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Union budget 2021-2022: A well-orchestrated ideology and strategy

M A Oommen

Distinguished Fellow, Gulati Institute of Finance and Taxation, Thiruvananthapuram

This talk is a brief critique of the present Union Budget and refers only to selected aspects. First let me dwell on the philosophy which admittedly is centered around the slogan 'Minimum government, maximum governance'. This amorphous expression is self-contradictory in that you cannot have maximum governance with minimum government. This is a call for market mediated growth with full government support. As well exemplified by the Economic survey 2020 and repeated in the Economic Survey for 2021 "Ethical wealth creation by combining the invisible hand of market with the hand of trust" is the declared motto of economic governance. This is facilitated by a slew of measures already taken and those contemplated in the present budget including legislations and policy choices. To be sure this is not minimum government while ensuring greater governance. The motto also abstracts from the fact that there is endemic corruption and crony capitalism which is unethically meshed up with the system.

Second, the ethical wealth creation via invisible hand is a mirage, except probably in an egalitarian society where the political leadership ensures transparency and clean governance. Chapter 4 of Volume I (Economic Survey 2021) on "Inequality and Growth: Conflict or Convergence?' which upholds the neoclassical wisdom that economic growth will lead to convergence, argues for inequality and quietly dismisses progressive taxation and need for an increasing direct tax regime the well-known recipe for good governance and equitable tax administration. The Chapter refers to Thomas Piketty's books Capital in the 21st Century and Capitalism and Ideology but apparently remains unconvinced about his cogent arguments for strong progressive taxation of income and property, besides his persuasive reasoning for ushering in institutions governed by social justice. This can be said in regard to John Rawls another author cited and whose *A theory of Justice*, forms the basis of democratic constitutions the world over. I would like to remind the architects of the Survey as well as the Union Finance Minister in the context of Covid 19 pandemic that for Rawls justice is fairness and that it should be the primary concern of all social institutions.

Let me call attention of the learned participants of this webinar to the Oxfam paper on *Virus and Inequality* published on January 25, 2021 which points out that the virus has increased existing inequalities of wealth, gender and race. The paper inter alia also shows that the fortunes of over thousand billionaires have returned to their pre-pandemic times in less than 9 months while the recovery for the world's poorest will be only after more than a decade. This will be much more for India where the worst damage of the pandemic has fallen on the informal sector while in the stock market, Sensex has rallied above the all-time high record of 50,000. The finance minister has not increased the cash transfers under the PM-KISAN scheme of Rs.6000 per year or Rs.500 per month. Even the mid-day meal scheme and several nutrition schemes remain grossly under spent. For example the cash transfer of Pradhan Mantri Matru Vandana Yojana, despite being in the name of the Prime Minister did spend only Rs.1300 crore as against a budgeted amount of Rs.2500 crore in the fiscal 2020-2021. A Budget that abandons nutrition security, food security and environmental security lacks the much-needed vision of inclusive growth. There is also no healing touch.

Third, the Budget goes ahead with greater avidity with the game of disinvestment for resource mobilization and includes two public sector banks along with a large number of public sector undertakings earmarked for the guillotine. Although Air India continues to remain an unsold commodity since 2018, the FDI share of Insurance has been revised from 49% to 74% and the LIC once India's pride in public sector undertakings is held out for divestment. Despite the drastic mis-carriages, the disinvestment target is maintained at Rs.1.75 lakh crore. Interestingly the collection under this head in the current fiscal 2020-2021 is only Rs.32000 crore (as per Revised Estimate (RE)) as against the budgeted Rs.2.1 lakh crore; the shortfall is a fabulous 85%. This type of fudging is done to maintain the fiscal deficit target within the FRBM limits and the medium term fiscal policy frame work. While on this question of disinvestment particularly in the context of privatization of two public sector banks, I wish to mention the thrust given to the bad banks in the budget, by creating the Asset Reconstruction Company and the Asset Management Company. What guarantee is there that these institutions will be prudently and professionally managed? There is no assurance also against misallocation of public money. Given the fact that most non-performing assets are not easily redeemable, the presence of bad banks can only encourage imprudent lending and result in write-off situations. After discussing the disinvestment programme the Economic Survey 21 (Vol II Chapter 2) ideologically asserts "The Government recognizes the need for opening up of all sectors to private sector"(p.57).

Four, it is not a "never before budget" by any reckoning except that the FRBM fiscal framework is abandoned and public debt is no longer seen as an anathema. Even the IMF-World Bank duo who have influenced a lot of economists (who abide by the Washington Consensus) and ruined several developing countries via structural adjustment induced loans are also compelled to abandon their fiscal orthodoxy. Reinhart and Rogoff who were against these have apparently come round to a 90% of GDP ceiling as the upper limit of sustainable debt. The public finance pundits of India who were swearing by the Maastricht treaty also will have to climb down to more realistic arithmetic in regard to fiscal prudence.

Strategy

Now let me turn to the strategy part. Strategy depends on the objectives to be achieved. A budget may be considered as a short-term step in the long march of a country towards the achievement of human development and well-being. Using Amartya Sen's ideas, I would say that the broad objective is to promote social arrangements that will build the freedom and capabilities to choose a reasoned and inclusive social existence fighting unfreedoms like ill-health, mal nutrition, poverty, old age, lack of dignity, difficulties to participate in public life and all other constraints that limit the citizen's capabilities to choose a dignified life. A budget also has to meet all short term crises and contingencies like inflation and pandemic like Covid-19 called once in a century crisis by the Budget. The Economic Survey as well as the Budget focus on economic growth in the market and completely miss the human touch badly needed now. I shall examine the strategy of the Budget under three heads: (a) The goal of V-shaped growth (b) fiscal management and (c) health care.

