

RGICS TALK SERIES on BUDGET 2019-20: EXPERT INSIGHTS

BUDGET 2019-20: WILL IT DELIVER WHAT IT PROMISES

A TALK BY SHRI P CHIDAMBARAM

- Overarching promise of every government is to deliver high growth. Over the period of 5 years, the government has delivered growth rate of 7.5%, nowhere near double-digit growth. Even that 7.5% is susceptible given data consistency issues, as has been testified by Dr Raghuram Rajan & Dr Arvind Subramanian.
- Economic Survey promises 7% growth rate. While in budget, government has assumed growth rate of 8%, inflation rate of 4%, nominal growth rate of 12%.
- Indian economy needs structural reforms as advised by many economists & industry people. Government has not proposed any structural reforms in the budget. In the previous 5 years, major structural reforms undertaken were implementation of GST (Goods & Services Tax) & IBC (Insolvency & Bankruptcy) Code. Therefore, government is likely to continue with the existing policies & programmes.
- A close study of the budget indicates that in terms of major investment and growth promoting activities, there is only 300 km metro line addition; 10,000 km FAME and accelerated water transport movement of cargo along the Ganga River.
- In case of tax collections, except corporate tax, estimates for all other taxes such as custom, excise & GST is not credible.
- Gross fixed capital formation (as % of GDP) has remained constant over the last 4 years at 28, while fallen from 31.36 in 2013 to 28.8 in 2018.

- Therefore, the boost to growth will not come from higher investment, but through attaining higher efficiency i.e. lower ICOR (Incremental Capital Output ratio)
- Given the fact that economy grows at a nominal rate of 12%, it requires no major policy reform or understanding to predict that size of economy will double every 6 yrs.
- Hence, Budget 2019-20 is "status-quoist" as it seeks to bring about only incremental reforms and not radical reforms required by the country to grow faster. Subsequently, there won't be much increase in public spending on health & education. There is nothing in the budget to take care of the 20% poorest of the poor.

Also read: https://www.business-standard.com/article/pti-stories/budget-status-quoist-does-not-look-for-radical-reforms-for-faster-growth-chidambaram-119070801255_1.html