KERALA ECONOMY
2021, VOL.2, NO. 4-5 pp. 15-18

Multiple scissors crises?

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The historical time for India is such that country is having been facing its own version of Soviet Unions' 'Scissors crisis but with a difference. If it was the widening gap between agriculture and industry that was referred to as scissors crisis in the USSR in the early 1920s, in India, it is pronounced in the form of 'multiple scissors crises'. Broadly, four levels are visible: in the domain of production, it is in terms of agriculture Vs industry or broadly rural Vs urban (ii) in the domain of state finances, it is in terms of government revenue and expenditure for both the Centre and the State (iii) in the domain of federalism, it is in terms of Centre Vs State and (iv) in the domain of trust and efficiency, it is in terms of promise and implementation. Certainly the way in which the budget has been designed is part of the problem and this year is no exception. What is striking is that budgetary solutions would only help to persist the crisis if not deepened.

Agriculture Vs Industry

Tens of thousands of farmers, particularly small and marginal, are on warpath for several days together. No comparable mobilisation was witnessed in the Indian capital as strongly as the present, though the farmers' protests had its history, beginning in the late 1970s and 80s. If the struggles earlier were against the government demanding for remunerative prices for their produce and cancellation of debt rescuing them from increased suicides, now it is against the state-corporate nexus, as it has grown to such proportions with the MNCs and the Indian corporates controlling seeds and technology, andfood processing and marketing. Indian state continued to reform the Indian agriculture sector helping corporatisation of agriculture by legalising land leasing for agri-business firms, phasing out movement restrictions of food grains and so on culminating to the recent farm bills on which the farmers on their warpath. No substantial improvements were made in public investments in agriculture, and even the recent budget slashed allocation for rural development, fertilizer subsidy and interest subsidy on short term loan to farmers, so also the amount allocated for the National Programme for Dairy Development and for National Livestock Mission. The budget has not only ignored MNREGA but also reduced their share (from a revised estimate of Rs 111,500 crore in 2020-21 to 73,000 crore in the current budget), again at a time when there is considerable delay in paying the wage arrears to the states, pending payments and no fresh work being assigned. What do these things put together mean? It clearly shows the pre-existing scissors crisis in terms of agriculture versus industry or rural versus urban either persists or has widened.

Divergence of revenue and expenditure

During the Covid 19 pandemic, governments in most countries were exposed for their failure in dealing with the basic requirements of the ordinary people. There was a breakdown of the institution called the state, as in many countries, people felt that they were either abandoned by the state or not sufficiently taken care of, resulting in heavy costs. The Covid 19 crisis quickly evolved into a moral economy crisis, a crisis of more than mere economics and finance, or epidemiology and public health. The growing divergence between the expansion of government revenue and the increase in government expenditure is only a natural outcome.This is not to forget that the expenditure as percentage of GDP was as high as 18 per cent in most of the early 1990s with an increased share of interest payments and defence expenditure. The Covid 19 pandemic widened the gap with a deficit of as high as 9.5 per cent from a reasonable 3.5 per cent which makes borrowing inevitable.

The states demand also would be met in this context as it was equally important for both the Centre as well as the state. The consequent increase in public debt is not that worrying, as first of all, the Debt-GDP ratios of the Center and the state would still be much lower than many countries such as Japan (237) or Singapore (126) or some states of the European Union. Secondly, it is unlikely to turn into a debt overhang kind of a situation particularly when the economy aims to achieve 'V' type recovery. Historically speaking, post crisis recovery necessitates an increased borrowing, and in England, at one time in history it went up to as high as 200 per cent in the post second world war. But this was brought down effectively which is now only 80 per cent which is closer to that of India. So if increased deficit is not a major worry as long as the debt sustainability criteria are met, then what should we worrying about?

The increased budget deficit is going to be addressed primarily by strategic disinvestment - outright selling of public assets, and through asset monetization. In continuation of outright selling of public assets, the sell-out of LIC, at a time when it is performing well and contributing to the national economy at one level and social security of the people at another level, is a step towards re-orienting the entire economy or completing the neo-Smithian circuit of capital accumulation. It was only September 2019 that the government announced a massive cut in corporate tax from 30 per cent to 22 per cent and from 25 per cent to 15 per cent for new manufacturing companies. Some estimates show that this would have resulted in a decline in direct taxation worth Rs 1.5 lakh crore which mean many things: it is first of all, an additional surplus in the corporate coffers and secondly, those corporates who made huge profits even during Covid 19 must have already experienced a bonanza. Had there been a tax on the accumulated profit and wealth of the corporate? This would have first, not only helped government reduce its dependence on borrowing and second, with little effort of redistribution, this could have used to improve the wages and living conditions of tens of thousands of MNREGA workers, and other precarious workers including migrant labourers.

Centre Vs State

Given the fact that there is increasing asymmetry between Centre and state, the fiscal autonomy of states continues to erode. The Centre maneuvers in such a way that each step in the form of revenue raising is such that the increased share goes to the Centre, if not the entire share in the case of the new cess and surcharge (- Rs. 2.50 per litre or Rs. 4 per litre more for petrol and diesel respectively, however, the centre still makes the claim that the consumer would not pay more). The alarming case is that there has been a consistent increase in Cess and Surcharge as a percentage of gross tax revenue, say from 9 per cent in 2014-15 to 13 per cent in 2016-17 and now as high as 17 per cent thereby reducing the divisible pool and accentuating the asymmetry between the centre and the state. This is to be read along the larger question of reduction in vertical devolution from 42 per cent to 41 per cent (for a 0.15 per cent share for J & K, one per cent is reduced by the 15th Finance Commission) with a reduction in the share of net proceeds to the states; and the undertaken rationalisation of CSS unilaterally tilted the ratios of 75:25 and 90:10 to 60:40 adding more to state commitments.

De-federalising India accentuated with the implementation of GST, with the Indian state controlling the taxing power of the states.

Trust and efficiency

Neither doubling farmer's income nor is fulfilled. Promises such as the operation green for strengthening FPOs, agri-logistics, processing facilities for perishables like tomato, onion and potato was never implemented but repeated in the current budget as well. How would one trust the government when they say that the agriculture credit target would be enhanced when we find that the promise of enabling tenant farmers to institutional credit did not make any substantial impact? Does it mean that there is yet another scissors crisis emerging between the promises and the actual implementation as part of electoral politics? The Commodity Boards have been deprived of adequate funds for the last ten years, and the applications for farmer subsidies have been piling up despite the promises continue. The much promised Insolvency Bankruptcy Procedure (IBC) has not taken off as expected with hardly 30-35 per cent of the recovery has so far been done. The reclassification of MSMEs would obviously benefit hundreds of thousands of units but it is worth noting that many of these big units the big corporates would also gain out of this redefinition. Further what the MSME organisations have been asking the government such as low-interest loans or moratorium and support for reviving the closed units to recover lost jobs during the Covid pandemic are not being heeded.

It is this overlapping layers of multiple scissors crises and its implications that need to be discussed and resolved today. Otherwise, the contemporary India would continue to be a tortured landscape of struggles, protests and movements.