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The external context of the union budget 2022- 23

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It was a long session. Let me therefore, as Chair of the session, take just two minutes and conclude the session.

I would like to mention one aspect, which was somehow missed out in our discussion, but I think should be highlighted here because of its overwhelming influence on the budget, not only the present one but many recent budgets in the country. What I am suggesting is the overwhelming influence of the global situation or the external context, which although not stated explicitly, was a major preoccupation of the finance minister. In the presentations here we saw a major contradiction of the budget, viz., the need to boost the public expenditure on the one hand and the inability of the government to step up public expenditure on the other. This contradiction is best explained in terms of the external context.

The need to increase public expenditure was highlighted by many presentations here. Many reasons for enhanced state interventions were mentioned. They include the record level of unemployment in the country, unenviable position of the country in the global ranking of nations with respect to poverty and hunger, lack luster performance of the economy, especially industry and agriculture, etc. But the government is in a dilemma. Its hands are apparently tied because of the fiscal limits set by the neo-liberal order. The Federal government and the state governments are constrained by the provisions of the FRBM act. You cannot violate the fiscal limits set by the act because it would hurt the confidence of international investors. The rating agencies are unlikely to be indifferent to the pressure of fiscal 'indiscipline'. They might even downgrade India's ratings. The danger is imminent because of the country's dependence on foreign portfolio investments.

One possible alternative for the government is to increase the tax to GDP ratio. There is immense potential to do so in the long run. But, in the short run government cannot afford to withdraw the concessions given to the corporate sector. It is feared that the withdrawal of concessions will dampen the post pandemic recovery. The public debt route, which was very effectively used by the present day industrialized countries, is a taboo for developing nations such as India. India particularly has been quite self-disciplined on this count. Obviously, it is because of the vulnerability of the Indian stock market on the one hand and the foreign exchange market on the other to the ebb and flow of foreign portfolio flows. The stock prices and the balance of payments are highly dependent on institutional flows. Further, policy makers everywhere, not to mention Indian authorities, were particularly concerned about the likelihood of the global inflationary pressure and the possibility of the upward revision of interest rates in United States. Inflation expectations have already started causing havocs in many Southern countries like Sri Lanka. The crisis is visible in the case of many countries such as Turkey, Sri Lanka and in many African nations. There are many other countries joining the stream. Indian situation is slightly better, but we are also highly vulnerable. And I believe that during the course of this year, we will have problems. We will have problems of interest rates going up in United States of America and Europe; and Capital will be moving out. The outflow has already started. We are witnessing a net outflow of foreign institutional investment, which would predictably would increase in the near future. And it will have problems in terms of declining foreign exchange reserves, depreciation of the currency, increasing prices of importable goods, and building up of inflationary pressure.

There will be global export of inflation from the developed countries to the developing nations. We are going to get a part of the US inflation here in India. And may be without stating in clear terms these situations were anticipated by the Finance Minister. That means because of our over-dependence on financial institutions, portfolio flows, we have already surrendered a part of our sovereignty. This is true of many developing countries. Given such a scenario it would be difficult for us to take care of our national goals such as protecting the formal sector, taking care of informal sector, giving more jobs, fighting hunger, fighting Poverty, etc. Because we are following a model where we are dependent on foreign institutional investors and we will have to obey the rules set by that model. The only saving route will be to get out of this dependence on foreign institutional investment and that can be done only if third world countries come together, people come together, demanding a different approach, to development. With that let me thank the panelist and the director of the Institute, my dear friend, Professor K J Joseph for giving me this opportunity.

Reference

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