We deserve better

Reading the UK government's spring Budget, I was painfully reminded that India's fiscal policy making is needlessly antiquarian and ineffective. India inherited an administratively focused fiscal management system from the British. Britain has long moved on to an efficient, modern system. India has not. Indian Budgets are non-transparent and crafted with reference more to rhetoric than to evidence; they contain a multitude of irrelevant and bombastic statements that pass for policy pronouncements. Who the finance minister is makes little difference; the individual is quickly overwhelmed by the minutiae and detritus generated by an administratively-oriented and fragmented finance bureaucracy.

The UK presents two Budget statements — in spring and in autumn. These outline the government's fiscal plans over the next three years, with each statement modifying the rolling forecast according to circumstances. The latest spring statement announced a cut in the basic income tax rate, effective from 2024, and measures effective immediately to allay the cost-of-living pressures caused by rising energy prices. These are to be financed by a windfall tax on the profits of oil and gas companies, and by an inflation tax.

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In contrast to the Indian Budget, which contains a litany of pompous announcements about minor taxation changes and "schemes", but devotes only a passing glance to macro-fiscal policy, the UK's fiscal statements are grounded in the macroeconomic forecasts of the Office for Budget Responsibility (OBR). The OBR puts the calculations behind all its forecasts in the public domain in contrast to the analytically empty self-declarations by Indian fiscal authorities.

There is a medium-term economic forecast accompanied by a medium-term fiscal framework. Thus, the OBR has reduced its medium-term growth forecast and increased its inflation forecast following war in Europe. It also persists, despite core political opposition from the ruling party, with its analytical conclusion that Brexit will impact the UK economy adversely. The UK government cannot reject this conclusion and must accept its consequences for the limitations it imposes on the future conduct of fiscal policy, by assuming a lower growth dividend to fiscal space than it would have ideologically liked. No brown-nosing civil servant or party political economist suggests an alternative course, even though they may dispute the OBR's analytics.

On the basis of the government's spending and taxation plans, the OBR presents forward estimates of government borrowing. "Government" includes the public sector but excludes public sector banks, an eminently practical way of estimating the public borrowing envelope that puts an end to all the "off budget" conversations that bedevil Indian fiscal operations.

Based on its forecast that public sector debt will fall in the medium term, the OBR monitors compliance with a fiscal rule that requires debt not to exceed the OBR forecast. Since the debt/GDP ratio is projected to fall, the government must plan to reduce borrowing in line with the forecast. This operational rule must be consistent with three anchors: (1) That the revenue deficit must fall to zero in three years; (2) public investment should be with the available fiscal space — no more than 3 per cent of GDP, on average, across the medium term; (3) all welfare expenditure must be below a cap (with some discretionary margin) over the medium term. The Treasury (finance ministry) sets and publicly declares the cap.

So this is what a sophisticated, evidence-based, effective, medium-term fiscal framework looks like. It is transparent, evidence-based and institutionally grounded. The OBR provides the technical and institutional anchor. The Treasury uses these anchors to plan for the medium term.

These agreed, debate is about the consequences, not the accuracy or honesty of the fiscal numbers. Hence, the online Budget statement even includes links to Budget commentary by think-tanks!

Changes in tax policies and expenditure policies have consequences for the medium term and on growth and income distribution. Thus, it is clear that the tax burden in the UK today is the highest ever since the 1940s. It is also clear that the government is using incremental taxation to provide relief from soaring energy costs, targeted especially to the poor and vulnerable. The consequences of a low-growth and high-inflation path, going forward, are lower than expected government borrowing and this forecast provides the anchor for a fiscal rule that specifies the nature and composition of public debt.

Why is there so much political and bureaucratic reluctance to fix the broken, disarticulated process that one witnesses in India? It is not technical competence — these are not inherently complex processes. We have the data and information to raise our fiscal game.

I attribute three reasons for India's continued inability to secure a fit-for-purpose fiscal system.

(1) Insecurity within government; (2) administrative focus on the short term; (3) a fragmented finance ministry with deliberately limited analytical capacity.

Attempts to change this have met with bureaucratic obstruction facilitated by political ignorance. The setting up of an OBR-like fiscal council has been thwarted by bureaucrats scared of losing turf and being accountable to the evidence. Medium-term frameworks are disconnected from the annual Budget, and hence useless. A poor understanding of fiscal institutions by successive finance ministers and a fragmented finance ministry have facilitated the bureaucratic thwarting of genuine reforms.

A $5-trillion economy cannot afford a tawdry colonial system of budgeting, which the coloniser has long discarded. The government would do well to deploy its political capital, for once, in a place other than the home ministry, to modernise India's fiscal and budgeting processes and institutions.

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