KERALA ECONOMY
2021, VOL.2, NO. 4-5 pp. 4

ISSN : 2583-4436

Budgeting without a perspective

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We all learn in macroeconomics the three functions of public finance; stabilization, resource allocation and distribution. It is from this perspective from which I am going to analyze the Union Budget. First, what is the nature of the macro economic challenges today, and how does the budget respond? Secondly, what are our development priorities and has the resource allocation done justice to the requirements. The third, what are the distributional implications of the budget? I shall also examine a fourth issue, in a federal system since union budget has serious implications for federal finance. How will the present budget impact the center - state financial relations? On each of these issues, I shall refer to what I have attempted in my Kerala Budget.

What are the macroeconomic conditions today? I think the best source would be the Economic Survey. In the current financial year [2020 -21], Indian economy will shrink by 7.7 per cent. While the world economy, IMFs sets the decline only at (-) 4.5 per cent. So, what makes India to be the worst performer among all the developed and emerging economies? In fact, for the first quarter, for which we have concrete estimates, India`s performance is the worst in the world with (-) 24 per cent. The world average was around 10 per cent. In short, the macro economic situation the country faced with is the worst economic recession in its history. How does the present budget address the crisis? It is an elementary proposition in macroeconomics to have contra cyclical budgeting. When your economy is contracting you expand expenditure. When the economy is overheating you reduce expenditure. This is contra cyclical budgeting. Now look at the overall expenditure of the current year 2020- 21, it is only 14.5 per cent above the budget estimates of 2020- 21. If you take the actual expenditure of 2020- 21, the increase is less than 1 percent. So, in real terms you will find that there is a decline in the overall expenditure of the government compared to what you spent last year.

Then how can you expect this budget will boost the economy out of the recession? That's why I share the apprehension of Prof. M A Oommen that we are not going to have 11.5 per cent growth in 2021-22.

I will add to the arguments that he has put forward by calling your attention to the year just before COVID. If we look for the previous eight quarters growth consistently slowed down to around 3 per cent. The downward trend started with the demonetization. The simplistic notion was that the MSMEs and corporates will close down temporarily because money is taken out. But you print new money and they would soon return to the normal. The corporate did but not MSMEs. Added with the GST problems, the pre-COVID period became a disaster. Then comes COVID -19. But it will aggravate the crisis in the MSME sector. The new budget has not got anything to revive them.

The actual fiscal deficit is 9.5 per cent last year. It is not because of the increase in expenditure but because revenues went down. Now this year revenues are going to be much better than last year, and therefore you find the overall fiscal deficit declines to 6.8 per cent. I would say that we should have maintained it at 9.5 per cent. But the government is afraid of the perception of the global finance capital. But I tell you that all over the globe the fiscal situation is very similar and it wouldn't have mattered if India`s deficit was also higher. May be the Center want to be more loyal than the King to the neo-liberal concepts and attract capital during the post COVID period. That is the strategy. So I would argue that, this budget does not address the key macroeconomic challenge.

Kerala budget, as you know, cannot adopt and expansionary stance on it`s on and raise its fiscal deficit like the Center. Nevertheless, we attempted to make maximum additional fiscal space that the Center made available.

Now let us move on to the resource allocation issue. The health sector should have had the highest attention. There is a claim of 137 per cent increase in the allocation for the health sector. That is achieved by including in the health outlay on health related sectors such as drinking water - there has been a major allocation to Jaljeevan Mission during the current year. Besides Rs 35,000 crores has been allotted for vaccine. The real allocation for health sector is only Rs 37,000 crore, less than that of last year. The allocation for the health sector has been cut and not increased.

The allocation for agriculture and allied sectors is Rs 1.54 lakh crore last year and in the current year is going to be only Rs 1.48 lakh crore. I don't know what perverse logic is behind this decision. For market intervention and price support schemes, allocation has been cut by Rs 2000 crore. The allocation for crop insurance scheme is just Rs 300 crore higher and the inter subsidy has been cut from Rs 2000 crore to Rs 900 crore.

