Budget 2020: No sense of direction*

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Besides its length, Finance Minister Nirmala Sitharaman's speech presenting the Budget for 2020-21 was notable for a number reasons. It did not discuss the likely shortfall in revenue collection relative to targets during financial year 2019-20 and what that implies for state action. Much of the speech sounded like it was being made on behalf of other ministries highlighting their ongoing or new programmes, rather than on behalf of the ministry of finance. It did not, when discussing expenditures refer to the increase in allocations for 2020-21 relative to the budget or revised estimates for 2019-20, but merely quoted absolute figures. And overall, it spent time highlighting selected individual projects but provided no macroeconomic vision.

These features were omissions and postures that served a purpose. The Finance Minister wanted to side-step the crucial question that was being posed by circumstances: what does she intend to do to revive an economy that had lost momentum and seems on course to experience a further fall in its rate of growth. The concern is not only with GDP growth. While even prior to 2019-20 demonetisation and the GST roll-out had damaged the informal sector and the employment situation was dire, the effects of demand compression had begun to tell on the formal corporate sector as well in this financial year. This had set off a vicious cycle of low growth-low receipts-low expenditure-and even lower growth. Stepping up demand was crucial and the budget was expected to play a role.

It appeared initially that the budget could pull off a stimulus. Two numbers stand out in Budget 2020-21. The first is the government's expectation that it would see an increase in its non-tax revenues from communication services, from Rs. 59,000 crore in 2019-20 to 1,33,000 crore in 2020-21. This is because of the Supreme Court judgement on the underpayment of dues on account of licence fees and spectrum charges by telecom companies. Since they would have to pay up soon, the government expects a windfall in the coming financial year. However, that benefit has already been eroded. In September 2019, in the name of stimulating the economy and accelerating high growth the government cut the corporate tax rate sharply, handing over a bonanza to the corporate sector amounting to close to Rs. 1.5 lakh crore. It is clear now, that while that measure may have boosted the profits of big business, it did little to push up growth. On the other hand, the concession had resulted in a loss of revenues larger than what the telecom windfall offered.

The second significant number in the Budget is the projection that the government's receipts from disinvestment of public sector equity in 2021 will amount to a staggering Rs. 2,10,000 crore. This would consist of receipts from privatisation of non-financial sector public enterprises to the tune of Rs. 1,20,000 crore and another Rs. 90,000 crore from sale of equity in public sector banks and financial institutions like the Life Insurance Corporation. This rush to privatise is to begin even earlier, as the government seeks to get more from sale of assets this year as well. In the budget for 2019-20 the government had provided for receipts from privatisation of Rs. 1,05,000 crore. As of the end of January 2020 it had managed to mobilise only around Rs. 18,000 crore. Yet, the revised estimates for this fiscal year (2019-20) provided in the Budget papers say that receipts from disinvestment would amount to Rs. 65,000 crore. If such large sums are to be mobilised in the next two months and in the coming year, some of the best assets in the public sector have to be put on sale.

What does the government expect to achieve by selling its best assets? It clearly is not going to increase its expenditure levels, despite such receipts and the windfall gain from telecommunications. According to the budget papers, central government expenditure in 2019-20 would amount to 13.6 per cent of GDP. The figure for 2019-20 is projected at a marginally lower 13.5 per cent in 2020-21. That amount to a standstill on the spending front. Nor is the government planning to spend money on projects and programmes that will help the poor already badly hit by demonetisation and the growth slowdown. The Mahatma Gandhi National Rural Employment Guarantee Programme on which Rs. 61,815 crore were spent in 20018-19 and Rs. 71,002 crore in 2019-20 (RE), is allocated only Rs. 61,500 crore in 2020-21. The Scheme for the Development of Scheduled Castes on which spending fell from Rs.7,574 crore in 2018-19 to Rs. 5,568 crore in 2019-20, is allocated Rs. 6,242 crore in 2020-21. Such reductions are true in many other areas as well.

In sum, this budget does nothing for either growth or welfare. It perhaps does not intend to. The government has possibly given up on being the locomotive that can pull the economy out of its descent into recession. Given the numbers it is clear that in the short run the only way out was to borrow substantially more and spend in order to raise demand for the private sector and spur investment and growth. But the Finance Minister seemed comfortable declaring that the fiscal deficits in 2019-20 and 2020-21 would deviate from the targets of 3.3 and 3 per cent of GDP respectively only marginally to touch 3.8 and 3.5 per cent. Although these numbers are suspect and the deficit is likely to be much higher, the obsession with deficit control has implied that this budget does little to address the recession.

It is perhaps the realisation that it does not and that the government had gone too far in paying off the corporate sector with a tax concession identified as a stimulus measure that the Finance Minister decided to provide some support to middle income earners in the Rs. 5-15 lakh annual income range. That meant additional revenues forgone to the tune of Rs. 40,000 crore. She has also given the corporate sector an additional concession by abolishing the dividend distribution tax levied on corporates. That results in a further revenue loss of Rs. 25,000 crore. This too suggests that looking for resources to finance a stimulus was not a priority.

The question remains as to what the economic vision of the government is. The recent focus on incentivising wealth creation, reiterated in the Economic Survey and the Budget, and the repeated references to provision of “viability gap funding” in a host of areas stretching from health to tourism, seems to suggest that the government is looking to the private sector. Unfortunately, while happy with the concessions that flow from that perspective, the private sector waits expectantly for the government to take the lead.

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