Budget-making as Political Instrument

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If an element of surprise is a hallmark of a good budget, then Finance Minister Nirmala Sitharaman can pride herself on having won the day on February 1. In a briefer than usual Budget speech, reflecting impatience to get to the end, Sitharaman concluded with an unexpectedly large tax break for the tax paying middle classes. The tax-free income level has risen from Rs. 7 lakh to Rs. 12.75 lakh and revised rates in different tax slabs give substantial benefits to those required to pay income taxes. That concession results in an estimated Rs. 1 lakh crore of potential direct tax revenue forgone, according to the minister.

While speculation of some tax benefits for the middle class, especially salary earners, had been aired in discussions leading to the budget, the scale of the concession seen from the side of revenue generation surprised many. As many cartoonists humorously revealed, the concession does not benefit the many unemployed and the large proportion of the working population that doesn't fall in the income tax paying universe. But the concessions did win the finance minister urban middle class praise and diverted attention from the fact that the rest of the budget carried little of substance.

As expected, many commentators saw in the Finance Minister's largesse a dominant political objective. Elections in middle-class dominated Delhi, where the central government led by the Bharatiya Janata Party has been utilising its special powers in the capital region to battle with the incumbent Aam Aadmi Party and is struggling to wrest power from it, were just days away. The decision to heed the "voice of the middle class" and reward with tax give-aways the "admirable energy and ability of the middle class in nation building" is obviously politically motivated. So are the benefits for the state of Bihar, chosen for special mention int the Budget—a greenfield airport, money to extend, renovate and modernise the Western Koshi Canal system, and a new Board to support Makhana cultivation (more than 80 per cent of which is in Bihar), to name a few. Bihar too goes to the polls later this year. A political agenda more than anything else drives this year's Budget.

Providing for that agenda must, however, have posed a challenge for the finance minister. The National Democratic Alliance's embrace of neoliberalism has already been costly in terms of revenues forgone. Tax forbearance, concessions for big business, especially the sharp reduction in corporate tax rates in September 2019, and the broken GST regime it took over from the UPA and owned, have all eroded the Centre's revenue base. That erosion was for some time 'managed' by accessing 'exceptional resources'. Revenues were squeezed out from the legitimate shares of the states by relying on cesses and surcharges not included in the pool of taxes that must statutorily be divided between the Centre and the states. The cesses administered by the Department of Revenue, which include the cess on crude, on motor spirit and diesel, and the agriculture and infrastructure development cess, garnered an average of Rs. 1.2 lakh crore annually during 2022-25. Large volumes of non-tax receipts were mobilised through sale of spectrum (Rs. 1.23 lakh crore in FY25), procurement of special dividends from cash rich public enterprises (Rs. 55,000 crore in FY25), and enforced transfers of large "surpluses" from public sector banks and the Reserve Bank of India to the Centre's budget (Rs. 2.3 lakh crore in FY25). This helped finance corporate tax concessions, some capital spending and limited allocations for different welfare schemes linked to the ruling Party and the Prime Minister, even while the Finance Minister could claim in successive budgets that she is more

or less sticking to the path of fiscal consolidation, by limiting fiscal deficits so as to reduce and stabilise the ratio of the central government's debt relative to GDP.

However, the fiscal squeeze is back in place. The exceptional sources of revenue have reached saturation point. The government's efforts at mobilising "non-debt creating capital receipts" excluded from the calculation of fiscal deficits through privatisation have not been too successful. "Miscellaneous capital receipts", consisting largely of funds mobilised through those means, have consistently fallen short of budget estimates by a large margin. While budgeted at Rs. 61,000 crore in 2023-24, actual receipts fell short by 84 per cent at Rs. 33,122 crore. The budgeted estimate was reduced to Rs. 50,000 crore in 2024-25, whereas receipts as per the revised estimates are 52 per cent lower. Yet, to help the Finance Minister manage her accounts on paper, the budget for 2025-26 estimates these receipts at Rs. 47,000 crore. There are, however, limits to squeezing out exceptional resources at the expense of the states, the public sectors enterprises and the Reserve Bank of India.

Meanwhile, growth is slowing, with little disagreement on the view that the deceleration is on account of dampened consumption demand, low investment by big business firms that are earning large profits, and inadequate public capital expenditure to take up the slack. What is noteworthy is that this reality has not just been recognised but emphasised by the official *Economic Survey 2024-25*. Realism extends to accepting that growth in 2025-26 can be lower than even the 6.4 percent to which it is estimated to have fallen in 2024-25 from 8.2 per cent in 2023-24, unless something is done to boost demand.

