upper castes actually believing in equality. But caste considerations should not be brought into art.

H Upadhyay, *via email*

OLIVE BRANCH

THIS REFERS TO the article, 'A new deal for Kashmir' (IE, July 5). The political discontent among a section in Kashmir demands a stakeholder-led political solution. The political mainstream in the Valley swear by the Constitution, and hence they are rightful stakeholders to engage with. Any new deal for peace has to be conceptualised under the existing constitutional scheme. A sustainable approach in this regard has to be with an olive branch and not olive uniform.

Sudip Kumar Dey, *Kolkata*

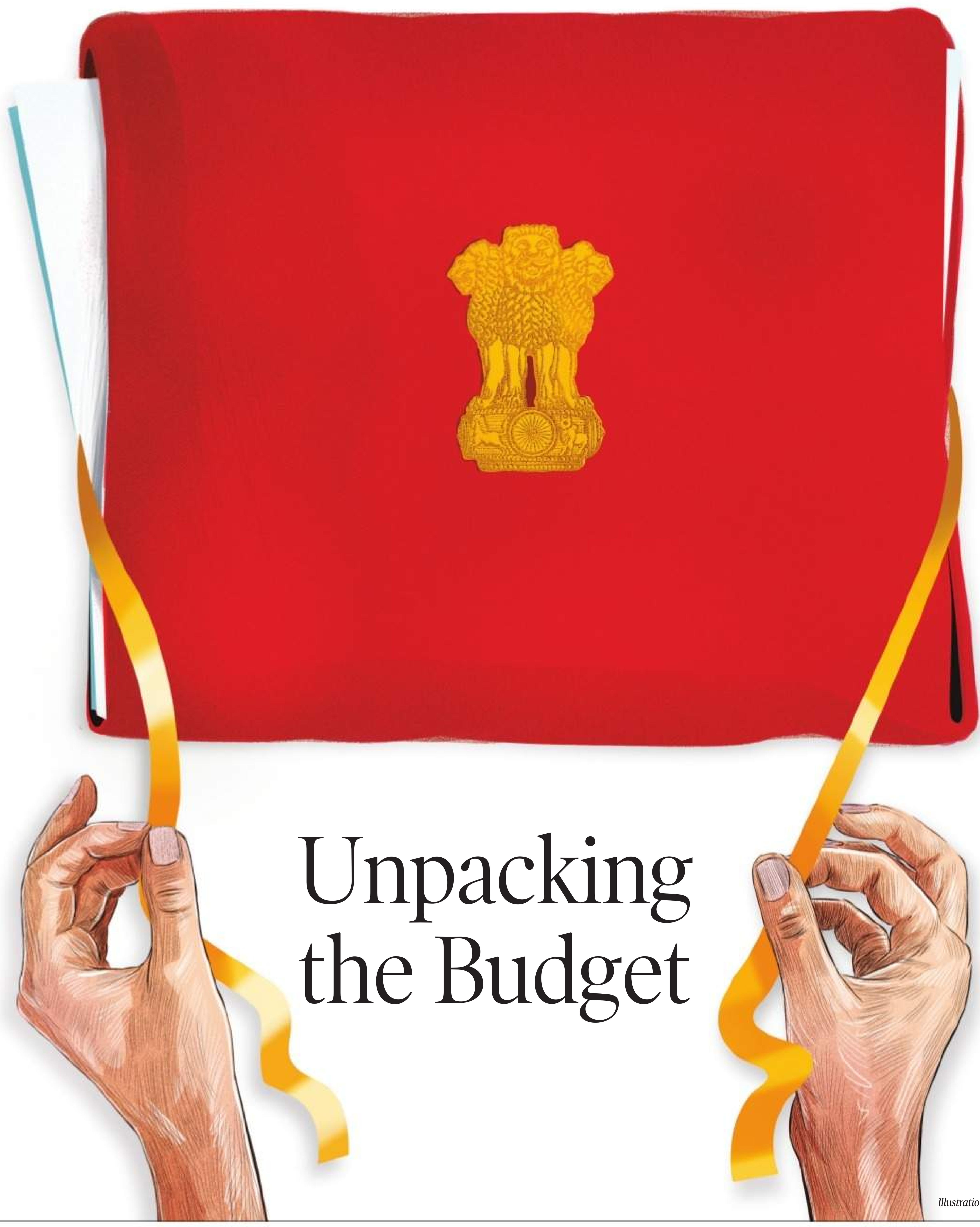
LETTER OF THE WEEK

REVIVE CONGRESS

THIS REFERS TO the article, 'Rahul quits as Cong chief' (IE, July 4). Now that the uncertainty around Rahul Gandhi's resignation has ended, the Congress should start building an organisational structure that facilitates direct election of the party leader by party workers. A leader elected through such a massive backing is bound to have the competence and credibility for the top job. Moreover, the decimation of smaller caste-centric regional parties that have been chipping away at its vote bank over the years offers the Congress a good opportunity to regain the centre-left political space.

S B Bhalerao, *Mumbai*

UNION BUDGET '19-20



Unpacking the Budget

Illustration: Suvajit Dey

How has the first-time finance minister, Nirmala Sitharaman, scored on her debut? Has the first Budget of PM Narendra Modi's second term laid the foundation for achieving the goal of making India a $5-trillion economy by 2025? Will the Budget address the pressing concerns of the Indian economy? SHAJI VIKRAMAN, UDIT MISRA & ISHAN BAKSHI cut through the clutter

What are the key challenges being faced by the economy?

The last financial year has witnessed the Indian economy lose growth momentum. India's real GDP growth fell from 7.2% in 2017-18 to 6.8% in 2018-19 — a five-year low. In fact, the GDP growth rate in the fourth quarter of 2018-19 was just 5.8% — the lowest in 20 quarters. This weakness was also seen in the so-called high frequency indicators. For instance, auto and consumer goods sales have been slowing down.

