Interim Union Budget Follows Tradition of Modi Government's Apathy Towards Most Vulnerable

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opinion

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Deepanshu Mohan

Economy

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The pre-poll interim Union Budget speech made by finance minister Nirmala Sitharaman was well suited for an election year, projecting a rear-view reflection of the Modi government's record of "Governance, Development and Performance (GDP)", as claimed in her own words.

Much of the rhetorical tone had its own share of factual inconsistencies, with credibility questions for the finance minister's fiscal math (one only needs to see the revised estimates for this), something that has become part of a pattern now.

What was interesting to see was an implicit acknowledgment made by the finance minister of the government's reassurance to working for the progressive development of the most ignored sections of the Modi government's fiscal policy: the poor, the youth, women and farmers of the nation.

All four groups, in extensive details of Indian economy data, are some of the worst performing groups in most categories of social and economic policy performance. Sticking to the rear-view landscape of the finance minister, in retrospect, each of these groups have remained out of the Modi government's 'GDP (Governance, Development, Performance)' agenda.

Unfortunately, as a weak national opposition – suffering from an acute organisational and leadership crisis – fails to effectively mobilise these groups for the upcoming Lok Sabha polls, any symbolic support projected by the BJP, even if not backed by hard data, may appear to sell well for the Modi government's campaign promises: For the poor, otherwise subjected to more hunger and lower incomes in Modi government's decadal tenure; for the youth, otherwise facing higher (youth) unemployment than ever before in post-independence Indian economic history, especially amongst the 'educated' youth; for the women, otherwise witnessing the poorest labor force participation rate and forming the highest group in the unpaid worker category in both urban and rural areas; and the farmers, otherwise who have suffered from a broken state-kisan compact, and been economically marginalised due to high input prices, poor returns on agri-investments amidst a high wave of retail food inflation.

The finance minister tried to provide mere empty reassurances to each of the above groups, speaking on random, ad hoc measures the Modi government had undertaken for their overall development – ignoring their actual lived experience, which suggest a different reality (discussed here).

One area, however, which has rightly received greater fiscal attention (at least in the last two/three budgets) is the PMAY (Prime Minister Awaas Yojana), a programme aimed at improving access to affordable housing for the poor, economically and socially backward communities across the country. The flagship programme was essential for the Modi government in ensuring cheaper, affordable housing, which tends to be one of the biggest challenges in terms of asset-ownership for the average (poor) citizen.

The ‘poor’ in extremely poor states may have voted nationally in the past for Prime Minister Narendra Modi because of the repeated, time-sensitive efforts of the government to announce electorally sensitive, poor-popular fiscal measures – including the extension of schemes like PMGKAY in larger-electoral states throughout the last few years.

Approaches to such ‘poor-centred welfarism’ in states going into polls, may have helped the BJP in states like Uttar Pradesh, Madhya Pradesh, Chhattisgarh and Rajasthan (more recently), however, there is less focus on welfare targeted at the upward mobility of the poor, marginalised, dispossessed sections of the citizenry across the nation.

The reason for compromising on ‘mobility-centred welfarism’ is because of the preference attached to government supported capital expenditure, which in this interim Budget too saw a 11.1% outlay increase in comparison to previous year. As argued earlier, in studying the Modi government’s overall macro-outlays of last few years, a larger proportion announced for capital expenditure has often come at the cost of essential social/welfare spending.

The government has otherwise failed to attract substantive private investment across sectors which has made the 6% growth been largely driven by capex-fueled government spending, which isn’t sustainable for the debt implications it has on the government and for India’s growth potential (in absence of private investment).

A large capex-fueled government spending depending on larger borrowings has already made the government debt to be pegged at above 80% of GDP, while not meeting its expected revenue (or disinvestment) targets year on year to meet the requirements imposed by demand for greater spending needs (for revenue and capital expenditure).

On managing its own fiscal deficit, in the run-up to this Budget, economic analysts expected the government to bring down the fiscal deficit to 5.9% of the GDP. The finance minister did slightly better by announcing that the fiscal deficit has been brought down to 5.8% level. Further, the finance minister announced similarly ambitious targets for the FY25 — at 5.1% of GDP— and FY26 — at 4.5% of GDP.

