The Indian Budget for the financial year 2019-2020 broke several expectations and perhaps set a new trajectory for economic progress in India. The Finance Minister, Nirmala Sitharaman, broke the age-old tradition of arriving to the Parliament with the budget safely put away in a briefcase, instead of carrying the documents in a red-cloth cover to pay homage to the traditional Indian identity. This was perhaps a symbol of India moving away from its colonial past to establish itself as an economic power with a strong national identity. The Budget for this year certainly screams this goal, but how likely will it be for the government to meet these expectations?

Keeping up with the trends in the recent past, the Budget mentioned little about defense spending for the Indian Armed Forces. In fact, under Narendra Modi's government, defence spending reached a record low, coming just under 1.6 percent of the GDP. In a similar respect, capital expenditure for this financial year has also been cut back from Rs. 9.2 trillion to Rs. 8.7 trillion.[i] These cutbacks could have easily been explained by an increase in revenue spending for education and healthcare but the budget for such socio-economic development has also been cut down. Only 3.4 percent of total federal spending was budgeted for this financial year and the combined spending on healthcare by both the federal and the state government has changed little from last year's mere 1 percent of the GDP.[ii] All these budget cuts highlight that just like the previous years, FY 2019-20 Budget also seems to be geared towards meeting the government's revenue expenditure rather than raising the capital expenditure.

Proposal for a $5 trillion economy: Is it possible?

What India, and most countries worldwide, are facing right now is a structural, economic slowdown. This, combined with India's rural distress surrounding a lack of comprehensive agricultural policies that benefit the farmers, is a serious impediment for India's overall economic development.

Even amidst this structural slowdown, Minister Sitharam proudly announced to the Parliament that within the next four to five years, India was going to be a 5 trillion-dollar economy, a promise that could be hard to achieve in such a short time frame. Moreover, the proposal to reduce the fiscal deficit to 3.3 percent of the GDP could potentially mean the divestment of public sector undertakings.[iii] Although this goes in hand with the Budget's strategic goal for long-term fiscal consolidation, relying too heavily on corporate India for development might backfire on the government. This can be seen in India's inefficient, privatized healthcare system where the rich are looted of their money and the poor are not able to afford or even access their most basic healthcare needs.

This promise for a 5 trillion-dollar economy can be fulfilled through inducing foreign as well as domestic investment from the corporate sector. To meet this target, India requires a GDP growth of at least 8 percent, which is a lot higher than the forecasted 7 percent for the financial year. It requires recapitalization of the banking system and a rise in the revenue threshold by enhancing the “supply side” of the market – making it easier for firms and industries to supply goods into the market. Modernizing India’s infrastructure for the easing of foreign direct investment (FDI) is another goal that the government would have to miraculously achieve to raise India to a 5 trillion-dollar economy. This reliance on industries has already leaked into politics wherein policies are made to favor the corporations rather than the common people. The most important question for a developing economy to ask itself is whether pure economic growth will be more beneficial than comprehensive programs to tackle income discrepancies. Perhaps the goal of the Budget should be focused more on socio-economic development than a mere capitalist showdown in the Asian economy.

Highlights from the Budget: Increased Income Taxes and Railway Development

What is it really that sets this year’s budget apart from the others? It is structural changes in taxation policies as well as special budgeting for developmental projects targeted toward suburban India.

Taking on from the latter, the Indian railways received an enormous sum of Rs, 1.60 lakh crore in Budget for the current FY. This would include a 200 percent increase in funds allocated to the railway services for passenger amenities. This sharp rise in the Budget from the previous years is owing to two particular goals: increased revenue from India’s most accessible and hence, most used transportation services and a drive to modernize suburban India. The Budget also includes an estimated allocation of Rs. 267.64 crores to the Nirbhaya Fund and a provision of Rs. 250 crores for Integrated Emergency Response Management System which would include installation of video surveillance systems to ensure safe travel for women passengers in the Indian railways.[iv] This developmental project advances the infrastructure of India and paves a way for more corporate investment, a strategy the government will have to relentlessly depend on if it wants to see a $5 trillion growth in the economy.

In terms of the taxation policies, one of the most conspicuous changes was the increase in the surcharge from 15 percent to 25 percent for incomes between Rs. 2 crores to Rs. 5 crores. A similar increase to around 37 percent was seen for taxpayers with incomes of over

Rs. 5 crores.[v] This large increase in surcharge might turn out to be an inconvenience for the rich taxpayers but is an important means of Revenue for the Indian government. India will henceforth be able to increase its revenue without having to increase taxation for domestic corporations. This progressive rise in surcharge could potentially mean that the developing economy of India could benefit directly from the rich taxpayers while collecting revenue for the lower-income population. In a country where the collective economic prowess lies in the hands of 1 percent of the population, progressive income tax policies are the first step toward poverty control and economic redistribution.

Economic growth and the road ahead

The Budget FY 2019-2020 has seemingly placed its faith on a deepened access to markets as a roadmap toward a larger economy. While large economic growth is definitely possible under the Budget, the question for how to establish a stronger economy persists. A strong economy would require the Indian masses – the common man, be it a small business owner in Mumbai or a rice farmer in Kerala – to benefit first and foremost. The structural changes proposed in the taxation policies offer a roadmap on how to make the best use of the current income distribution in India while striving toward greater income equality. The road to achieving economic growth is filled with impediments and although this year's Budget might have offered more than it can attain, at least it has given the government a definitive direction for emerging out of its weak economic environment.

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[i]https://www.business-standard.com/budget/article/allocations-in-the-budget-don-t-aid-india-s-wish-to-become-a-superpower-119070800119_1.html

[ii]ibid

[iii]https://www.moneycontrol.com/news/business/markets/india-story-5-trillion-top-20-stocks-budget-2019-4178901.html

[iv]https://www.businesstoday.in/union-budget-2019/news/union-budget-2019-indian-railways-receives-allocation-of-rs-65837-crore/story/362115.html

[v]https://economictimes.indiatimes.com/wealth/tax/budget-2019-highlights-for-common-man-what-it-means-for-you/articleshow/70103538.cms

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