

On the ideology of budget 2022 -23

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One question that arises when we peruse Economic Survey 2021-22 and the Budget 2023 is 'what is the ideology of this budget?' Economic survey approvingly cites Friedrich Von Hayek, the author of the 'Road to Serfdom' which in the 1950s, inspired C Rajagopalachari, who formed the Swatantra party, which espoused the free market, without government controls on industrial licensing

The Union budget states that capital expenditure by the government will crowd in other investments. This is a very welcome change in approach. If carried through, it will mark a deviation from the principles of fiscal orthodoxy that government's borrowing will crowd out private investments and fiscal deficit is an evil to be kept in check at all times. In our graduate classes, we have been taught that the government and private borrowings are not the same and the private vice can be a public virtue, if spent for capital expenditure which can catalyze economic growth and bring in more revenues for the government and raise its spending capacity in social and economic sectors.

When we look at the figures in the budget, it can be seen that the increase in total expenditure has been marginal at 4.6 per cent. This could have been more when we are recovering from a negative growth rate during the financial year 2020-21 in the pandemic affected scenario. Another point to be taken note of is that the allocation for the MGNREGS, the flagship employment guarantee scheme in the budget estimate for 2022-23 is ₹ 25,000 crore less than the revised estimate of last year, that is, 2021-22. For an economy which is slowly getting back to normalcy the fall in the outlay for MGNREGS is not a very welcome sign. But if the budget estimate is revised upwards in the financial year 2022-23, it will be well and good.

Now coming to the third point: the fiscal deficit for 2020-21 is 9.2 per cent and the revised estimate for 2021-22- is 6.9 per cent. As per the budget estimate for 2022-23, it is 6.4 per cent. In the public finance literature, of the three main functions of the government, namely, allocation, stabilization and distribution, the first two are with the central government. In our constitutional set up, the Union Government has more sources of revenue and it should have more responsibility in controlling fiscal deficit than the States. Central government is affording to have fiscal deficit at 6.4 per cent of Gross Domestic Product, States are being asked to get back to 3 per cent Fiscal deficit target in a very quick path by the 15th Finance Commission. In the present situation, when economy is still recovering from the post-pandemic slowdown, States also should be given a little more freedom in having a higher fiscal deficit target. This can be done by the central government outside the budget in allowing Open Market Borrowing quota for the State governments.

The allocation of Rs. 1 lakh crore to all States for capital expenditure is welcome. On the revenue side, the personal income tax collection in 2020-21 has surpassed the corporate income tax. It could be a one off signal, as corporate tax base faced a slump during 2020-21. The class of salary earners does not lose their salary income in the pandemic period. If personal income tax mobilization by the government comes on a par or surpasses the corporate income tax in a durable manner, it is a sign of widening of tax base. But it is too early to say anything as 2020-21 is an outlier year, and we cannot make any generalization on that basis.

As regards to GDP growth rate for 2021-22, it is projected to be 8 to 8.5 per cent by the Economic Survey. But Reserve Bank of India estimates it at 7.51 per cent. The point to be taken note of is that the growth is picking up. Revenue mobilization can pick up more, if there is more effort. Virtual assets are to be taxed from the financial year 2022-23. There needs to be more effort, as Thomas Piketty has stated in his 'capital and ideology', to tax the wealth, the speculative income and inheritance. These are to be given a serious thought in a period when the rising income inequality is staring at us.

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.