However, it leads to two questions: how is fiscal consolidation being achieved (this author has previously argued of a silent fiscal crisis amidst high debt that appears to be hidden in publicly accessible data); and, even if one agrees with what the finance minister says, a restricted fiscal space – just to meet the fiscal consolidation targets – would impose adverse effects on growth and welfare performance, for an economy that’s deeply affected by a K-shaped growth/development pattern.

On managing ‘vanishing’ middle-class expectations

This author had earlier discussed some of the growing concerns with India entering into a middle-income trap while witnessing a deep, gradual erosion of the promise of upward income mobility for its broader middle-income class. The current Budget did not do much in this regard. The finance minister did say that the full Budget in July (assuming the BJP will comfortably be back in power) will do more on ‘big-ticket’ announcements keeping 2047 in mind.

Meanwhile the growing burdens of inflationary tax in a period of stagnating real wages and joblessness may continue to trouble a vanishing middle class across the nation. As explained, most salaried classes haven't seen a substantive rise in incomes (across both urban and rural areas) over the last seven years even though prices of essential consumer and capital goods have continued to rise.

The value of the rupee has considerably fallen over time as prices of essentials have gone up, which has added to the fiscal purse of the average Indian household, contributing to greater than 35% household debt to GDP levels (see more on this issue discussed here).

In such a scenario, for those coming as part of the direct income tax base, providing a larger fiscal relief could have been desirable for the government. The previous year's Union budget granted income tax rebates for individuals earning up to Rs 5,00,000, creating expectations among the lower income spectrum, who were anticipated similar rebate in the upcoming interim budget.

Let's look at some of the other key macro-overheads reflecting the government's fiscal outlook.

On capex:

The much celebrated cornerstone of last year's Budget presentation was the spike in capital expenditure by the Modi government. The government then received a lot of praise for raising capex target to Rs 10 lakh crore. But the data for revised estimates now shows that the capex was not met; it stands at Rs 9.5 lakh crore. This might also explain some part of the reduction in fiscal deficit.

What's even more troubling is how even the actual spent capex-fueled expenditure has yielded no positive dividends in boosting domestic private investment across sectors thus far. This is also evident in the data on sectoral growth (outside services) and its contribution to overall GDP (see here for a discussion on this).

As emphasised earlier, it is a collective sense of many economists by now that an increased government capex outlay going forward may actually do very little to change the underlying circumstances for the overall private investment situation, where at 75% private sector capacity utilisation, most of the private firms remain reluctant to invest more or in new capacity.

Margins for companies have plummeted despite high sales growth, and may remain low due to further deceleration in sales. Asset utilisation rations have remained below pre-covid levels and significantly lower than in FY12.

Any additional capex-spending may add more to a rising government debt position which fiscally may remain hidden in the short run but come out to haunt the government in its medium to long term fiscal situation later-imposing a higher revenue and borrowing burden (see here for a longer discussion on this).

