# In the 2017 Budget, the Government has Compounded its Folly*

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The Budget estimates, which have generally become somewhat suspect of late, are particularly meaningless in the case of the 2017-18 Budget for two obvious reasons: first, the early presentation of the Budget means the availability of that much less information for the current year, upon which the Budget is based; and second, the draconian demonetisation that has occurred, while certain to pull down the GDP growth rate (even the Economic Survey concedes that), makes any precise prediction impossible. Let us therefore look at the broad strategy of the Budget rather going into its numbers in any detail.

One obvious thing that stands out here is that while the ratio of the central government's tax revenue to the GDP is broadly expected to remain unchanged (the chief economic adviser has said so explicitly to a group of TV journalists), the ratio of the fiscal deficit to the GDP is to be kept unchanged (to maintain India's credit rating in the eyes of global finance). This means that the central government has decided to keep its expenditure relative to GDP unchanged. Such an act of "fiscal prudence", which constitutes the cornerstone of the government's budgetary strategy, is staggering in its witlessness. It serves to compound further the folly of demonetisation.

Having saddled the economy with an entirely unnecessary slowdown in output and employment growth through demonetisation, the central government had a chance to partially undo the damage through the Budget by significantly raising its expenditure relative to GDP in a manner that would be specifically welfare-augmenting for those most hurt by the note ban. Indeed, all sorts of rumours were afloat before the Budget, including even of a scheme for ensuring a basic minimum income to all (which was actually mentioned in the Economic Survey too). Such a scheme, typically favoured by left-of-centre governments (Brazil under the Workers' Party is the most striking example), would have been completely out of character for a right-wing party like the BJP; but the imminence of several state assembly elections – in the wake of demonetisation which brought distress to many – gave this rumour some credibility. But, in the event, the BJP has remained true to form, with not a word in the Budget on any income support.

Ironically, not only has the damage caused by demonetisation remained unaddressed (the adjustments in income tax rates being too paltry for this purpose), but even the opportunity provided by demonetisation has remained un-utilised. I am not referring here to the unreturned currency of the black economy upon which the government had set great hopes, but which turned out to be of trivial value and hence of little fiscal help (since 97% of the value of the demonetised currency has returned to banks for exchange or as deposits). I am talking about the demonetised currency notes that have been deposited in banks.

As there is little additional demand for credit from borrowers whom they consider "creditworthy", the banks are simply holding this amount and paying interest on it, while earning nothing in return. If the government had simply borrowed this amount from banks for undertaking expenditure, by issuing government securities for them to hold, then it could have put back this sum into circulation, countering the otherwise recessionary consequences of it being impounded, while at the same time providing an income to banks.

True, such borrowing by the government would have figured in the Budget as fiscal deficit to the chagrin of global finance, but the deficit so caused would have had no adverse consequences for the economy. It would have been no different from a compulsory loan taken by the government from the people, entailing nothing else but an enforced shift of purchasing power from the latter to the former. It would have been no different in nature from the "compulsory deposit" schemes that we used to have in the old days, though of course on a much larger scale and involving an element of coercion (or "despotism" as Amartya Sen has called it); but it would have countered the recession caused by demonetisation, without engendering inflation, while simultaneously providing incomes to banks. (And as far as "despotism" is concerned, it is inflicted anyway, whether or not the government uses this forced surge in bank deposits for additional spending.)

Of course, as new money got printed to replace the old, the amount of deposits would have fallen, as people would rather have got back to cash than used claims on banks for settling transactions. But the government has announced that it would not be replacing the entire value of currency that has got demonetised. A gap will be left in order to force people to shift to cashless modes of transacting. This gap is the amount that banks will remain saddled with and the government could have borrowed it with impunity to partially offset the baneful effects of its demonetisation. But its desire to appease global finance (by not borrowing) has proved stronger than its desire to rescue the economy from the effects of its own misadventure.

The government's claim that the allocation under the MNREGA has gone up is misleading. The outlay of Rs 48,000 crore for 2017-18 is just about the same as the revised outlay for 2016-17, which is Rs 47,500 crore. True, this is a demand-driven programme where the outlay is not, in principle, under the government's control and can be augmented if necessary. But lengthening delays in wage-payments under MNREGA, and the insistence of Aadhar cards in future, both of which are contrary to the Supreme Court's directives, make the government's intentions with regard to this programme altogether dubious.

* **This article was originally published in the Wire on February 2, 2017.**