(a) V-shaped growth, K-shaped Growth or what?

Covid-19 has affected both the demand and supply of good and services which of course have to be accelerated to step up growth. Closer examination of the numbers shows that the government expects the economy to respond via the credit system and development finance institutions. The National Statistical Organisation expects the economy to shrink by 7.7% this fiscal. But the Economic Survey projects a 15.4% nominal growth and assuming a 4.4% rate of inflation an 11% real growth. The Budget documents moderate nominal growth down to14.4% and real growth around 10-10.5%. These are expected to be achieved by stimulating the economy through higher expenditure. Actually as per RE, the expenditure for 2020-21 is only Rs.34.5 lakh crore and for the budget year Rs.34.83 lakh crore or hardly 0.95% more which given the inflation underway is pulling the system down. Of course the stepping up of capital expenditure from Rs.4.39 lakh crore in the current year (RE) to Rs.5.54 lakh crore for 2021-22, a 26% increase is substantial, but not critical to trigger growth. The investment ratio of 26.7% is far away from the investment needed to accelerate the economy. Assuming an incremental capital /output ratio (C/O) of 4, a real investment need for a 10% growth works out to 40% which is clearly unattainable. Given the deepening slack in the economy even a 4% C/O ratio is unrealistic and considerable stimulation of aggregate demand via public sector investment, stepping up of private consumption besides exports is the need of the hour. But when you need to step up demand through wage income of the poor who have a higher marginal propensity to consume, the Budget proposes an allocation of Rs.73,000 crore for 2021-22 for MGNREGA whereas the revised estimate under MGNREGA was Rs.1.11 lakh crore. This is a penny-wise and pound foolish strategy when the wage income of the poor remains low.

While a growth shoot up from the abyss of (-) 7.7% growth to plus 10-10.5 growth in the next fiscal is good for the rhetoric of a V-shaped growth but clearly unattainable. The actual may be a worse scenario of a K-shaped growth. While with the Atma Nirbhar Bharat getting heavy budgetary support, some sections in the organized sector may be growing, the informal sector comprising the poor will have a down ward slopping curve confronting them. To be sure, this is not what the pandemic, stricken Indians will bargain for.

(b)A word on the fiscal management

The fiscal management does not tell an encouraging story. The fiscal policy frame work once very assiduously nursed has been soft pedalled since 2014-15. There is a visible slippage from fiscal marksmanship. There is considerable fudging, but for which the projected fiscal deficit of 9.5% of GDP for 2020-21 (RE) would have been much higher as against the held as ‘sacrosanct’ ceilings around 3%. When you estimate a fiscal deficit of 6.8% of GDP for

2021-22 it is under drastic assumptions and without any step up on the resource mobilization strategies and therefore meant to be violated.

Primary deficit is the key variable in the game of fiscal and public debt management. Increasing primary deficit is the surest recipe for unsustainable debt- servicing in the future. The primary deficit was estimated to be 0.4% of GDP in the budget for 2020-21. But this has shot up to 5.9% in the revised estimate which is 14.75 times higher and the slippage yawns wide. Seen against this the fiscal deficit slippage is only 2.7 times as fiscal deficit increased from 3.5% to the revised estimate of 9.5% which itself is wide of the mark. The primary deficit number of 3.1% in the 2021-22 Budget is not going to be realized particularly because of high interest payments. The interest payment for 2021-22 is around 45.3% of the total revenue receipts as against 36.3% in the pre-covid year of 2019-20. This itself is on the high side. Certainly the interest payments will shoot up because interest management to contain inflation is part of the inflation target regime of Reserve Bank of India (RBI). This tragedy is because you cannot ruffle the feathers of the rich and notably the corporate sector who already had been given a tax concession in September 2019. Clearly a sizeable proportion of black money has already filled the ruling party, via the electoral bonds. It is hoped that the fiscal deficit will be brought down to 4.5% of GDP by 2025-26, an unattainable goal because your resource mobilization strategy and growth efforts are flawed. This Budget naively hopes that the economy can be triggered up swiftly through more privatization, recapitulation of public sector banks, bad banks and Development Finance Institutions.

(c) Pandemic, health care and human well-being

In the context of Covid-19, the several lacks and gaps in health infrastructure as well as the need for enhancing medicare in the country has been brought to surface. The Economic Survey recommended to ramp up health spending to 2.5% to 3% of GDP. The Budget falls way below this with no signs of visible improvement. India's health spending is way below that of her neighbors especially Sri Lanka. In this context the Finance Minister's smart proclamation of 137% increase from that of last year's estimated spending was apparently a great gesture but really a rhetoric. This high percentage is an adding up of the estimates of several Ministries such as drinking water, sewage and sanitation and it is difficult to verify the base from which such a big jump is estimated. Even after covering all health-related programmes, the spending adds up only to Rs.223846 crore which is hardly 1% of GDP. On a closer examination it is evident that the provision for Health and Family Welfare for 2021-22 is only Rs,73932 crore. It is lower than the budgetary provision of Rs.78866 crore for the previous year. Where health indicators such as life expectancy, infant mortality rate, out of pocket expenditure, maternal mortality rate etc., compare very poorly with her neighbours, the state and local governments will have to be supported more substantively than at present. This is one area where substantial and credible public provisioning is badly required. What is paramount is people's well-being and not ideology.

To conclude the Budget is a victim of its ideology which limits participation in the market only to those with exchange entitlements. It has betrayed the poor and even the middle class. Minimum government and maximum governance is possible only via calculated structural reforms (Chapter 1) that require a government committed to the ideology of market-led growth.

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