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An appeasement Budget

The Interim Budget makes clear the class hierarchy in the Modi government's scheme of populism



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Interim Budget 2019 has sought to make amends for all the wrongs of almost five years of the Narendra Modi government. For example, the debilitating impact of demonetisation on the informal sector that employs nearly 90% of the workforce had long been suspected on the basis of anecdotal evidence. The findings of the National Sample Survey Office's surveys – leaked last week after they were approved by the National Statistical Commission – show that unemployment rose to a 45-year high in the demonetisation year. The note ban, these findings suggest, has caused severe distress.

Some social security

To reach out to the segment worst hit, the Interim Budget announced the Pradhan Mantri Shram Yogi Mandhan for unorganised sector workers with monthly incomes of less than ₹15,000. With a token allocation of ₹500 crore, a direct benefit transfer of ₹3,000 a month as old-age pension has been proposed. Pensioners will receive the payments once they attain the age of 60. To be eligible, workers will

have to start contributing ₹55 every month from the age of 18. Those over 29 will have to contribute ₹100 every month. The government will match these contributions. The scheme targets workers in sectors such as leather, handloom and construction which took a body blow from demonetisation.

A possible inference can be that the Modi government does not expect – nor is it promising – upward mobility for this class to better quality jobs over the span of their working lives.

For the farmer

The Modi government's tenure has been marked by acute rural distress. Among the reasons to which it can be ascribed are legacy farm sector policy issues which no government has addressed in a meaningful way. In this, Mr. Modi's government has been no different. The minimum support prices and procurement policies it followed were more ineffective than is normal. In fact these policies reversed some of the corrections made by the previous United Progressive Alliance (UPA) government in the terms of trade for agriculture. The Modi government has also failed to respond adequately to the back-to-back droughts of 2014 and 2015. The import-export policy errors it made added to the gluts caused by bumper harvests in 2017 and 2018, which further depressed market prices and increased farmer



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losses.

The non-farming classes did profit to an extent from these policy failures. Falling food prices spelt losses for farmers but benefited kitchen budgets in middle-class households that had suffered from severe inflation under the UPA.

The Interim Budget offers farmers a peace offering in the form of income support of ₹6,000 a year, or ₹500 a month, financed fully by the Central government. The Pradhan Mantri Kisan Samman Nidhi (PM-KISAN) – inspired by Telangana's Rythu Bandhu – targets only landed farmers who own up to 2 hectares, while bypassing landless cultivators, the most vulnerable class in the agriculture sector.

In handing out these fiscal giveaways, Mr. Modi has bitten the bullet by reaching out to a class of voters who are traditionally not a constituency of the BJP. But these giveaways suffer from the same populist, rather than reformist, approach seen earlier with demonetisation which was planned as a

big bang intervention to downsize the black economy, and the design and implementation of the Goods and Services Tax (GST). These measures, which were not thought through properly, led to perverse consequences.

The downside

In a similar way, the PM-KISAN scheme is likely to encourage further fragmentation of already much fragmented landholdings. Farming households holding larger land parcels will try to split holdings to try to qualify for the benefits under the scheme. Had the scheme been dovetailed with a replacement of the highly distortionary fertilizer subsidy with a direct benefit cash transfer, not only would a long-pending reform have been accomplished but the income support offered to farmers could have been nearly twice as much as has been announced. Bureaucrats had made a case for adding the fertilizer subsidy as a cash component to the income support, but Mr. Modi showed no appetite for the reform.

Even so, the Interim Budget leaves no doubt about which class of voters Mr. Modi is most eager to please. The gifts showered on the middle class outstrip those to the poorer sections who have borne the brunt of demonetisation and an incompetently designed GST. The income-tax rebate for individuals drawing incomes of up to ₹5 lakh will leave nearly ₹1,000 a

month more in their wallets. This is twice the amount farmers will receive from the PM-KISAN scheme.

And, middle class Indians will not, unlike unorganised sector workers, have to wait till they are 60 to receive the rebate or the other tax benefits announced, such as on fixed deposits and two self-owned houses.

There was something for the rich too. The most positive, and the only reforms-oriented announcement, was reserved for them – a promise of a complete digitalised experience in their dealings with the income-tax department. This could end the excessive harassment and the tax terror that have been unleashed in the past couple of years.

Compromising economics

Finally, apart from making clear the class hierarchy in Mr. Modi's scheme of populism, the Interim Budget provides evidence, if any more was needed, that Indian electoral politics is dependent even more now on schemes involving handouts and fiscal goodies. That the need to spend money on the voting classes is felt by successive governments confirms that no serious gains from economic reforms are reaching the non-rich. Politicians appear to be compromising good economics with increasing ease and relish.

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