1. **Overview**

Budget 2017-18 is placed at an important juncture when there has been a thrust by the government for a digitised and a consequent cashless economy with the demonetisation of high value currency notes undertaken in November last year. A number of claims have been made in the budget speech by the Finance Minister regarding longer term benefits of this move for the Indian Economy. To quote the FM, demonetisation would lead the economy towards “*reduced corruption, greater digitisation of the economy, increased flow of financial savings and greater formalisation of the economy, all of which would eventually lead to higher GDP growth and tax revenues*”.

However, many have contested this view arguing that demonetisation in fact has induced an adverse effect on the economy in the medium term, especially for the groups that are in a weaker position. As pointed in several media reports, demonetization has caused hardships for those engaged in the informal economy, led to loss of work for daily wage labourers, resulted in breakdown of cash-based supply chains for small and petty traders, small and marginal farmers.

There are also clear trends of a stagnating world economy, which was highlighted in the budget speech of the Finance Minister. The economic survey, 2016-17 also recognises stagnation in the growth rates of India’s exports. Despite a slowdown globally, the annual rate of GDP growth of the country has been projected at moderate to high rates, based on the estimates of the IMF and World Bank. Under such circumstances, an annual GDP growth rate of over 7 percent would have required the government to adopt an expansionary fiscal policy. However, the Union Budget 2017-18 continues with its ‘economic reforms’ agenda, traversing a fiscal contractionary path evident from the declining expenditure-GDP ratio (Figure 1.1).

**Figure 1.1: Total Union Government Expenditure as a Proportion of GDP (%)**

*Source:* Compiled by CBGA from Budget at a glance, Union Budget documents, various years.

**Devolution of Resources to States**

In terms of resources transferred to states, while the share of states in central taxes as percentage of GDP has increased marginally, other transfers and total Union transfers to states as percentage of GDP have not changed much. This clearly shows that increasing the states’ share in divisible pool of central taxes has not led to an overall increase in the total resources transferred to states (Table 1.3). This is worrisome in the current context in which the responsibility for major social sector programmes has been transferred to the states to a great extent, without adequate financial support. At the same time, allocation for social sectors in the Union Budget has shown minimal improvements Such fiscal trends might affect implementation of important social sector programmes.

**Table 1.3: Composition of Transfer of Resources to States (Rs. crore)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **Items** | **2014-15 (A)** | **2015-16**  **(A)** | **2016-17**  **(RE)** | **2017-18**  **(BE)** |
| 1 | States’ share of taxes and duties | 337808 | 506193 | 608000 | 674565 |
| 2 | Finance Commission Grants\* | - | 84579 | 99115 | 103101 |
| 3 | Scheme Related Transfers | - | 195051 | 201363 | 212466 |
| 4 | Other Transfers\*\* | - | 43143 | 44864 | 48447 |
| 5 | Transfer to North Eastern States | - | 378 | 31422 | 42499 |
| 6 | Total Transfers to UTs with legislature | - | 5139 | 5547 | 3996 |
| 7 | FC grants and other transfers to states  (2 to 6) | 348027 | 328290 | 382311 | 410509 |
| 8 | Total transfers to States and UT  (includes loans) (1+7) | 685835 | 830613 | 990311 | 1085075 |
| 9 | GDP at current market prices | 12433749 | 13675331 | 15075429 | 16847455 |
|  | States’ share of central taxes and duties as % of GDP (1/9) | 2.7 | 3.7 | 4.0 | 4.0 |
|  | Other transfers as share of GDP (7/9) | 2.8 | 2.4 | 2.5 | 2.4 |
|  | Total Union Resources transferred to States as % of GDP (8/9) | 5.5 | 6.1 | 6.6 | 6.4 |

*Notes*: \*Finance Commission grants include Grants for Urban and rural local bodies, Grants-in-aid for SDRF and Post devolution revenue deficit grant.

\*\*Other transfers include Schemes of North East Council, Central Pool of Resources for North Eastern Region and Sikkim, Grants to Autonomous Councils and areas covered under the Sixth schedule of the Constitution, Schemes under Provision to Article (275(1) of the Constitution, Special Central Assistance to Tribal Area, Special Central Assistance to Scheduled Castes, Special Assistance, Assistance to States from NDRF, Externally Aided Projects – Grants and Loans.

*Source*: Compiled by CBGA from Budget at a glance, Union Budget documents, various years.

In the context of the Union Budget 2017-18, it needs to be noted that due to the merging of the Plan and Non-plan expenditures, figures for certain components of resources transferred to states are not available for the previous years. On one hand, non-comparability of budget data for a time series analysis becomes an issue in such a process, on the other, it also does not help in transparency and simplification of budgetary data.