The Budget reveals what explains this willingness to be candid about the state of the economy and the factors underlying the deceleration in growth. It provides the economic justification for sops doled out in the budget to consolidate a middle class vote bank mobilised using a majoritarian agenda. In post-Budget press conferences and media interviews, the Finance Minister and mandarins from the Finance Ministry have argued that the tax concessions for middle class income tax payers are designed to boost consumption demand and restore dynamism to an important driver of growth in the economy. That it simultaneously responds to calls from the middle class vote bank for concessions is a collateral benefit. They also argue that the Budget provides for a hike in central government capital expenditure by 17 per cent (in nominal terms) relative to revised estimates for 2024-25. Together, the increases in consumption spending induced by tax concessions and in government investment included in the budget are expected to spur private investment as well. So, the candid recognition of the factors underlying growth deceleration has been accompanied by measures that would reverse the slowdown is the claim. This is a Budget that proactively seeks to counter the growth slowdown is the assertion.

However, argue the formulators of this year's Budget, these efforts to boost demand have not diverted the government from its medium-term strategy of fiscal consolidation ensured by reducing fiscal deficits so as to reduce and stabilise the ratio of the central government's debt to GDP. The fiscal deficit to GDP ratio, which is estimated to have fallen from 5.6 per cent in 2023-24 to 4.8 per cent in 2024-25, is slated to fall further to 4.4 per cent in 2025-26. However, this self-promoting hype cannot conceal a number of disconcerting features of the budget.

To start with, Budget 2025-26 is not expansionary but deflationary in nature. The sacrifice of revenues to woo the middle class and the self-imposed restraint on borrowing results in total nominal expenditure rising by just 7 per cent, even with optimistic assumptions about revenue buoyancy and non-tax receipts. That implies no real increase in spending after adjusting for inflation, despite ambitious expectations for miscellaneous capital receipts, and estimated receipts in 2025-26 of Rs. 3.25 lakh crore from dividends, profits and surplus transfers from

public sector enterprises and the RBI. The latter reflects an increase of more than 12 per cent relative to the previous year's high.

If aggregate expenditure increases are limited, the claimed sharp increase in capital expenditures can occur only if other expenditures are curtailed. The axe here falls on welfare expenditures of various kinds, including on erstwhile flagship programmes that the NDA government inherited and then claimed credit for. The outlay for the national rural employment guarantee scheme, having fallen from Rs. 90.8 thousand crore in 2022-23 to Rs. 86 thousand crore in 2024-25, is expected to stay at the same level, even though wage payments are in arrears and demand for jobs is high. The *NREGA Sangarsh Morcha* estimates that the average number of workdays under the employment guarantee scheme has come down from 52 to 45 days between 2023-24 and 2024-25, and wage arrears amounted to around Rs. 6,950 crore as of January 25th. With funds from stagnant allocations for next year being used to clear these arrears, employment generation through the scheme is likely to be even lower.

Similarly, the food subsidy bill for an enhanced safety net under the National Food Security Act, having fallen from Rs. 27.3 lakh crore in 2022-23 to Rs. 19.7 lakh crore in 2024-25, is projected at just Rs. 20.3 lakh crore in 2025-26. Meanwhile, farmers who have been agitating for a fair deal in a system with glaring corporate and urban biases have been left high and dry. Not only has the demand for a higher minimum support prices in keeping with the Swaminathan Committee's recommendations been ignored, but the allocation for the Department of Agriculture and Farmers' Welfare has been increase only by a marginal 4 per cent in nominal value.

It is by cutting expenditures on crucial social welfare and protection schemes like these that the money to finance tax giveaways is sought to be mobilised. To make such giveaways look dramatic, the strategy of the NDA government is to pay off favoured economic interest groups through different sequentially and through different means. If the corporates were offered a tax bonanza in 2019, it is the turn of the salaried and tax paying middle class this time.

There are, of course, other benefits proffered to appease big business and foreign investors, for example. A committee has been set up to deliver further "regulatory reform" and improve the "ease of doing business". That despite the evidence highlighted in the *Economic Survey* showing that deregulation has widened income disparities, with booming corporate profits and stagnant worker earnings. There are incentives for foreign investors as well. The ceiling on foreign ownership in the insurance sector has been hiked to 100 per cent from 74 per cent, despite the evidence that such firms can be ruthless with clients when pursuing profits. The government has also promised to dilute India's "model" bilateral investment treaty template and make it more investor friendly, ignoring the evidence that investor friendly treaties are means by which firms and sovereigns in less developed countries are held to ransom by transnational conglomerates.

Clearly the perception is that while the poor and the working classes can be ignored without much political cost, the rich and middle classes cannot be passed over. Neoliberalism which the ruling party embraces is a after all a "class project".

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