The ‘thorns’ that still afflict India’s economy

Deepanshu Mohan, FEB 11 2021, 23:21 IST | UPDATED: FEB 12 2021, 00:50 IST

Finance Minister Nirmala Sitharaman. Credit: PTI Photo

In his Budget speech of 2015-16, the late Arun Jaitley took a dig at the previous UPA government with a few lines from a Hindi poem: “Kuchh to phool khilaye humne, aur kuch phool khilane hai/Mushkil yeh hai, bagh me ab tak kaante kai purane hai” (We have helped some flowers blossom, we have to grow many more, but the garden is still filled with many thorns from the past).

Listening to Finance Minister Nirmala Sitharaman’s promised ‘once in a century’ Budget speech last week, and on closely observing the Budget numbers, maybe one can recollect Jaitley’s poetic words for his own government: the ‘thorns’ of the current government’s own past (and its present) still remain rather unacknowledged and unaddressed in the garden, making it difficult for ‘new flowers’ to blossom.

Despite a ‘pro-growth’ outlook, and a much-needed clarity on the Finance Ministry’s macro-fiscal priorities, the Budget, overall, comes across

Looking closely at the numbers, an adverse effect seen in the Centre's resource mobilisation efforts, due to a pandemic accompanied by a deeper economic crisis, are now obvious. It was good to see the Finance Minister being honest and transparent about the government's weakening revenue position and the increasing deficit numbers.

However, it is important to acknowledge how, even before the pandemic, central tax collection had started slowing down, partly because of a slowing economic growth trajectory and due to the catastrophic policy measures taken by the government: a slash in corporate tax rates (in September 2019); a failure to achieve projected disinvestment targets year-on-year.

On non-tax receipts, too, for example, the proceeds of disinvestment in 2020-21 (revised estimate) fell short of the budget estimate target of Rs 2.1 lakh crore, which was more than three times the disinvestment proceeds of 2019-20. This fact reflects poorly on the capabilities of the Finance Ministry to implement sound disinvestment plans based on what it seeks to 'outline' in estimates and on its plan for future revenue expansion.

In reference to a few big-ticket announcements -- made in terms of a spending increase on capital expenditure -- if one sees the accounts, the actual 'capital expenditure' is likely to rise only by 3% or so over the next fiscal (if you look at the revised estimates and the fiscal space for 'capital expenditure' goals closely). This isn't clearly a lot, nor a point worth cheerleading upon.

Yes, the total government expenditure as announced by the Finance Minister is likely to go up by Rs 4 lakh crore. But most of this spending, at least 80%, is likely to be assigned for food-fertilizer-related subsidy expenses, with another 12% for an increase in MGNREGS outlay.

There is very little here in spending for income support to those worst impacted by the pandemic and economic crisis, and that's troubling.

What about areas of priority in social sector expenditure?

From what's reported in the CBGA's latest budget analysis report: As per the Economic Survey 2020-21, the combined public spending on social sectors by the Union and states remained below 7% of GDP until 2018-19.

Though this figure rose to 8.8% of GDP in the Budget Estimates (BE) for 2020-21, one can note how, even at close to 9% of GDP as the combined public spending on social sectors in the country, it is way below the level of budgetary support for social sectors not just in most developed countries, but also in a number of large developing countries, especially in moments of a deep crisis.

Furthermore, where the current Budget -- and the government's macroeconomic priority -- more noticeably disappoints, despite all its high hopes, is in its inability to neither acknowledge nor address the 'thorns' of the past and present embedded in crises of high unemployment, low social-spending in creating social security for lower middle-class workers and putting more (disposable) money in the hands of those who need it the most (via tax incentives).

While major asset owners and profit earners have maximised their profitability during the Covid pandemic last year, the real crisis in hand is still evident in the declining wages for (middle income) salaried classes and a disproportionately high loss in jobs across urban and rural areas.

There is, unfortunately, nothing in this Budget for these millions -- either in terms of direct personal taxation (or exemption) benefits, or a plan to set a more robust and targeted job-creation plan in place, say through an urban-focused job creation plan similar to MGNREGA at least within the public sector, a proposal many thought might have got a nod this time for national-level implementation.

In sum, if the Union government's hope to create enough 'jobs' for the increasing jobless is through a higher fiscal spending plan, vaguely defined in the form of a government-financed infrastructure project pipeline at a time overall domestic private investment is woefully low across sectors (including in construction, real estate), and most labour-intensive manufacturing units are already struggling with low demand and capital, then not much is likely to change in the months ahead to bring about the quality of economic recovery one hopes for.

Despite its 'pro-growth' outlook in spirit, this Budget fails to acknowledge, accommodate and address the needs of millions in India's struggling working class. The 'aam aadmi', it seems, is likely to become more and more 'nirbhar' on an ultra-rich asset-owning class of elite that alone has benefitted in earnings and profit margins during a pandemic-induced crisis -- the evidence of which was there to see in the 'irrational exuberance' seen with the 2,000-point jump in stocks after the FM's Budget speech.

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