The next priority sector should be MSME sector. I have already referred to the crisis faced by MSME sector. The proposal of Government of India to permit automatic increase of 20 per cent of the outstanding loan is a good move. But you know to be eligible for it the account had to be a performing asset at the end of February 2019. The majority of the MSME was sick by that time. Of course, there is a small scheme under fund of funds scheme from which the NPAs could get help, but it never became operational. So what is special in this budget for MSME?

In contrast the Kerala Budget has given highest preference for health sector. Last year, because government of Kerala faced the budget constraints you could expand expenditure in one sector, only by reducing the expenditure in another sector. Therefore we adopted a policy of cutting about Rs 30,000 crore of the allocated money from different sectors and gave additional allocation of Rs 25000 crore for health, food and Social security. Kerala ensured that nobody went hungry and that everybody was given best healthcare. Universal free COVID treatment and food was provided for all who fell sick.

In the current years budget Kerala provided additional Rs 4000 crore for the health system. Like health, education also gets high priority in Kerala, both school education and higher education. On the other hand in the national education mission, the funds have been cut from Rs 39,000 crore to Rs 34,000 crore.

See what has happened for the biggest support for the poor in India, NREGA program. The allocation is Rs 1.1 lakh crore. It has come down from Rs 2.73 lakh crore, the actual expenditure for the previous year. Anyone would have expected that COVID conditions would continue and the poor needed special support. The best way would have been to increase the allocation for NREGA. The Central government can cash transfer at least half the annual wages earned by NREG workers during the last years as advance and recoup it over next two three years. This would have been a simple way you can pump additional money into the hands of the poor. The budgetary allocation for the poor has declined. The

Finance Minister has no right to complain about lack of resources after giving a corporate tax concession of Rs 1.5 lakh crore that nobody asked for, just to have a stock market rally during prime minister's in USA.

What is the implication for the Federal system in India, now that the Union Finance Commission report has been tabled? Recently, I have published a book on "Challenges to fiscal federalism". The Finance Commission did not reduce the state share of the divisible pool as was demanded by the Center. What the Center could not get directly, they are trying to grab indirectly. The present union budget has taken recourse to cut the divisible pool itself. Shamelessly the budget has cut the central excise on petrol and substituted it by a cess. This is totally unacceptable. What they have done is they have reduced the divisible pool, which should have been shared with the States. Cess is not part of the divisible pool therefore need not be shared with the states. All the increases of excise duty on the petroleum products in the recent period has not been on normal excise duty, but special excise duty, additional excise duty, etc, which will not be shared. But this is the first time in a fiscal history that a, tax is being replaced by cess to avoid sharing with states. Reason for the tax cut is to reduce the share of the state's, this has never been done.

If we recalculate and include all the cess and additional special taxes which, because of this status of being additional and special cess is kept up to this will make them part of the revenues then calculate, then share that the state gets is not 42 per cent but something near 32 per cent. That was the share of the states before the 14th finance Commission. Conditions are imposed on the states if they want to avail of additional COVID loans.

The union budget has announced a new financial institution for infrastructure promotion. The new Development Financial Institution would raise money, Rs 3 to 4 lakh from the market outside the budget and fund infrastructure. Similarly, the budgetary announcement of National Highway Authority of India to provide Rs 65,000 crores, in Kerala 1.13 lakh for Bengal and so on were the headlines. This also is not part of the budget expenditure. It is something NHAI raises from the market through annuity program or hybrid type of schemes and which then is made available for road construction. I am not against it, it should be done. See you want to keep the ideological face of a minimal state, but it is a reality that you cannot keep the state minimum and therefore you have these extraordinary SPVs, which raise money and would not be reflected the budget accounts, but is in the nature of off budgetary borrowings.

I once again clarify that I am not against these initiatives. My grievance is only that why should they object to Kerala doing the same. Kerala is having the biggest expansive state budget in India. Outside the budget the State government is investing Rs 60000 crore in infrastructure. We have formed an institution Kerala Infrastructure Investment Fund Board (KIIFB) which borrows from the market. We have Kerala Bank, we have other financial institutions who would provide for the money for the working capital for enterprises in Kerala. It is part of our financial policy to use these institution to further pursue our development goals. The union government is not only objecting to Kerala initiative but also deploying central agencies such as CAG, Income Tax and Enforcement Directorate describing that KIIFB is unconstitutional. This is unacceptable and Kerala will fight.