STATES OF MATTER

Fuzzy math, funny money

The Union Budget in the neoliberal age has been all about keeping markets happy. But the numbers have seldom added up to a healthy economy

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Here and there Markets went into a swoon soon after Nirmala Sitharaman presented the Budget on February 1, but recovered within hours PTI/ATUL YADAV

Aside from the record length of her speech, what stood out in Finance Minister Nirmala Sitharaman's Union Budget presented on February 1 was the magic realism of its numbers. Policy minutiae earned close attention but the focus remained scattered. Devoid of big ideas, the Budget was seen to lack a vision for an economy trapped in malaise. Markets went into a swoon, but then, with no clear reason, recovered within hours.

Keeping the markets happy is the unstated object of Budget formulations in the age of neoliberalism. The deeper question of how good an indicator markets are is generally brushed off the table. Yet there is a certain contrariness in expectations of the Budget. Governments are viewed as facilitators who have no part in the productive economy. While providing a stimulus, Budgets are required to be modest in investment proposals. Undue ambition creates deficits and these have the potential to destabilise markets.

Within that philosophical orientation, the finance minister had little to offer since she had already played her hand with massive tax breaks last September. Underlying hopes that private sector investment can kick-start the sluggish economy remain unfulfilled. With options exhausted, perhaps the finance minister decided to go long on verbiage.

The fine print reveals that most expenditure lines have been squeezed as a consequence of shortfalls in revenue. That has not prevented a rather wishful calculation that the three final months of the current financial year will bring about unprecedented revenue buoyancy. Stripping out the exuberance of these expectations, the prognosis is for a further squeeze on expenditure, as Sitharaman struggles to keep her promise on the fiscal deficit.

The latter anxiety was reflected in her assurance that she was seeking no more than a brief reprieve from the rigours of the Fiscal Responsibility and Budget Management Act; that discipline indeed would be restored next year. It was a typically conflicted response to impossible demands from markets, which look for a fiscal stimulus but shrivel up at the prospect of a deficit.

As the Budget has become leaner over the years of neoliberal orthodoxy, the key parameter of the fiscal deficit has lost much of its significance. It continues to be deployed as a psychological comfort to the markets. Savvy operators choose to ignore the artifices involved in keeping the figure manageable. They are usually happy to take the declared numbers of the fiscal deficit at face value.

Losses of public sector units now being put on the block for privatisation, for instance, are not counted in the fiscal deficit. Privatisation targets have remained unmet through the current year. Yet the finance minister has not hesitated to pitch her sights high for the next. A tripling of targets has been announced, in seeming innocence of the reality that the privatisation agenda will remain hobbled as long as the liabilities these units are incurring remain undischarged.

Skimping on subsidy payouts has meant that corporations in the food and fertiliser sector have been pushed to the wall. Bank finance has filled the gaps in their working capital, but this supposed short-term recourse could soon become embedded.

India presents a vivid picture of an economy threatened with seizure because the arterial flows that keep it functioning have clogged up. Restoring the flows that impart buoyancy to the economy was once a task that the Budget could address. That is no longer so.

Foreign currency assets is one respect in which the Indian economy enjoys a relative plenitude today. The neoliberal agenda kicked off in 1990-91, when India's foreign currency reserves were down to $2.23 billion, barely enough to sustain a few days' imports. Today, it is up to $385 billion, a figure that might then have seemed inconceivable.

This increase has been punctuated by a notable discontinuity. Between 2003-04 and 2008-09, that is, between the first glimmers of "shining India" and the global financial meltdown, India's foreign exchange assets increased at an annual compound rate of 17.5 per cent. Since the turmoil of 2008-09, that rate has slowed to 4.8 per cent.

Endemic financial instability has been the consequence, with seemingly no cure in sight. Sustaining the illusion of fiscal discipline is a necessary part of retaining the relative plenitude of foreign currency assets. Yet, the ebb and flow of foreign investor interest could be politically destabilising, as Manmohan Singh realised through his unhappy second term as prime minister.

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The engine driving the process is based in Washington DC. As *The Economist* of London wrote recently: "The world's financial rhythm is American: when interest rates move or risk appetite on Wall Street shifts, global markets respond". Under the Trump administration though, the dollar has been weaponised as an instrument to discipline strategic rivals. This has prompted a pushback and an effort by major global economies to "de-dollarise", or shift the bulk of their transactions and reserves to other currency denominations. As the Indian economy remains sunk in gloom, strategic thinking to make the most of the shifting winds seems to have gone missing.

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