**Increased Cess Component in Revenue Collection**

In the last two years, it has also been observed that the size of the divisible pool was getting indirectly affected because of introduction of several types of cess, such as the education cess, Swachh *Bharat* cess, and *Krishi Kalyan* cess, etc. As is known, the net proceeds from cess collection remain outside the divisible tax pool and are meant exclusively for the Union government. This does not augur well for ‘cooperative federalism’, especially when some states do not have adequate resources. Increasing dependency on the cess component for revenue collection is evident from figure 1.2.

**Figure 1.2: Total Cess and Surcharges (Rs crore)**

*Note*: Includes Education Cess, Swachh Bharat Cess, Krishi Kalyan Cess, Secondary and Higher Education Cess, Cess on Crude Oil, Bidi, Sugar, Automobiles, Clean Environmental Cess, Surcharge on Pan Masala and Tobacco Products, etc.

*Source*: Compiled by CBGA, Receipt Budget, various years.

**Regional Disparity in Social Sector Spending**

Following the implementation of the Fourteenth Finance Commission (FFC) recommendations the Union budget allocations for social sectors need to be seen in conjunction with the State Budgets. An analysis conducted by CBGA for ten states has examined the priorities emerging in State Budgets subsequent to the adoption of the FFC recommendations. It shows that per capita budget for ‘Social Sectors, Rural Development, Agriculture & Allied Sectors’ in 2016-17 (BE) varies from Rs. 6,287 to Rs. 14,223. Bihar and UP spend around Rs. 6,000 per capita per annum, while Odisha at Rs. 13,000, and Chhattisgarh at Rs. 14,000 have shown higher spending than developed States like Maharashtra and Tamil Nadu. Thus, public spending on critical sectors continues to lag behind in some of the poorer States. In order to mitigate these disparities, the Union Government should step up spending on social sectors through centrally sponsored schemes.

**Table 1.4: States’ Per Capita Spending for ‘Social Sectors, Rural Development,**

**Agriculture & Allied Sectors’ (in Rs.)**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **2014-15 (A)** | **2015-16 (RE)** | **2016-17 (BE)** |
| Bihar | 4,168 | 6,354 | 6,287 |
| Uttar Pradesh | 4,471 | 5,788 | 6,436 |
| Jharkhand | 7,680 | 8,085 | 9,755 |
| Madhya Pradesh | 6,512 | 8,591 | 9,977 |
| Rajasthan | 8,145 | 9,186 | 10,263 |
| Maharashtra | 8,934 | 10,091 | 10,476 |
| Assam | 6,644 | 11,370 | 11,184 |
| Tamil Nadu | 9,958 | 11,302 | 12,330 |
| Odisha | 8,935 | 11,524 | 12,921 |
| Chhattisgarh | 9,436 | 14,057 | 14,223 |

*Notes:*

1. The population projections are based on the Report of the technical group on population projections constituted by the National Commission of Population, 2006;
2. Social Sectors, Rural Development, Agriculture & Allied Sectors” include: ‘Social Services’ as defined in the Budget documents plus Rural Development, Food Storage and Warehousing, Panchayati Raj, Agriculture and allied sectors (Animal Husbandry, Dairy, Fisheries), Irrigation and Water Resources, Cooperation, and Food & Civil supplies.

*Source:* Based on data compiled by CBGA from various state budget documents.

The analysis also revealed that eight out of the ten states (except Maharashtra and Tamil Nadu) which are relatively economically weaker have projected a Revenue Account Surplus. This indicates states’ preference for capital expenditure over revenue expenditure because of an over-emphasis on reducing revenue deficit. The tendency of these States to reduce their Fiscal Deficit by running a surplus on the Revenue Account impacts social sectors like Education and Health, large proportions of which need higher Revenue Account of the budget.

**Social Sector Priorities**

Subsequent to the recommendations of the 14th Finance Commission, the states’ share in central taxes was increased from 32 percent to 42 percent. The last two Union budgets came in post FFC setting, and witnessed substantial reduction in allocations for major social sector schemes and programmes which was justified by the government on the grounds of additional tax revenues transferred to the states. The Union Budget 2017-18, however, presents a slightly different picture, with major social sector ministries witnessing either marginal increases over 2016-17 (RE) or retaining previous year’s expenditure levels (Table 1.1). This is also visible from the trends in the expenditures for the selected social sector ministries as share of GDP over the years.