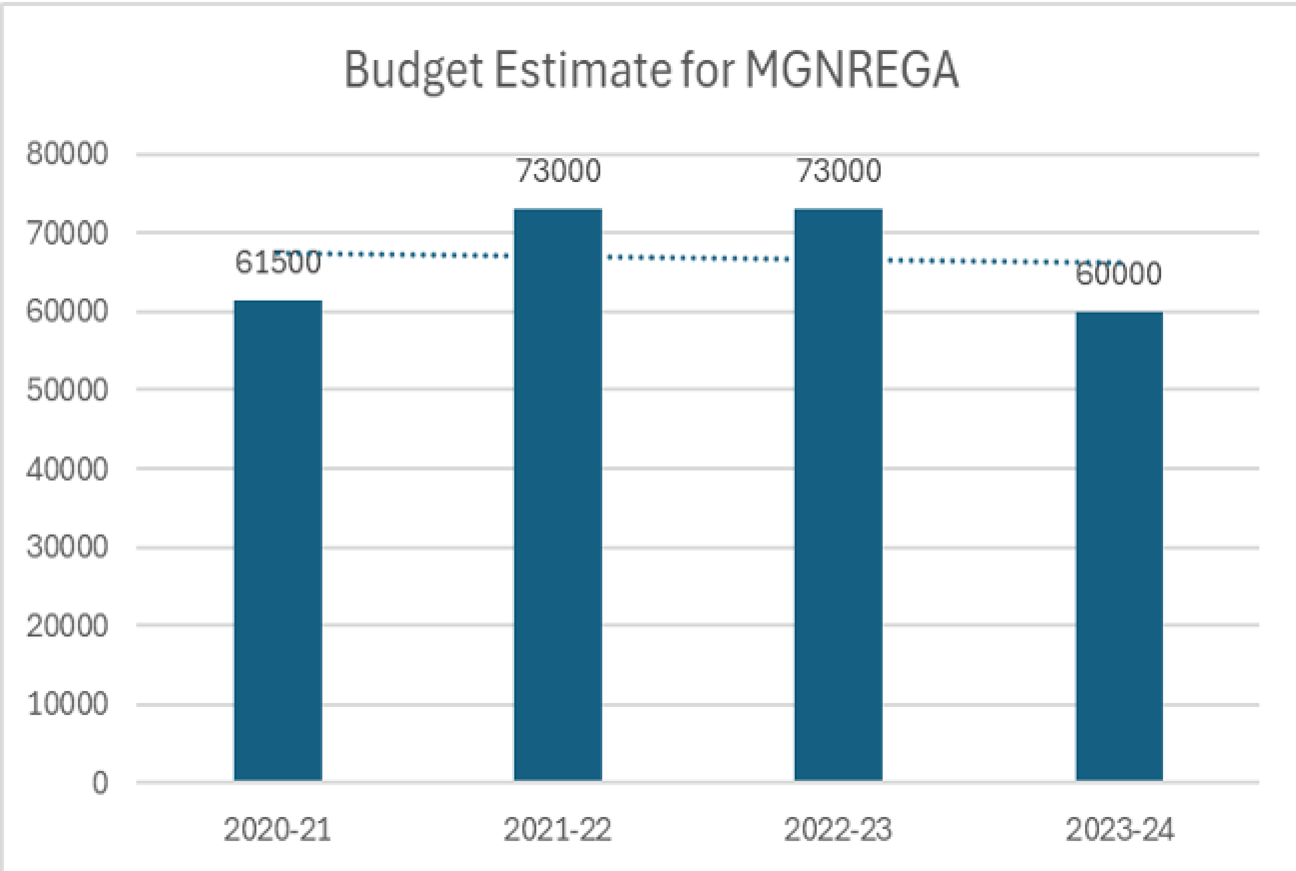
On revised estimates and the rising cost of welfare spending cuts

