KERALA ECONOMY
2021, VOL.2, NO. 4-5 pp. 25-27

ISSN : 2583-4436

Ordinary budget during extraordinary circumstances

Lakhwinder Singh

Former Professor Department of Economics, Punjabi University, Patiala 147002

The economic agents of production eagerly await the day of the budget when finance minister of India delivers the speech and presents the budget in the parliament. It is expected that the budget provides policy signals and support these policy announcements with allocation of resources that allows economic agents to form expectations. When the economy has been on the long term path of a slowdown and the Covid-19 pandemic shock devastated the economy, the expectations of the economic agents of production turns out to be further heightened from the budget. Therefore, the extraordinary circumstances are expecting a budget that provides the hopes and the hopes should be supported by matching and credible resource allocations. It is imperative to understand how the budget for the year 2021 has made proposals to fulfill the expectations of the economic agents of production or it has belied the high hopes.

The budget presented in the parliament by the Union Finance Minister on first day of February 2021 for the year 2021-22 was based on six pillars, that is, health and wellbeing, physical and financial capital and infrastructure, inclusive development for aspirational India, Reinvigorating human capital, innovation and R&D and Minimum government and maximum governance. All these are very lofty statements. But achieving them is uphill task. The budget is usually based on some basic assumptions such as what will be the expected rate of growth of the economy and what will be the expected revenue generation in the 2021-22. These two assumptions are based mainly on the past performance and partly on the domestic and global economic environment. It is pertinent to point out here that the assumption taken in the budget may not hold true because of the uncertainty of the onslaught of covid-19 pandemic and the assumption of the 'V' shape recovery may not hold true. The prior to the Covid-19 pandemic, the rate of growth of the Indian economy has been decelerating and supported by gloomy investment environment. Therefore, the high fiscal deficit and expected fiscal deficit estimates are doubtful to be achievable. These has been challenged by various experts on the basis of adding more information about the deep recession faced by the informal sector and the rural economy of India

The Covid-19 year fiscal deficit, that is, 2020-21 was shown in the revised estates of the budget turned out to be 9.5 per cent of GDP. The fiscal deficit for the year 2021-22 as per budget estimates is targeted at 6.8 per cent of GDP. The fiscal deficit road map up to the year 2026 is expected to be 4.5 per cent. This clearly shows that the revenue raising capacity of the government has been constrained largely giving high degree of tax concession to the private corporate sector during the covid-19 pandemic times but it will be a permanent feature. No road map to recover the revenue losses if 'V' shape recovery actually will not be realized. There are two sources from where the fiscal deficit is expected to be covered. One, the government has raised debt in the recent past and expected to more depend on the debt financing and that will further constraint due to interest rate liability which is already very high. 23 per cent of the revenue already goes for interest payments on debt. Two, it is very clearly stated that budget deficit is going to be monetized and that will assumes to sell public sector enterprises and land kept for the future expansion. It needs to be noted that public sector that provides public goods generates externalities and hugely benefit to the private economic activities and provide much needed stability and sustainability to the economy. Whole sale privatization means reduction in the public capital formation that further reduces the capacity to produce output and adversely affected the economic justice. This is a sure way to generate more inequities and exclusion. This will dent the third pillar of the budgetary proposals by the finance minister.

The claim of the finance minister in her budget speech was the rise of health sector budget expenditure of the order of 137 per cent compared with the previous year. When we dissect the health expenditure budget estimates for the year 2021-22, the budget has clubbed Rs. 60,000 crore of drinking water and sanitation and a new provision of Rs. 30,000 crore for the vaccination. After excluding these two items, the expenditure on health is only Rs. 74, 602 crore as against the revised expenditure Rs. 84, 445 crore on health for year 2020-21. This shows a decline in the actual health expenditure. The practice of using erroneous and unrelated expenditures to show unnecessarily higher expenditure actually eroding the credibility of the government in the eyes of the economic agents of production. Thus, it is tantamount to defeating the first pillar of the budget on human health and wellbeing. The other four sectors that have reduced budgetary expenditure higher than one per cent are agriculture education, energy and home affairs.

On the whole, the budget was expected to use the opportunity provided by the pandemic in addressing the structural problem of Indian economy that is related to decline in aggregate demand. However, the budget has given indications to continue to boost supply side measures. The low tax rates on the corporate sector, high indirect taxes and without changing the direct tax slabs will burden further the common man and its adverse impact on the income distribution will have far reaching consequences of already prevalent very high degree of inequality of income and wealth.