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# Union budget 2022-23 from a people's perspective

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Substantial discussions have already been taken place about the Economic Survey 2021-22 and the Union Budget for the financial year 2022-23. Often highlighted in these discussions is the economic crisis that we are confronted with, along with many other countries in the world. It has been generally observed that for economic recovery, there is the need for more active intervention and the economic survey figures show that enough has not been done in that direction. The problem remains that the required up to date data is not available from the official sources. Even from the available data it is evident that the employment and income loss in the economy has been substantial and unprecedented. At this juncture, there is the need to ensure an upscaling of the spending to get over the crisis. But unfortunately, the main problem is that it is not taking place at the required level to make an impact.

In such a scenario, the most important thing is to significantly increase government spending. Viewed in this perspective, the biggest limitation of this budget is that it will spend only Rs 39.4 lakh crore in place of the total Rs 37.7 lakh crore spent last year. In other words, the additional spending is only Rs 1.7 lakh crore. There is only a 4.5% increase in the outlay compared to last year. Considering the level of high inflation, the spending envisaged in the current budget would be lower than the previous year in real terms.

Another issue is the shortfall in sectoral allocation. We can point to several sectors in this regard. Most notable one in this regard is the food subsidy wherein there has been a sharp decline. Similarly, the allocation for procurement of food grains has been substantially reduced. We need to look at this in the context of the intense peasant agitation. Surprisingly, the same thing happened with the MNREGA which has a huge role to play in this crisis situation. Big job loss happened in public sector and organised sectors. The situations in rural areas also is grave.

In the case of COVID vaccine, the central government had set aside Rs 39,000 crore last year. This time it has been slashed to Rs 5,000 crore. Such reduction in the allocation may be under the presumption that the COVID pandemic is over. But that need not necessarily be the case; we need to be prepared and the booster dose is still needed. Yet there is not enough allocation in the budget. Not only that there is not enough money allocated to different sectors, but the biggest problem for the states is the pandemic induced drop in revenue. Therefore, it is imperative that the GST compensation be extended for the next five years. But the budget is silent on the need to extend compensation.

We should have got around Rs 12,000 crore in the GST compensation head. But the budget is silent on the demand to increase the compensation period. Kerala wants the five per cent limit on state borrowing to be extended for the next five years. Although many other states have also made this request, the central government stance is not favourable. Although concerted efforts have been made to raise state revenue at the state level, the pre-pandemic position has not yet been reached. Strangely enough, due to the changes made in the tax rate structure by the Central Government, our revenue neutral rate, which was around 15 per cent at the time of implementation of GST, has now been substantially reduced. The GST rate on one-third of the products has already been reduced. The main reason for this is the unscientific rate changes made by the Central Government at various times. It is paradoxical that in the name of rate consolidation, there is an attempt to increase the rates in some areas.

The most important source of devolution for us is the central divisible pool. Hence the huge decline in the divisible pool is a matter of great concern to Kerala.

At the time of the 10th Finance Commission, Kerala received 3.88 per cent of the funds allotted to the States. By the time of the Fourteenth Finance Commission, it got reduced to 2.5 percent and presently it has further dropped to 1.92 per cent. As compared to 14th Finance Commission, our share is Rs 6500 crore less according to the 15th Finance Commission. Here we have to take into account the revenue that would have been available to the state had there been no decline in our share. When it comes to Centrally Sponsored Schemes also, we are at the losing end. Kerala receives only about one per cent for many schemes provided by the Central Government to the States under the CSS Scheme when entitlement should have been at least 3.5 per cent given the population size of the state. As Kerala has made great strides in some sectors, the Centre denies support to those sectors in the state. This often results in decline in share of central taxes which in turn amounts to penalising performance and thus suffocating the state.

On the one hand, central government reduces direct taxes such as income tax and corporate taxes and raises the indirect taxes. In the last one or two years, the central revenue has come down by more than Rs 2 lakh crore. This will reduce the amount of money owed to the states. It raises not only the GST but also the cess and surcharges that the central government does not have to share with the states. The increase in special excise duty, surcharge and cess are revenue that can be retained entirely by the Centre. Thus, an additional Rs 4.50 lakh crore of non-sharable revenue was collected by the Centre with its adverse impact on the states. Inherent in this trend is the political issue that undermines the federal nature of the constitution and fiscal federalism in the country.

In terms of expenditure, the commitments of the states are increasing and there will be no reduction especially given the context of COVID-19. Kerala spends more on health and education with our spending on social welfare being the highest. During the COVID period, Rs 20,000 crore each was sanctioned through two packages and thus disbursing Rs 40,000 crore to the people. With the enhanced social welfare pensions and implementation of the pay revision along with various other measures in social protection, our expenditure is already on the higher side, is bound to go up leading to huge liabilities. Social welfare pensions were paid on time. Benefits were given to the poorest people and those who had no other pension through various schemes.

In case of death of the key income earner in the household on account of COVID-19, a scheme has been implemented to provide Rs.5000 / - per month to such BPL families for a period of 3 years. This is the first project of its kind in India. In a State with a multiplicity of such projects are implemented, expenditure and fiscal burden are bound to increase. Further, we have implemented pay revision and Salary and wages are paid on time. There are huge liabilities that make up all of this. But if the revenue is collected properly correctly, Kerala will not be in big trouble. If the Central Government shares the tax revenue actually due to us, we will not get into any problems. However, the opposite is the reality.

This year, Kerala should get about Rs 12,000 crore in GST compensation. But the GST compensation ends with June. This year we will get Rs 19,800 crore as RD grant (Revenue Deficit Grant). Next year it will be around Rs 13,000 crore which will be reduced to 4,000 in 2023-24 and will not be available thereafter. This means a substantial reduction in the central share that we have received earlier. The Central budget makes the provision for a long-term loan for capital investment of Rs 1 lakh crore for the states put together. The share of our state will be only around Rs 2000 crore. Simultaneously, the current borrowing limit of 4.5 per cent for the state will be reduced to 3.5 per cent during 2022-23. Thus, in a system where the central government is raising revenue at will and the share of states declining, there will be huge insecurity for the states.

This budget exacerbates the problem of states. Kerala's demand for many basic development projects; special schemes for expatriates, permission for infrastructural projects like K-Rail, schemes to provide employment for women in the traditional sector were not considered. Moreover, the budgeting for the "nectar era (Amrutha Kalam)" within 25 years does not have anything much to provide employment and income for the people. What is more, it doesn't provide for enhancing productivity in agriculture and industry in the long run since hardly any allocation has been made in this direction.

At the same time, the profits of the corporates and multinational international companies including banks increased significantly. State Bank of India, for example, has more than doubled its profits. Increasing profits is good, but we need to look at why the income of the ordinary people and the avenues for their employment are declining at a time when corporate profit is rising. If we move with these types of policies, the "Amrutha Kalam" will remain a distant dream.

(Based on the inaugural address delivered by the Hon'ble Finance Minister at the seminar on the Economic Survey 2021-22 and the Union Budget 2022-23 organised by GIFT jointly with S B College Changanacherry and the Central University of Kerala Kasargod on 10 February 2022.)

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