KERALA ECONOMY
2022, VOL. 3, NO.1. pp 25-29

ISSN : 2583-4436

Budget sans representativeness: A comment

K Ravi Raman

Member, Kerala State Planning Board

The Central budget (2022-23) should be viewed from a "representative perspective". A budget is representative if the budgetary expenditures and outcomes are consistent with the larger social preferences rather than serving the interests of a few special interests. Representativeness in fiscal theory aims to determine whether public expenditures benefit the entire population or just a few sections. In other words, it captures the fair distribution of resources, which is done through budget allocation of available fiscal resources. Accordingly, I think the budget is deficient on the front of representativeness and does not address the current crisis, based on this notion of representativeness. Additionally, the budget document is also distorted and contains inconsistencies. As for the mismatches, Professor Alwin Prakash has already explained them. Also, there was a presentation by Suha and Anitha Kumary and they raised some of the issues about how this capital expenditure (CapEx) has been artificially inflated, though they did not use that word exclusively, but that's what sounds like in that presentation.

In my seminars, I used to repeat that Covid 19 is not just a public health or epidemiological crisis but also a "moral economy" crisis. A moral economy crisis in this context is characterized by high unemployment, poverty and inequality as the fall out of Covid19 crisis. Budgets are meant to address these issues. In times of crisis, such as the COVID 19 pandemic, state expenditures must increase or a new expansionary fiscal approach must be adopted. However, as the former finance minister Thomas Isaac has pointed out, relative public expenditures have fallen by three percentage points from 18 per cent to 15.3 per cent.

Furthermore, one would expect an increase in allocations to sectors that will benefit the large masses when dealing with the immediate concerns of a pandemic. Contrary to our expectations, when the question of representation is actually discussed, we find either static figures or a drastic reduction in allocations. As a country, we face high unemployment, which is around 8% to 9%, reaching a 48-year high. There is little chance that the Union Government will meet its goal of creating 6 million jobs in the next five years. Although scaling up CapEx is certainly part of the solution, I would say that it is also part of the problem. But it's also part of the problem. The CapEx is raised from 1.3% to 2.9%, or from 5.54 lakh crore to 7.5 lakh crore, a fact that is reasonably challenged by scholars.

There has been a surge in public investments. Therefore, it is assumed that this will pull in private investments and also accelerate what is known as the aggregate demand, which has declined by about 3% during the last two to three years. And CapEx is mainly an investment in physical infrastructure such as roads, bridges, and corridors, so there will be a considerable lag in employment creation. Additionally, how many jobs are actually created depends on many factors such as technology, region, as well as health, education, and living conditions, all of which have not been improved substantially. An increased CapEx often compromises social sector expenditures. In other words, a budget that does not balance physical infrastructure and social infrastructure cannot create many quality jobs in the near future.

There are approximately 5 to 6 million unemployed youth entering the workforce at one level or another. Nearly 10 million people have already lost their jobs. Considering the way the budget makes its presentation that it would create so many jobs, you know it's unlikely to be achieved and even if achieved, it will be insufficient. Therefore, we agree to an extent that we need to increase CAPEX, but at the same time, we cannot expect the Modi government to follow Marx, who argued explicitly that productivity was not a matter of capital, but of labor. Also, if we end those claims as we find in this case, labor and its welfare, and any fiscal tightening in social investment would be detrimental to the productivity of labor, and the emerging labor reforms/codes simply violate the majority of the labor rights. You find a double attack on labor. On one hand, you don't allocate more funds to labor, but on the other hand, you find that workers' rights are being violated.

MGNREGA has been denied additional funding despite the fact that it is considered a flagship program. As we all know, the budget allocation was the same, but this means, and I emphasize this, that millions of workers will be denied employment as in the last few years they received fewer than the minimum number of days of employment. As a result, certain states in certain months experience a demand gap of up to 34 percent. There would be further negative effects on aggregate demand and growth because of the lingering demand gap. First, there is a likelihood that as the allotment increase was not in the budget, the workers who have been working without being paid on time would continue and pause fresh challenges for them. Second, the government refuses to increase wages, which is especially problematic considering the wage rate was not revised last year despite inflation with far reaching consequences on their real wages and income. Third, women workers, particularly those from marginalized social circles, are not sufficiently supported by MNREGA in terms of employment, income and social security.

