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Budget and the building blocks of growth

The Union Budget is being presented at a time when the economy is not doing as well as in the recent past. Gross domestic product (GDP) growth is estimated at 5 per cent during this fiscal, which is the slowest in a decade. Besides, private investment remains muted, consumption demand is falling and there is limited fiscal space to stimulate the economy. Under these circumstances, there are hopes that the finance minister would unravel a reformist Budget, which would deploy varied policy levers for resuscitating growth while adhering to the precepts of fiscal prudence.

The government has been quick to respond to the slowdown. Significant positive policy decisions have been taken to boost the economy. For instance, the reduction of corporate tax rate, removal of enhanced surcharge on foreign portfolio investments (FPIs), provision of additional depreciation to automotive industry, bank recapitalisation, a package for housing and exports are all measures to augment demand. Yet this is not enough. And the Budget provides the opportunity to do much more to revive the economy.

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The economic revival strategy would rest on four prongs: Revival of investment and consumption demand, rural rejuvenation, fiscal prudence, and fillip to social sectors such as education and healthcare.

Firstly, a rebound of the investment cycle is the key to recovery. Gross fixed capital formation as a share of GDP, which had peaked at 34.3 per cent in 2011-12 has declined to about 28.1 per cent in 2019-20. The Confederation of Indian Industry (CII) would like to see significantly more public spending on infrastructure by building more roads, bridges, ports, airports etc, which would not only kick-start the investment cycle but would also provide more jobs. The recently announced National Infrastructure Pipeline for this year and beyond is a commendable effort in this direction.

Given the issues relating to land acquisition — the key reason for stalling of projects already awarded — requisite land should be acquired before tendering, so that there is a continuous flow of projects for sustained execution.

Another way to boost investment and growth is to bring manufacturing to the forefront of economic revival — through a fillip to Make in India. High growth in manufacturing would not only unlock huge employment potential, especially at low skill end, but also ensure that economic growth becomes more inclusive.

So far, new investments in manufacturing have not been forthcoming due to high corporate tax rates as well as high cost of equity capital such as long-term capital gains tax and dividend distribution tax (DDT). While the government has reduced corporate tax rates, the problems related to multi-point taxation of dividends and long-term capital gains tax remain. This results in high cost of equity capital.

The CII has recommended reintroduction of the classical tax system, where income tax is levied separately on company income and on dividends received by shareholders. Similarly, long-term capital gains (LTCG) tax on all asset classes should be removed or at least it should be fixed at 10 per cent for all asset classes with a holding period of 12 months.

Issues such as reducing the trust deficit between government and taxpayers, simplification of tax system, reducing tax litigation and delayed payments, encouraging investments in new businesses and retaining customs duty at 10 per cent are important, which merit consideration.

However, reviving investment demand is not enough. There is need to put more money in the pockets of the consumers, particularly the low-income strata, to revive the demand cycle. The Budget must find ways to revive incomes and wages in rural India. For a country whose proportion of rural population is above 50 per cent, government efforts towards boosting rural income is vital.

The annual Budget is an influential policy lever to make a difference to rural lives. There is a strong case for augmenting investment in agri-infrastructure such as cold storage, rural roads, marketing network and facilities etc. Besides, diversification of agriculture from traditional crop cultivation to horticulture, promoting labour intensive manufacturing, incentivising FPOs (farmer producer organisations), phasing out agri-input subsidies, linking *mandis* to e-nams, etc would need to be worked out to improve income opportunities.

There is also a need to enhance allocation on MNREGA, reduce personal income tax and rationalise goods and services tax rates to perk up consumption demand in the short term.

Thirdly, the fiscal deficit target should be increased by around 0.5 per cent to 0.75 per cent of GDP to enable the government to get the requisite fiscal space to augment investment in infrastructure. A deviation from the fiscal glide path of the government can be justified in the current economic circumstance, as it provides space for greater public expenditure to revive demand and boost economic growth.

Alongside rationalising unproductive expenditures, it will also be pertinent to balance the Budget by ensuring execution of all the revenue levers, such as tax compliance, asset monetisation and disinvestment, to ensure that fiscal deficit remains within range.

Lastly, the Budget should adequately provide for education and skill development as well as healthcare and social protection. The per capita expenditure on education and health has been significantly below international averages and this Budget should seek to make a decisive change.

The writer is director general of CII