Similarly, trade statistics continue to be broadly stagnant. Muted exports, in turn, have put pressure on India's current account deficit, which is close to 2.5% of GDP. The notorious twin-balance sheet problem — that of commercial banks and corporate entities — has not yet been resolved fully. But perhaps the most worrying aspect, from the perspective of sustaining high growth, is the poor investments rate. Growth deceleration is showing up with widespread unemployment, which, at the last count was at a 45-year high. The farm sector, too, is facing considerable distress. What limits the government's capacity is the fact that the fiscal deficit is already above the targeted levels. In other words, the government cannot spend its way out of the current slowdown. The uncertainties in the global economy, too, limit growth prospects.

Has the Budget contained the fiscal deficit?

The fiscal deficit, which reflects the government's borrowing requirement, was one of the key concerns this year. A high fiscal deficit essentially crowds out the private sector from using financial resources. In the interim Budget for 2019-20 announced in February, then Finance Minister Piyush Goyal had pegged it at 3.4% of GDP. Most expected this number to actually rise. However, the new finance minister surprised everyone by actually pulling down the fiscal deficit for the current financial year to 3.3%. While the difference is marginal, it is the signalling that is significant.

However, most observers want to reserve judgment on the government achieving this number. For one, the tax revenue numbers look optimistic especially since revenue growth assumption for the last financial year have not been met. Moreover, there is considerable off-budget borrowing that hides the real fiscal deficit number.

Does it boost economic growth?

This is possibly the most intriguing issue. On the face of it, the 'Budget at a Glance' document states that the nominal GDP will grow by 12% in the current year. If that is taken at face value, and one assumes that the retail inflation this year would range between 3.5% and 4%, then the real GDP will grow at anywhere between 8% and 8.5%. If this was indeed the case, then it would be a great achievement, especially since growing at 8% each year is what India needs to achieve the $5-trillion economy goal by 2025. However, the 'Macroeconomic Framework Statement', also supplied with the Budget documents, gives a significantly different picture. It states that the nominal GDP for the current year will be 11%, thus bringing down the real GDP rate to 7%-7.5% range. The interim Budget had assumed a nominal GDP growth of 11.5%. As such, this Budget's growth forecast is unclear.