As a result, female labor force participation rates will also be negatively affected. The government ignores the urban unemployment crisis despite the fact that states such as Kerala have implemented the Ayyankali Urban employment program successfully. The federal government has yet to announce any plans to create urban employment.

It would also be false to assume the agriculture sector could absorb more labor. This is due to at least three reasons, the first of which is that rural distress persists. Farmers' suicides, as well as their struggles for better and fair farm gate prices continue. The promise of doubling farmers' incomes has already been broken. The increasing input costs and credit burdens have even led to a decline in the real income of agriculture households. Second, there has already been a reverse migration from urban to rural areas, rural distress is likely to worsen with the rising cost of reproduction of labor as well as women. Third, the budget further compresses the rural sector or worsens their terms of trade with a massive cut in subsidies. It varies based on whether it is for food, fertilizer, or petroleum, which is about 12 per cent. This budget is entirely exclusive, it destabilizes the livelihood ecosystem of the ordinary people and, at the same time, you don't have any alternative employment opportunities. Of course, you have an increased CapEx, but as I explained above, it comes with a lag, and we are not quite sure what kind of rural jobs, it will generate.

The corporate tax revenue collection in the current fiscal year has been robust, but it has not coincided with an increase in profit margins, reports suggest. Also, the tax GDP ratio was likely to decline in the upcoming year due to the absence of any significant hike in taxes. The corporate tax has remained the same for about a decade or has decreased a classic case of representative bias in favour of the hegemonic classes. Cooperation not only ensured a continuous decline in corporate tax, we all know, it was decreased from 34.9% to 25.17% and for the beginners, there was another decline, it was complemented further by reducing surcharges. Therefore, instead of increasing the tax-to-GDP ratio, the government is more focused on borrowing and asset monetization. All of which will have far-reaching negative implications for society as a whole, and will reinforce the integration of finance capital and the regime in power. I believe that a critical analysis of the emerging nature of the Indian State is needed here, as the emerging nature of the Indian State clearly reveals that there is a need for a different kind of analysis.

I would like to conclude with just a few observations on Kerala in the context of the federal budget. If they increase CAPEX there will eventually be jobs. Kerala would not directly benefit from it, given Kerala's unemployment problems, we know, and its educated unemployment. Almost all the Capex jobs given are unskilled, so such investments will attract more guest workers. As a result of the increase in guest workers in the state, Kerala stands to gain from the spillover effects, however, it is imperative to create more jobs for youth in the state and to increase skilling. Yet, the expenditure on skilling and entrepreneurship has declined. Whether it is the PRAVASI package or the extinction of the GST compensation period, all of those things were explained in a very lucid manner by the Finance Minister, K N Balagopal. In reality, we see an increasing tendency to impose cess and surcharge, which we all know cannot be shared with the state, so I will not explain it, since Pinaki Chakraborty and others have already explained it. Additionally, I would like to share some concerns I have regarding food subsidies through ration shops. NFSA issue prices in the ration shops may increase due to a reduction in food subsidies. Any increase in the price of food grains distributed as part of NFSA would also increase additional financial burdens for a state like Kerala. Currently, we receive food grains at the central issue price at a very subsidized rate from the Centre, but if the subsidy cut is to be applied to those central issue prices, we will have to bear additional burdens.

In conclusion, representativeness in a democratic system should have a different meaning and content, and this budget is disappointing, does not address a contemporary crisis, and will only worsen it. Due to the lack of representativeness in budgets, the sequential gains of the ruling regime must be challenged through democratic politics.

Reference

Department of Economic Affairs (2022): *Economic Survey 2021-22,* Ministry of Finance, Government of India, New Delhi.

Ministry of Finance. (2022). *Budget 2022-23*. Government of India.