Bereft of Macroeconomic Vision*

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Though Finance Minister Nirmala Sitharaman laboured for well over 2 hours when delivering her budget speech, it is likely that the aspect of the speech that will receive popular attention would be the restructuring of income tax slabs and reduction in rates that would benefit the tax paying middle class. That was obviously also the intention of the exercise.

Budget 2021-22 was being presented at a critical time for the economy, with growth decelerating sharply, and evidence of adversity not just in the informal economy but in the corporate sector as well. With official data suggesting that, even prior to 2019-20, unemployment was at a record high and agriculture was languishing, news of slowing growth was disconcerting. The pressure on the Finance Minister to show that she is making an attempt to kick-start the economy was considerable.

But her hands were clearly tied by circumstances and ideology. Tax revenues, that fell short in 2019-20, could not be expected to rise sharply in the coming financial year, when growth would remain sluggish. Obsession with reporting (not necessarily achieving) only a small deviation from the medium term target of 3 per cent of GDP, limits debt financed spending. And the experience of 2019-20 seemed to suggest not too much could to be garnered from disinvestment when times were bad. In the circumstances, even showing a reasonable increase in expenditure, let alone an effort at a major stimulus, had to be an exercise in window dressing.

Faced with those constraints, the Finance Minister has chosen to shift the attention those listening. She wore down her audience and herself, with a long discourse on her government's achievements and plans centred ostensibly around the three themes of Aspirational India, Economic Development and a Caring Society. Not all the points made and examples provided fell easily under those labels. But it gave people enough to want the speech done with, and not complain that they were not getting the detail they needed to assess what the government plans to do to address a bad situation. Moreover, departing from past practice, allocations made in different areas such as agriculture, sanitation and nutrition were reported as absolute figures with no comparison either to the previous year's budget or revised estimates. The tone in which the numbers were read sought to signal that the sums involved were large, though subsequent comparison of these figures with the previous year's budget estimates indicate that there has been no major step up in expenditure. Overall, the ratio of total expenditure to GDP that was budgeted at 13.6 per of GDP cent in 2019-20, and estimated to touch 13.2 per cent, is projected at 13.5 per cent in 2020-21. That amounts to near standstill.

It was to strengthen the attempt at diversion, the Finance Minister possibly chose to offer, following her bonanza for the corporates in September last year, significant tax concessions to a middle class for which much of annual income falls in Rs.5 lakh to Rs. 15 lakh range. She also removed the dividend distribution tax currently levied on corporates and left dividend income to be taxed as income of the recipient. If estimates reported in the speech turn out correct, these together would entail a revenue loss of Rs. 65,000 crore.

These revenue losses should make things even more difficult, when it comes to staying close to the fiscal deficit target, even at the modest expenditure levels projected. Yet, according to the Budget Speech, despite significant shortfalls in revenue in 2019-20, the fiscal deficit was at 3.8 per cent rather than the targeted 3.3 per cent, and that in 2020-21 is projected at 3.5 per cent as compared with the medium-term target of 3.0 per cent. Underlying those numbers is the assumption of significant tax buoyancy in a period of depressed growth, a sharp increase in non-tax revenues from communication services of an estimated Rs. 74,000 crore following the Supreme Court judgement on computation of licence fees and spectrum charges, restrained expenditure estimates, and off-budget transactions. A telling example of the last of these is the food subsidy bill for 2019-20, which was a year when the Food Corporation of India was saddled with huge stocks and would have to be compensated for the difference between the economic cost and price at which the grain is sold through the public distribution system. Since the FCI would have paid for procurement and incurred carrying costs and had to be compensated for food sold, the actual requirement of subsidy in a year when procurement and stocks were at record levels should have been high. But as against provision of Rs. 1,84,220 crore in the budget for 2019-20, the revised estimate for food subsidy is placed at Rs. 1,08,688 crore or 40 per cent lower than the budget estimate.

Despite such adjustments, the Finance Minister has not been able to match her claims of ensuring development for all and a caring society with matching allocations. The Mahatma Gandhi National Rural Employment Guarantee Programme on which Rs. 61,815 crore were spent in 20018-19 and Rs. 71,002 crore in 2019-20 (RE), is allocated only Rs. 61,500 crore in 2020-21. The Scheme for the Development of Scheduled Castes on which spending fell from Rs.7,574 crore in 2018-19 to Rs. 5,568 crore in 2019-20, is allocated Rs. 6,242 crore in 2020-21. Such examples are legion.

Despite such massaging and pruning of the numbers, getting the needed fiscal-deficit-bottom-line has required reliance on ambitious targets for receipts from disinvestment. In the Budget for 2019-20, the Finance Minister had provided of Rs.1,05,000 crore from disinvestment. However, even by January 2020, receipts under this head stood at around a mere Rs. 18,000 crore. Yet, the ‘revised estimates’ for 2019-20 (which are still projections) for receipts from disinvestment presented in the budget papers for 2020-21 are placed at Rs. 65,000 crore. Obviously, the Finance Minister hopes for a big push on the disinvestment front in February and March. Such assumptions explain the marginal deviation from the fiscal deficit target in the current year.

But the disinvestment push cannot end this year. The budget provides for disinvestment receipts of a whopping Rs. 2,10,000 crore in 2020-21. Of this Rs. 1,20,000 crore is to come from disinvestment of non-financial public sector enterprises and another Rs. 90,000 crore from disinvestment of equity in public sector banks and financial institutions. Since the latter is accompanied by a call for public sector banks to turn to capital markets to raise resources from recapitalisation rather than rely on the government, the government’s share in equity could well reach levels where it loses control. In its desperation, the government also claims it plans to divest a part of its holding even in institutions like the Life Insurance Corporation of India.

The inability of the government, despite such manoeuvres, to significantly raise its spending at a time when circumstances demand a proactive fiscal policy has a larger implication. It speaks of the absence of any macroeconomic vision for the management of the economy. That absence was clear in the text of the budget speech that did not recognise the severity of the crisis that has engulfed the economy and the fisc and offered no way out of the crisis other than a promise to privilege wealth creation.

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