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Union budget 2022 - 23: Context, policy framework and policies

Alwin Prakash

Chair Person, 5th State Finance Commission, Kerala

This brief note is to point out certain major aspects of the budget, which in my view can send some misleading signals. The economic survey has taken a position that Indian economy has recovered from the covid pandemic crisis and the budget or the policy frame of the budget is firmly formulated on the basis of this premise. It is precisely this position that need to be taken with a pinch of salt. It goes without saying that the Indian economy is still in the grip of recession and the economy has not revived, despite some promising vibrations of recovery. And in the light of this common fact, it is evident that the budget proposals, based on a rosy premise of a recovered economy, are in many respects fail to address the current situation. Hence, this brief note considers the following three aspects of the union budget:

1. The context or the current economic situation of India,
2. Policy framework of the budget, and
3. Policy proposals.

The context of the current economic situation of India

As the entire world is still struggling to tide over the deepest recession after the second world war, India, highly integrated into the globalized world economy, cannot stand aloof and immune from its far-reaching effects. In the face of new and newer COVID-19 virus variants, what looms large is an unpredictable economic environment. Even then, the economic survey says that the Indian economy has achieved a GDP growth rate of 9.2% in 2021-22 and recovered from the COVID-19 induced recession. But this is surprisingly factually incorrect. If we compare the GDP prior to COVID-19 year (2019-20) and current year (2021-22), it is easy to find that the growth in GDP in constant prices is only 1.2%. Secondly, we can also find negative growth in the services sectors of trade, hotels, transport and communications during the last two years. Thirdly, the private final consumption expenditure which accounts for more than half of GDP, registered a fall during the last two years. Thus in fact, all the available evidences suggest that Indian economy is in a state of stagflation.

That is, on the one side, the economy is experiencing recession with increasing unemployment and on the other side, inflation also is rising. According to the economic survey, the wholesale price inflation rate is 12.5% and consumer price inflation rate is 5.2% at present. The COVID-19 induced crisis has been creating unprecedented crisis in almost all sectors of the economy, except agriculture. Activities in secondary and tertiary sectors are severly affected due to the crisis. Except the public sector and organized private sector, there has been huge loss of employment in the informal sector, which account for more than 80% of total workers. The economic crisis has increased poverty; according to the latest economic survey, the proportion of people below poverty line (BPL) was estimated as 21.9% in 2011-12 (rural: 25.7%, and urban: 13.7%). It is again pity to note that the central government has not made any attempt to revise the estimate on poverty in India since 2011-12.

However, the budget is formulated on the factually incorrect assumption that the economy has revived from the current recession and is in the process of fast growth.

The policy frame work of the budget

The policy frame work of the budget is based on this factually incorrect assessment on the current situation of the economy. And what is the ensuing policy framework? It includes the following: (i) accelerate economic growth and become the fastest growing economy in the world; (ii) create 60 lakh new jobs under productivity linked incentive scheme in 14 sectors; and (iii) entering Amrit Kaal, the 25 year long lead up to India @ 100. Within this framework, the budget provides impetus for growth along four priorities:

1. PM Gatishakti
2. Inclusive Development
3. Productivity enhancement and investment, sunrise opportunities, Energy transition and climate action.
4. Financing of investments.

The budget also gives emphasis for seven agencies, or engines of growth such as Roads, Railways, Airports, Ports, Mass Transport, Waterways and Logistics Infrastructure. The Atamamirbhar Bharat Plan (make in India programme) is taken as the vision of development. It is expected that higher capital expenditure by the Center and States will promote private investment and trigger fresh investment by companies. The budget also proposes a slew of measures such as promoting technology enabled development. reducing imports and promoting make in India policy in defence sector, ease of doing business policy, 'minimum government and maximum governance', privatization of public asset and finding resources to cover fiscal deficit, reduce fiscal deficit from 6.9% of GDP 2021-22 to 6.4 percent in 2022-23, promotion of exports, incentive for start-ups, scheme for taxation of virtual digital assets, etc. However, contrary to wide-spread expectations, the budget chooses no change in income tax rates.

Thus, the policy is framed on the assumption that there is no restriction whatsoever and everything is fine such that India is on track to achieve the fastest growth in the world. So far, so good!

The policy framework

A crucial point in this context is that in the face of falling private consumption expenditure, no step has been taken to provide more money at the hands of people through direct or indirect measures. For the last two years there has been a continuous decline in the private consumption expenditure, which accounts for more than 50% of the GDP. Not only that; there has been no proposal to provide employment to those who lost jobs in MSME sector, to those engaged in informal sector, self-employment categories, etc. The pandemic induced crisis has in fact utterly destroyed a number of sectors or economic activities especially in the informal sector. The issue of increasing poverty of people is not at all addressed in the budget. In fact it is a pity to say that we have nobody talking about poverty at all. On the whole, it goes without saying that the effect of these policies on the poor, the unemployed, those employed in informal sector, the marginalized sections of the people is just negative. However, the economic effect on organized public and private sector, and their employees is strangely positive. That is, the proposals have a favorable effect on upper middle class and rich people and also bigger investors and bigger producers. At the same time, the proposals on development of infrastructure on transport, Atmanirbhar Bharat Vision, ease of doing business, higher capital expenditure by center and states, promoting technology enabled development, promotion of exports, scheme for taxation of virtual digital assets do have positive prospects in the current context. And one can showcase such rosy picture to claim that the economy is growing.

Reference

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