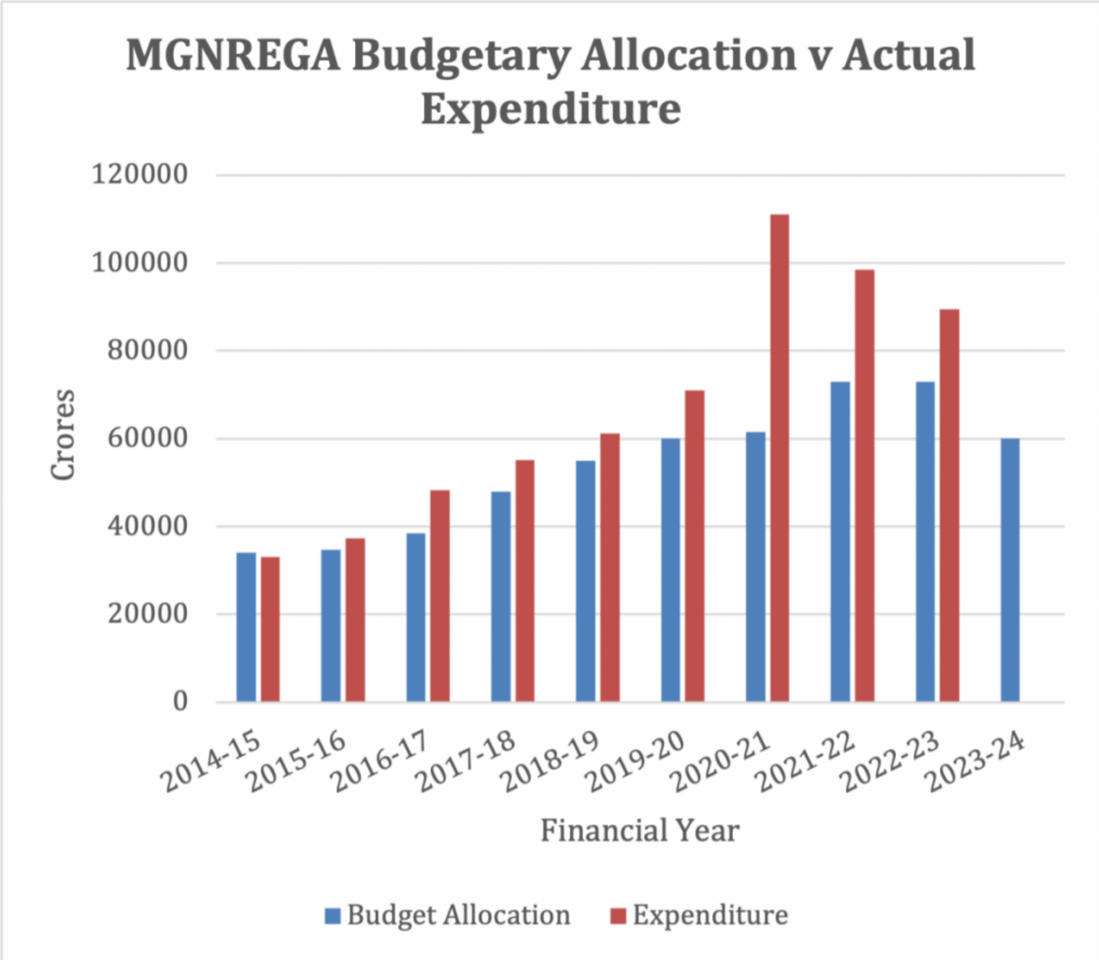
To fuel a bloated capex-driven fiscal budget and fiscally afford this amidst weaker than anticipated revenues, the last few Union Budgets not only trimmed social spending but did so in a year when capital expenditure rose substantially. The Modi government has also been responsible for squeezing state governments, inhibiting their fiscal space for supporting welfare schemes.

For this interim Union Budget too, as seen in the past where health and education budget allocations are typically much lower than what India needs, the revised budgetary estimates now show that even those targets from past budget year have not been met in the current financial year. The government was supposed to spend Rs 1,16,417 crore on education, but actually ended up spending Rs 1,08,878 crore (see here for a past discussion series on how less the Modi government has spent on health and education overall in the last ten years).

Taking other revised estimates into consideration, as reported by the *Indian Express*, "Similar cuts can be seen now in the budgetary allocation for the core schemes for marginalised sections such as SCs, STs, and minorities. For instance, the Revised Estimates (RE) for the Umbrella Scheme for Development of Schedule Castes are Rs 6,780 crore against the Budget Estimates (BE) of Rs 9,409 crore. For STs, the RE is Rs 3,286 crore against a BE of Rs 4,295 crore. For minorities, the fall has been the sharpest. From a BE of Rs 610 crore in FY24 to an RE of Rs 555 crore."

Keeping this aside, the most significant reduction in the Union government's own social spending over the last few years was further observed in the budgeted allocation for the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) scheme, seen below.





Source: CNES-InfoSphere

Consistent reductions in government budget allocations contributed significantly to the scheme's inability to create promised employment for job seekers across India – at a time when MGNREGA's demand in rural areas had significantly gone up (particularly during Covid years). The above graph depicts an 18% decrease in budget allocation on MGNREGA.

As one unlocks the devil in the details of more revised budget estimates' data, one may further realise how bad the fiscal situation is when it comes to prioritising (and meeting) the fiscal needs/concerns of the poor, the youth, women and the farmers: four groups the finance minister said are this government's 'top priority'.

Yearly

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