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Reduce corporate tax rate

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The central Budget in India has acquired an 'aura' rarely seen anywhere else in the world. Be that as it may, what are the expectations from the Union Budget for 2016-17?

Or to put it differently, what should the budget for 2016-17 aim to achieve? India may be the fastest growing economy in the world today. But that is no consolation. Our current growth rate is below our expectations and the potential. We need a faster rate of growth in an environment of stability and the Budget should work towards it. It should help to raise both private and public investment.

As far as private investment is concerned, the available evidence shows that while there is some progress in the performance of 'stalled projects', there is no pickup in 'new' projects. Apart from simplifying procedures and speeding up clearances, the Finance Minister as mentioned in the budget for this year should take the first step in the direction of reducing the corporate tax rate. At the same time, we cannot afford to lose revenue. The reduction in corporate tax rate must be accompanied by removing some of the tax exemptions. The Budget for the current fiscal announced the intention to establish a National Investment and Infrastructure Fund. It also announced the launching of Mudra. The progress made under these two initiatives is not clear. As the government is willing to allocate funds out of the Budget towards augmenting resources for infrastructure development as well as small industries development, it may be a good idea to go back to the concept of development banks as they existed prior to 2000. Institutions focused exclusively on providing long term finance may be the need of the hour. This is not a new idea; it is the revival of an old idea.

Promoting public investment at a time when private investment is weak is a well accepted idea. This is all the more so in a country like ours where public investment still plays a critical role in core sectors like coal, steel, power and transport.

The Budget for 2015-16 provided for an increase in capital expenditures by 25 per cent. Data show that this is actually happening. This rate of growth should be maintained in the coming fiscal. It must however be noted that the bulk of public investment comes out of public sector enterprises themselves. It would be desirable if the budget has an attachment indicating the quantum of investment that will be made by the major public sector units in the country. That will provide great comfort to private investors as well.

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The one sector that needs special attention is agriculture. This is also dependent on public investment. Public spending on irrigation and agricultural research and technology are critical for long term growth of the sector. Increased spending on health and education are again imperative for sustaining long term growth. However in all social sector spending efficient use of resources is critically important. With the need to promote investment and to increase social sector spending, a critical question is whether the road map for fiscal consolidation as outlined earlier can be adhered to.

It was after much discussion that the target of 3 per cent of GDP as the fiscal deficit for Centre was decided. Besides the Centre, the states taken together are also allowed another 3 per cent of GDP. Thus the overall target for fiscal deficit by the Centre and states together is 6 per cent of GDP which is consistent with household savings in financial assets which used to be 11 per cent of GDP.

In fact, this proportion has come down drastically in recent years. Even as of now, interest payments absorb more than 40 per cent of the revenues of the central government.

Any attempt to raise the level of fiscal deficit will reduce the resources available for the private sector. It can also push up interest rates. Besides, any slippage in the coming fiscal will not be because of increase in capital expenditures or social sector expenditures. It will be because of the self imposed burden of increasing the emoluments of the government employees by one lakh crore of rupees. This is a huge increase for which the rationale is not clear. It is almost one-and-a-half times the total amount spent on the Employment Guarantee Scheme.

The net impact of the burden is estimated at 0.4 per cent of GDP. Some serious thinking is needed to modify the recommendations of the Pay Commission as suggested by one of the members of the Pay Commission itself recently. Fiscal discipline is critical for stability.

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