**Table 1.1: Total Expenditure by Select Ministries (Rs. crore)**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **S. No.** | **Ministries/Departments** | **2012-13** | **2013-14** | **2014-15** | **2015-16 (A)** | **2016-17 (BE)** | **2016-17 (RE)** | **2017-18 (BE)** |
| 1 | Ministry of Culture | 1,388 | 1,989 | 2,064 | 2,007 | 2,500 | 2,489 | 2,738 |
| 2 | Ministry/Dept. of Drinking Water and Sanitation | 12,969 | 11,941 | 12,091 | 11,081 | 14,010 | 16,512 | 20,011 |
| 3 | Ministry of Health and Family Welfare (including AYUSH) | 27,885 | 30,135 | 32,154 | 35,190 | 39,533 | 40,995 | 50,281 |
| 4 | Ministry of Housing and Urban Poverty Alleviation | 933 | 1,084 | 2,728 | 1,761 | 5,411 | 5,285 | 6,406 |
| 5 | Ministry of Human Resource Development | 66,055 | 71,322 | 68,875 | 67,239 | 72,394 | 73,599 | 79,686 |
| 6 | Ministry of Labour and Employment | 3,645 | 4,233 | 4,138 | 4,642 | 6,243 | 5,174 | 7,188 |
| 7 | Ministry of Minority Affairs | 2174 | 3,027 | 3089 | 3655 | 3,827 | 3,827 | 4,195 |
| 8 | Ministry of Social Justice and Empowerment | 4,940 | 5,515 | 5381 | 5753 | 6,566 | 6,569 | 6,908 |
| 9 | Ministry of Tribal Affairs | 3,073 | 3,839 | 3852 | 4480 | 4,827 | 4,827 | 5,329 |
| 10 | Dept. of Urban Development | 8,465 | 9,363 | 13254 | 18419 | 24,523 | 32,550 | 34,212 |
| 11 | Ministry of Women and Child Development | 17,036 | 18,037 | 18,539 | 17249 | 17,408 | 17,640 | 22,095 |
| 12 | Ministry of Youth Affairs and Sports | 871 | 1,123 | 1,121 | 1,423 | 1,592 | 1,608 | 1,943 |
| 13 | Empowerment of Persons with Disabilities | - | - | 403 | 555 | 784 | 784 | 855 |
| 14 | Ministry of Agriculture, Cooperation and Farmers Welfare | 29,654 | 31,479 | 31,917 | 22,092 | 44,485 | 48,073 | 51,026 |
| 15 | Ministry of Environment, Forest and Climate Change | 1,753 | 1,890 | 1,599 | 1,521 | 2,250 | 2,328 | 2,675 |
| 16 | Ministry of Rural Development | 53,181 | 6,1162 | 69,817 | 78,945 | 87,765 | 97,760 | 1,07,758 |
| 17 | Ministry of Consumer Affairs, Food and Public Distribution (Includes Food Subsidy) | 86,677 | 93,317 | 1,18,323 | 1,40,810 | 1,41,392 | 1,43,988 | 1,54,232 |
|  | Total expenditure in select ministries (1 to 17) | 3,20,698 | 34,9457 | 3,89,346 | 4,16,822 | 4,75,509 | 5,04,007 | 5,57,540 |
| 18 | Ministry of Road Transport and Highways | 2,2537 | 28,400 | 33,048 | 46,913 | 57,976 | 52,447 | 64,900 |
| 19 | Defence \*\* | 23,0642 | 2,54,133 | 2,85,005 | 2,93,920 | 3,40,922 | 3,45,106 | 3,59,854 |
|  | Total expenditure in select ministries (1 to 19) | 5,73,877 | 6,31,990 | 7,07,400 | 7,57,654 | 8,74,407 | 9,01,560 | 9,82,294 |
|  | Total Union Government Expenditure | 14,10,372 | 15,59,447 | 16,63,673 | 17,90,783 | 19,78,060 | 20,14,407 | 21,46,735 |
|  | Total expenditure in ministries (1 to 17) as share of total Union Govt. expenditure (in %) | 22.7 | 22.4 | 23.4 | 23.3 | 24.0 | 25.0 | 26.0 |
|  | Total expenditure in ministries (1 to 19) as share of total Union Govt. expenditure (in %) | 40.7 | 40.5 | 42.5 | 42.3 | 44.2 | 44.8 | 45.8 |
|  | GDP at current market prices (2011-12 series) | 99,46,636 | 1,12,36,635 | 1,24,33,749 | 1,36,75,331 | 15075429 | 15075429 | 1,68,47,455 |
|  | Total expenditure in select ministries (1 to 17) as share of GDP (in %) | 3.2 | 3.1 | 3.1 | 3.0 | 3.2 | 3.3 | 3.3 |
|  | Total expenditure in select ministries (1 to 19) as share of GDP (in %) | 5.8 | 5.6 | 5.7 | 5.5 | 5.8 | 6.0 | 5.8 |

*Note*: \*\* Includes expenditure on defence pension and capital outlay on defence services

Source: Compiled by CBGA from Expenditure Budget Vol. II, Various Years, GoI.

