The Hindu Centre for Politics and Public Policy

Background Note 4
Union Budget 2017: A Panel Discussion

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Moderated by

Raghavan Srinivasan
Editor, The Hindu BusinessLine
Union Budget 2017: A Panel Discussion

Friday, February 3, 2017

Venue: Kasturi Srinivasan Hall, The Music Academy, Royapettah, Chennai

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Union Budget 2017

India’s Union Budget for the financial year 2017-18 is set against the backdrop of a mix of historical economic developments in independent India. Easy to recall is the sudden announcement by the Prime Minister, Narendra Modi, on November 8, 2016, to demonetise High Value Denominations of Rs.500 and Rs.1,000, which constituted a reported 86 per cent of the currency value. This was preceded, albeit a few years ago, by the dissolution of the Planning Commission, the consequences of which were reflected in the current budget when the distinction between Plan and Non-Plan Expenditure was extinguished. On the floor of the Lok Sabha itself, the customary Railway Budget, presented a day before the General Budget, was done away with, with the Union Finance Minister including the finances of the Indian Railways in the Union Budget that he presented to Lok Sabha on February 1, 2017.

Seen against this backdrop, in particular that of demonetisation and the caps on withdrawals of cash, there was a justifiable air of expectancy that the Union Budget would have taken the additional steps to provide a fillip to popular and corporate sentiments. The expectations included possible across-the-board reduction of income tax rates, a possible reconfiguring of the working of the welfare state mechanism, be it preparing the ground for some form of uniform basic income or other direct transfer methods and sector-specific wish lists.

On February 1, however, the Union Finance Minister, Arun Jaitley, presented a business-as-usual budget. Under normal circumstances, devoid of an emotional dampening of the popular mood, this budget would have been seen as a bold move. However, coming in the wake of promises of flushing out the black economy and redeploying such unearthed (not to forget un-estimated) sums of money as largesse for the poor, the Government appears to have set itself against the task of meeting popular expectations raised by it among the public.

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Yet, even under such circumstances, by resisting the temptation to walk down the emotive route for too far a distance, Jaitley has won the appreciation of professional economy-watchers. For instance, Anjan Ghosh, the Chief Ratings Officer of the credit-rating agency, ICRA, noted:

“The most significant aspect of the budget is its commitment to curtail the fiscal deficit to 3.2 per cent of GDP, despite the FRBM (Fiscal Responsibility and Budget Management) committee providing leeway to relax it to 3.5 per cent of GDP.”

The markets have also responded well to what the Finance Minister espoused as the priorities of the government in terms of economic approach and public finance for the coming fiscal year. The focus on infrastructure, which is consistent with approach of governments led by the Bharatiya Janata Party, has the potential now to be taken to a new level of government engagement with the inclusion of the Railways’ financial requirements in the general budget. While this could come at the cost of immediate transparency—in the form of a Railway Minister’s speech outlining among other indicators the critical ones such as Operating Ratio and apportions to Depreciation Reserve Fund and Railway Safety Fund—it also gives the opportunity to “synergise investments in railways, roads, waterways and civil aviation.”

The doing away with a separate Railway Budget, however, also has to be read with other moves by the incumbent government to do away with institutions and practices built up over the decades since Nehruvian India, such as the abolishing of the Planning Commission and replacing it with the Niti Aayog, attempting to convert a largely cash-based economy into one that will take to the digital mode, reinfusing the importance of the manufacturing sector, for instance. While results of economic policy and institutional changes are subject to time lags, present assessment can largely be based on intentions, initially, and feasibility and trajectory, subsequently. On these measures, there appears to be popular connect. To that extent, while Jaitley’s Budget speech is to be welcomed for its positives such as fiscal consolidation, impetus to infrastructure, making the way for lowering costs of online transactions, and stepping up allocation for digital connectivity, it is also important that the task is not left half-done.

Studies supported by The Hindu Centre for Politics and Public Policy since its founding in 2013 have pointed out gaps between government policy and implementation. For instance, on rural digital connectivity, in which the Budget aims to provide “broadband connectivity on optical fibre

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…in more than 1,50,000 gram panchayats” by the end of the fiscal year, a report supported by The Hindu Centre in 2016 points out that action is required in terms of

“attention to regular maintenance and repair, in terms of budgetary provisions that include salary for dedicated personnel, be incorporated as an integral part of the way the NOFN infrastructure is rolled out and built. Without this, the infrastructure loses its functionality and its ‘completed’ status is rendered meaningless.”

The budget speech is also to be noted for the silence it maintains on issues that the Government saw as important in the past, the Prime Minister’s Jan Dhan Yojana, to name one, and the reduction in the allocation made to its much-talked about Smart Cities Mission. In the case of the latter, the allocation declined from Revised Estimate for 2016-17 of Rs. 9,559 crores to Rs. 9,000 crores in the Budget Estimate for 2017-18.

The Finance Minister’s proposals to support the Micro, Small and Medium Enterprises (MSME) sector is welcome in that it constitutes a much over-looked segment. However, as the co-founder of Infosys, S. Gopalakrishnan, writing in The Hindu, points out, the budget did little to create an environment supportive of new businesses or for investing for the future in terms of research.

“…there isn’t anything new in the budget for start-ups and new business creation. We should create an aggressive goal of creating 1 million new businesses, with at least 10% of these created from academic research.”