Has the Budget done enough to address farm distress?

The widespread agrarian distress in spite of bumper production in recent years has been an area of grave concern. With each passing year, PM Narendra Modi's target of doubling farmers' incomes by 2022 has been becoming stiffer. In the interim Budget, the government finally resorted to providing direct income transfer to the smallest farmers. While the Budget allocation for the sector has gone up thanks to PM-KISAN, there were hardly any reform measures to make farming more remunerative. The finance minister talked about starting thousands of farmer producer organisations in the next five years. She also talked about zero-budget farming. However, none of these might be able to achieve a transformative change that many were hoping the government would attempt. In the process, the goal of doubling farmers' incomes looks even more elusive than ever.

> Allocation for agriculture has gone up; FM talked about starting thousands of farmer producer organisations, zero-budget farming. However, none of these might be able to achieve a transformative change. In the process, the goal of doubling farmers' incomes looks even more elusive than ever

Will the Budget lead to greater investment in the economy?

The government has said it will invest heavily in infrastructure and in the digital economy. The Budget does talk of proposed investments of Rs 100 lakh crore over the next five years in infrastructure, which could be in roads and few other sectors. But more clarity on that could perhaps come later after the government finalises the structure of long-term financing and a new long-term development financial institution to fund such projects. On the face of it, there does not seem to be any major trigger or incentive for firms to commit more capital.

Will the Budget proposals boost employment?

For the manufacturing sector *per se*, there aren't many proposals that will enhance jobs. The government may be betting on global companies coming and setting up mega manufacturing plants in areas such as semi-conductor fabrication, solar photo voltage cells, lithium storage batteries by providing investment linked income tax waivers and other indirect tax benefits. But such projects under similar schemes have never really taken off the ground. A case in point is the Vedanta group's $10-billion project to set up India's first plant to make flat panel displays for TVs.

What is the impact on the middle class?

In keeping with the goal of housing for all, the finance minister announced measures to boost both the demand and supply of affordable housing in India. To boost demand, the Budget provided an additional deduction of Rs 1.5 lakh for interest paid on loans for an affordable house that is valued up to Rs 45 lakh. This is in addition to the existing interest deduction of Rs 2 lakh. This implies that a person purchasing an affordable house can now avail of an enhanced interest deduction of Rs 3.5 lakh. The Budget has also proposed that public infrastructure and affordable housing be taken up on land parcels held by the Centre. This could help boost the supply of affordable housing.

On the other hand, the finance minister announced higher taxes on petrol and diesel. Consequently, consumers will have to pay roughly Rs 2.50 per litre of petrol and diesel.

How have the financial markets reacted?

The Budget failed to cheer investors, with the markets ending the day in the red. The S&P BSE index, which had zoomed past the 40,000 mark during the day, fell over 500 points from the day's high, ending the day almost a per cent lower at 39,513. The Advances-to-Declines ratio for the National Stock Exchange (NSE) was 476 advances to 1,265 declines. Most sector indices ended the day in the red. The only exceptions were the Nifty PSU bank index and the Nifty Bank index, which gained after the announcement of a capital infusion of Rs 70,000 crore. The Nifty PSU bank index ended the day at 3,303, up 0.18 per cent from its previous close.

Did the Budget break new ground?

In a way, yes, with the government's decision to borrow from the international debt markets for the first time. That's a move which has been in the making for a couple of decades but on which successive governments could never move ahead. In the past, the Reserve Bank of India has not been too enthusiastic about it. The move will help establish a benchmark yield for Indian bonds and this is likely to impact corporate borrowings as well.