Table 1.2 attempts to capture the major variations in expenditure across important sectors. While apparently some of the social sectors such as education and health show major increases in their allocations in 2017-18 (BE), compared to 2016-17 (RE), the sectoral allocations do not show any improvement when seen as share of GDP. These trends follow the overall declining trend in the expenditure-GDP ratio, thus implying that nominal increases in allocations do not translate into gains for the sectors in real terms.

**Table 1.2: Major Items of Variations in 2016-17 RE and 2017-18 BE (Rs. crore)**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **S.No** | **Items** | **2016-17 (RE)** | **2017-18 (BE)** | **Variation** | **% increase** | **As share of GDP (%)** | |
| **2016-17 (RE)** | **2017-18 (BE)** |
| 1 | Interest Payments | 483069 | 523078 | (+)40009 | 8.3 | 3.2 | 3.1 |
| 2 | Capital Outlay excluding defence | 162570 | 183280 | (+)20710 | 12.7 | 1.1 | 1.1 |
| 3 | Defence | 248005 | 262390 | (+)14385 | 5.8 | 1.6 | 1.6 |
| 4 | Grants and Loans to States | 293172 | 307553 | (+)14381 | 4.9 | 1.9 | 1.8 |
| 5 | Food subsidy | 135173 | 145339 | (+)10166 | 7.5 | 0.9 | 0.9 |
| 6 | Education | 32229 | 36884 | (+)4655 | 14.4 | 0.2 | 0.2 |
| 7 | Police | 62407 | 65576 | (+)3169 | 5.1 | 0.4 | 0.4 |
| 8 | Pensions | 128166 | 131201 | (+)3035 | 2.4 | 0.9 | 0.8 |
| 9 | Health and Family Welfare | 14478 | 16836 | (+)2358 | 16.3 | 0.1 | 0.1 |
| 10 | Other Subsidies | 125312 | 126937 | (+)1625 | 1.3 | 0.8 | 0.8 |
| 11 | Grants and Loans to UTs | 5547 | 3996 | (-)1551 | -28.0 | 0.0 | 0.0 |
| 12 | Other | 324279 | 343665 | (+)19386 | 6.0 | 2.2 | 2.0 |
|  | Total Expenditure | 2014407 | 2146735 | (+)132328 | 6.6 | 13.4 | 12.7 |
|  | GDP at current market price | 15075429 | 16847455 | - | - | - | - |

Source: Compiled by CBGA from Budget at a glance, Union Budget documents, Various years

**Allocations to Social Sector Programmes**

For a host of social sector programmes, allocations have been retained at almost similar levels as last year; *Sarva Shiksha Abhiyan* outlays are projected to increase by a mere Rs. 1,000 crore in 2017-18 (BE), from Rs. 22,500 crore in 2016-17 (RE). The allocation for *Rashtriya Madhyamik Shiksha Abhiyan* too shows a marginal increase from Rs. 3,700 crore in 2016-17 (RE) to Rs. 3,830 crore in 2017-18 (BE). The allocation for Mid-Day Meal scheme has witnessed a very small increase from Rs. 9,700 crore in 2016-17 (RE) to Rs. 10,000 crore in 2017-18 (BE). There is a moderate rise in allocation for National Rural Drinking Water Programme from Rs. 6,000 crore in 2016-17 (RE) to Rs. 6,050 crore in 2017-18 (BE); the outlay for *Pradhan Mantri Gram Sadak Yojana* remains stagnant at Rs. 19,000 core, and the budget for MGNREGA in 2017-18 (BE), at Rs. 48,000 crore, is nearly the same as its outlay of Rs. 47,499 crore in 2016-17 (RE). The National Social Assistance Programme (which covers old age pension, widow pension and disability pension schemes) at Rs. 9,500 crore in 2017-18 (BE) too has remained at the same level as 2016-17 (RE). For Atal Mission for Rejuvenation and Urban Transformation (AMRUT), the allocation for 2017-18 (BE) at Rs. 5,000 crore is not much higher from the 2016-17 (RE) outlay of Rs. 4,883.5 crore. In the wake of a slowdown in a number of sectors at present, an expansionary fiscal policy is the need of the hour. Also, given the push being made to expedite fund flow and improve utilisation of resources, the Finance Ministry should have increased the budgetary priority for these important interventions.

