Budget 2020-21: Short-term “Fixes” endangering the economy*

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The budget figures these days mean very little. The difference between what the budget provides and what actually happens does not come to light even after a time-lag of two years, while earlier two years were the limit. And knowing this, the government provides figures in the budget which are extravagant and hence meaningless, but look pretty. What is remarkable about the 2020-21 budget however is that notwithstanding massive liberties taken with figures, this budget still has been so non-descript that hardly anyone outside of government has had a kind word to say about it. Despite its extravagance it is not even pretty, which makes one suspect that the situation in the economy is a lot worse than the government admits.

Most people are agreed by now that the problem in the economy arises out of a shortage of demand. What was expected of the budget therefore was a thrust to public expenditure which would counteract this demand deficiency. But there has been no such thrust. The total government expenditure is supposed to go up by 11 per cent compared to the Revised Estimates for 2019-20, while the nominal GDP is supposed to increase by 10 per cent, so that public expenditure would hardly increase as a proportion of GDP, which is necessary for a boost.

Moreover even this target of public expenditure is unlikely to be met. The revised estimates of central tax revenue for 2019-20, though much lower than the budget estimates for that year, are still supposed to show an increase over 2018-19 of 14.5 per cent, which, given that the nominal GDP growth between these two years was just 7.5 per cent, is quite impossible. This in turn makes the budget estimate of tax revenue for 2020-21 an exaggeration; and if there is a shortfall in tax revenue this would certainly bring down expenditure. Likewise, if the target for public sector disinvestment, the idea behind which is both absurd and dangerous, is not met in 2020-21, as happened in 2019-20, then meeting the expenditure target would become that much more difficult. The budget in short is a complete non-starter in the matter of providing a boost to the economy.

Oddly enough, precisely the sectors which have a high multiplier effect, where expenditure should have seen the maximum increase, have been provided with meagre funds. This is true of agriculture and rural development and women and child development. Two areas in particular, where there has been an absolute fall in allocation raise concern. One is the MGNREGA, where Rs.61815 crores was spent in 2018-19. According to the Revised Estimates of 2019-20, the amount spent is Rs.71002 crores, which however includes the unpaid wage arrears to the workers employed under it. Given the abysmal state of employment in rural India today which raises demand for MGNREGA work, and counting the arrears to be paid off, the allocation in the budget should have been at least Rs.1 lakh crores. Instead the proposed allocation is just Rs.61500 crores which is even less than the expenditure in the last two years. The suspicion arises that by providing such meagre sums and deliberately building up wage arrears which discourage those seeking employment, the Modi government is planning to wind up the programme altogether.

The other area where a similar suspicion is unavoidable is food subsidy. Against a provision of Rs.184220 crores in 2019-20, the current budget provides only Rs.108688 crores. Since the food subsidy in India is simply what is required by the FCI to balance its accounts, given the fact that the FCI is saddled with large stocks at present, the food subsidy should have been much higher than last year; instead it is 40 per cent lower. There is of course an obvious reason for this. The government is now getting the FCI to borrow from banks not just for buying crops but also to cover the amount it should be getting from the government, so that in effect the government is borrowing indirectly from banks without going to the market; and in the process it can show a lower fiscal deficit figure. But these “fixes” invariably boomerang after some time and in the present case this would happen for two reasons: first, persistently building up arrears to the FCI and forcing that organization to build up debt vis-a-vis banks would put it under stress. Secondly, since the rate of interest charged on bank loans to FCI is higher than the rate at which the government would be raising its loans if it were financing the FCI by going to the market, the entire public finance gets stressed. The suspicion arises that a time will come when the government will simply start winding up the public distribution system as being “too expensive to manage”.

As both these examples show, the Modi government has no welfare commitments; it is interested merely in short-term “window dressing” without a thought for what happens tomorrow. Its interest in providing a viable basis on which the economy can function, is virtually nil. Its proposal to sell off government equity in public institutions including the LIC, which functions far better than any comparable private organization anywhere in the world, is part of this dangerous drift towards thoughtless measures born out of sheer desperation.

At the same time however one must not close one’s eyes to the fact that the infirmities of the budget and of economic policy in general are rooted in the neo-liberal order. The Modi government is too ignorant of economics and too timid vis-à-vis international finance capital to even attempt circumventing the neo-liberal constraints upon the economy (except in feeble and ultimately counterproductive ways such as camouflaging its fiscal deficit by off-loading FCI financing to banks). But these constraints are real.

Stimulating demand in the economy requires larger public expenditure, the resources for which have to come not from the working people but from the capitalists and the well-to-do in general, since they do not consume their entire incomes but hold a part of it as savings that do not constitute demand. But taxing capitalists and the well-to-do in general requires asserting oneself against international finance capital and the domestic corporate oligarchy. The Modi government not only lacks the gumption to do so, but also does not understand the basic problem. The corporate tax concessions that it gave sometime back, which it thought would overcome the crisis, would have the very opposite effect of accentuating it, since out of the reduced government expenditure, of say Rs.100, the corporate beneficiaries would save Rs.50, so that aggregate demand would have fallen by Rs. 50 owing to these concessions. Likewise the income tax concessions worth Rs.40000 crores in the current budget, together with the dividend tax concessions of another Rs.25000 crores, would reduce aggregate demand compared to what it would have been, since the government would be cutting down its spending by Rs.65000 crores, while the beneficiaries would not be spending all of it.

This is not to cavil at tax concessions to the deserving, but to say that if tax concessions are to be given, then, for such concessions not to cause a reduction in aggregate demand and hence a worsening of the crisis, they must be financed by a fiscal deficit, or, what is much better from the point of egalitarianism, a tax on wealth.

Most people are agreed that the 2020-21 budget has done nothing to stimulate demand and hence to counter the unemployment problem which today is much worse than it has been for nearly half a century. But the need for taxing capitalists to overcome this crisis is seen by very few. Some would go so far as to concede the need for a larger fiscal deficit, but a fiscal deficit, while overcoming deficiency of demand, puts wealth gratuitously in the hands of the capitalists and the well-to-do, in the form of claims upon the government. Growing wealth inequality however fundamentally threatens democracy; government spending, financed by wealth taxation, takes away this wealth. It does not leave the capitalists and the well-to-do any poorer than they were initially, i.e. before the tax-cum-spending policy was introduced; but it works towards overcoming the crisis. It would however be too much to expect the Modi government to understand this.

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