Pointing out to a missed opportunity, he observed:

“The next 30 years are going to see exponential opportunities in healthcare, transportation and logistics, manufacturing etc. Examples are cure for cancer and genetic diseases, driverless cars, 3D printed objects, appliances and food etc. India must invest in research in these technologies, create products and businesses, create an innovative future for our economy and create jobs of the future. This budget was an opportunity to invest in creating such a future.”

There have been opportunities missed in the social sector as well. For instance, over the past decade and more, there has been widespread recognition and acceptance of a strong social security net, particularly in the context of the government withdrawing itself from the role of a job creator. The Economic Survey 2016-17 had stated the government’s thinking on a Universal Basic Income (UBI). However, this approach, which reveals an ‘either-or’ binary between existing subsidies and

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9 The Hindu Centre for Politics and Public Policy has supported studies in these programmes. The reports can be accessed at Policy Report No. 11 - Pradhan Mantri Jan Dhan Yojana: An Analysis of Policy Design and Implementation Gaps and Policy Report No. 13 - Dholera Smart City: Urban Infrastructure or Rentier Growth?

a proposed UBI, could not be the ideal way forward. As Jayati Ghosh points out, writing in *Frontline*, there is valid scepticism that a UBI which replaces the existing subsidies, paltry as they are, will end up “reducing government spending, not increase it.” Before the government can establish its credentials of being effectively pro-poor. Moreover, there is little in this budget that quell apprehensions that

“…much of the talk around the UBI in India is also directed at attacking not just what are classified as “wasteful subsidies” but even the food security programme and the employment guarantee programme. The idea seems to be that money saved by reducing or even giving up on these programmes can instead be used to put a bit of money into individual accounts, using the JAM (Jan Dhan accounts, Aadhaar and Mobile—the government’s holy trinity) interface.”

In this context, the reluctance to significantly step up social expenditure is also an opportunity lost to recalibrate existing welfare schemes by a government that appears eager to dispense with past political and institutional legacies. Also significant, but welcome in the absence of any credible approach to ensure social protection, is the omission of any big-ticket reforms, particularly in labour, which has been an expectation of corporate India since the 1990s.

Public finance lies at the intersection of politics and economics. An annual budget’s role in redistributive finance is one measure of where its politics lies. Another measure is its allocative role.

Jaitley’s budget, by providing substantial tax relief only to those at the bottom of the tax-slab, and by setting the path for better returns for the private sector in infrastructure, to name one, has aimed to balance its pro-poor approach to politics with a strong preference for private profits in running the economy. That this comes at the cost of governmental reluctance to invest more in its peoples is a fundamental issue that requires correction.

Background note prepared by: V.S. Sambandan.

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(All online references were last accessed on February 2, 2017)
Panellists

**Praveen Chakravarty** is a Senior Fellow in Political Economy at the think tank, IDFC Institute. Chakravarty spent two decades as an investment banker in India and the U.S. Subsequently, he worked as a consultant with the Unique Identity Authority of India (UIDAI) and the National Skills Development Agency (NSDA) during the UPA-2 tenure. He is currently an Independent Director and Adviser to some TVS Group companies. Chakravarty is the Founding Trustee of IndiaSpend, India’s first non-profit data journalism initiative.

Chakravarty is a Vice President of the Sri Parthasarathy Swami Sabha in Chennai. He holds an MBA degree from the Wharton School and an undergraduate degree from BITS, Pilani. He is a prolific writer and has authored articles on issues of economic and financial policies in leading print and digital publications.

**C.V.S. Krishnakumar** is member of taxation Committee of SICCI. He is a member in ICWAI & ICSI. He is in the board of Kone India. He has over 30 years of experience in Automobile and other sectors. He worked in the Indian Railways for 8 years before moving to the corporate world. He was closely involved with the famous Kone case that went up to the constitutional bench of the Supreme Court.

**R. Srinivasan** is Associate Professor in Econometrics at the University of Madras and has been in the academic field since 1988. He served as a teacher in several colleges in the Union Territory of Pondicherry and Tamil Nadu. He was an economist in the Tax Reforms and Revenue Augmentation Commission, Government of Tamil Nadu in 2002-03 and then a member of the State Planning Commission, Government of Tamil Nadu in 2006-11. Since 2008 he has been with the University of Madras.

Srinivasan holds a PhD degree in Economics. His doctoral thesis was on 'Union Financial Transfers and Horizontal Equity in India'. He contributes academic articles to journals and popular articles in English and Tamil to newspapers and magazines on issues relating to Public Finance, Education and regional economics, with focus on Tamil Nadu.
Moderator:

Raghavan Srinivasan (he has also written as Ravi Srinivasan) is a senior business journalist and columnist, who has been reporting, analysing and interpreting the India growth story since the inception of economic reforms in India. Even prior to the start of reforms, he was one of the pioneers of corporate journalism in India, bringing first-hand experience and insight to reporting on Indian businesses, since he switched to journalism after nearly a decade-long stint in marketing in major corporates. An investigative journalist of repute, he has been responsible for breaking major stories like the Harshad Mehta stock scam, the return of Coke to India, the collapse of UTI among many others.

Currently the Editor of The Hindu BusinessLine, he has, in the past, led editions and held senior editorial positions in major newspapers around the country, including The Times of India, Indian Express, Hindustan Times, Mail Today, Financial Express and Business Standard.