A handful of programmes have witnessed a visible hike in outlay in 2017-18 (BE) as compared to 2016-17 (RE). The allocation for Pradhan Mantri Awas Yojana has gone up from Rs. 20,936 crore to Rs. 29,043 crore; *Pradhan* *Mantri Krishi Sinchai Yojana* has been stepped up to Rs. 7,377 crore from Rs. 5,189 crore, *Swachh Bharat* Mission saw a rise to Rs. 16,248 crore from Rs. 12,800 crore, National Health Mission has been allocated Rs. 27,131 crore as against Rs. 22,598 crore in the revised estimates, *Pradhan Mantri Swasthya Suraksha* *Yojana* jumped to Rs. 3,975 crore from Rs. 1,953 crore, National Nutrition Mission got a boost from Rs. 175 crore to Rs. 1500 crore and Maternity Benefit Programme increased from Rs. 634 crore to Rs. 2,700 crore. But these increases fall short of the resource required. For instance, the allocation proposed for the key Maternity Benefit Scheme seems to be based on an underestimation of the number of beneficiaries. This budget, like the previous year has prioritised rural sanitation, while allocations for urban sanitation have remained stagnant.

**Major Shifts in Budgetary Processes**

The Budget has laid greater emphasis on improving the fundamental weaknesses in public expenditure management in India, and better implementation of programmes. It contains three major process related reforms. The presentation of the budget has been advanced to February 1; the logic behind the move is that this would allow Parliament to debate and vote on the budget proposals before the commencement of the next financial year. This would help push the spending ministries to start releasing funds to States and other authorities in the central schemes much before the onset of the monsoon, which usually stalls construction activities for some time, thereby aggravating the problem of delay in fund flow and utilisation in many sectors. But this measure alone is not sufficient and there is a need for a host of other fundamental reforms in this sphere. An important measure for improving results from public expenditure would be to strengthen decentralised planning in the country. The State Finance Departments need to ensure timely flow of funds to the spending departments and local governments, especially because all central funds are now routed through them and the State Treasuries. There is also a need for enhancing transparency in fund flows and expenditures at the district level, which requires proactive disclosure of such information without much time-lag.

The other major shift introduced in the Budget is that the Plan and Non-Plan classification of expenditure has been done away with. There were issues related to accounting of expenditure classified as Plan and Non Plan, and this classification had led to a misleading notion that Plan expenditure was developmental and Non Plan was non-developmental. This notion had resulted into a tendency to give greater attention to Plan expenditures, with a neglect of items such as maintenance that was classified as Non-Plan. An even graver consequence of this neglect was acute shortage of regular cadre staff across sectors in most states.  The merger is expected to facilitate optimal allocation of resources with a holistic view of budget outlays for sectors and ministries. With the five year plan model coming to an end from the next financial year, it is hoped that the Vision Document will factor in social sector priorities and make visible increases for it.

The practice of classifying government spending into plan and non-plan categories has made way for a bifurcation on the basis of revenue and capital expenditure. This revenue capital distinction is based on accounting definition, so an excessive focus on ‘capital’ and ‘revenue’ classification and their definition has its own risks. As mentioned earlier, the tendency to promote capital expenditure and check revenue expenditure can be problematic for social sectors. In Bhutan, the spending on training of human resources is treated as Capital expenditure as they believe that any investments on developing human resources help improve their efficiency, the benefit of which continues to accrue beyond one financial year. Such a classification is better than the classification followed in India where any expenditure that leads to an increase in the assets or a decrease in liability position is recorded as Capital expenditure, and the rest as Revenue expenditure.

Lastly, the Budget Speech announced a consolidated Outcome Budget covering all Ministries and Departments as another first. This is a good idea, but it has not been laid along with the other Budget documents. We can only wait for the document to be out for knowing more about this proposal.

**Consistency with Previous Budget**

It is natural to search for consistency in the approach and focal points of the budget at least for some years. However, there remains much to be desired at the consistency front. The Budget 2017-18 has been presented under ten themes around which policy measures are outlined. These themes (viz. farmers, rural population, youth, poor & underprivileged, Infrastructure, Financial sector, Digital Economy, Public Service, Prudent Fiscal Management, Tax Administration) represent some sections of population as well as a few sectors. The previous budget (2016-17) was built upon 9 distinct pillars (viz. Agriculture & Farmer’s Welfare, Rural sector, Social sector, Education, Skills and Job Creation, Infrastructure and Investment, Financial sector reforms). Such a set of themes makes a comparison between two budgets difficult, as they cannot be read together, underlining the need for consistency in priorities over a period of two/three years at the least.