Much ado About Nothing*

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Economics has never been a strong point of the NDA government. Its only two major economic forays, demonetization and the GST, have both turned out to be pretty disastrous. It was futile therefore to expect much from the budget for 2019-20. Even so, one is surprised by the budget's lack of engagement with the current problems of the economy, which are serious: a slowing down of activity, agrarian distress, massive unemployment, and external payments worries exacerbated by Trump's belligerence.

There has been a perceptible slowdown in revenue growth of late, partly because of the slowdown in activity, but mainly on account of poor GST collections. The Finance Minister quoted the revised estimates of receipts for 2018-19, which are close to the Budget Estimates for that year; but these are well above the latest figures given by the Controller General of Accounts. According to the latter there has been a shortfall of 1.6 lakh crores in GST revenue of the Centre in 2018-19 compared to the Budget Estimates. The situation in 2019-20, originally expected to be better, is unlikely to be.

Expenditure in the budget, both overall and in critical areas affecting the people, scarcely shows any significant increase; at the most, expenditures grow roughly at the same rate as the expected nominal GDP. Curiously, however, MGNREGS shows a slight absolute fall compared to the 2018-19 RE, which is incomprehensible in the midst of acute joblessness.

Even these expenditure figures however have been projected on the basis of 2018-19 revised estimates; with actual receipts falling well short of the revised estimates, and this shortfall continuing into 2019-20, it is doubtful if even these expenditure targets will be realized without increasing the fiscal deficit substantially, which the NDA's desire to appease globalized finance will not allow. Even these expenditure targets will not be maintained, compounding the recession that is setting in.

What was needed was not a budget that just projected receipt and expenditure figures on the basis of existing trends, but that broke new ground by bringing in some additional revenue source, some exogenous element, which could provide a thrust to the economy. But the NDA government, true to form, has rejected any innovation. By simply projecting existing trends of receipts to the future and providing for expenditure accordingly, the budget becomes pro-cyclical rather than counter-cyclical.

The most obvious exogenous element that could have been introduced to break out of this pro-cyclicality is a wealth tax, at least on the billionaires of the country, whose wealth is estimated at present to be around Rs.560 lakh crores. Even a 1 percent wealth tax on these billionaires would have fetched Rs.5.6 lakh crores; and an inheritance tax, that must accompany a wealth tax to prevent evasion, could have fetched more. Even assuming that 5 percent of billionaires' wealth gets passed on every year, an inheritance tax that took away a third of this wealth getting passed on, would have fetched an additional Rs.9.3 lakh crores.

These two taxes alone, both imposed only on billionaires, would have raised around Rs.15 lakh crores, quite sufficient for financing a rudimentary Welfare State in India. Such a State could guarantee every Indian five basic economic rights: a right to food, a right to employment, a right to quality education up to the secondary level, a right to quality healthcare through a government-run National Health Service, and a right to old age pension of Rs.2000 per month (against the current paltry Rs. 200 per month) and adequate disability benefits.

Indeed, prior to the budget there was speculation that an inheritance tax would be introduced. This, not surprisingly, did not materialize. On the other hand there is much talk of enticing Foreign Direct Investment. If there is any strategy at all behind the budget, it consists in attracting FDI to the country (even by suppressing workers' rights and making land takeover easier), and thereby stimulating growth, which, it is hoped, would eventually alleviate unemployment. Instead of government spending, and above all government welfare spending, being the means of introducing dynamism into the economy, getting foreign investment into the country appears to be the weapon the government hopes to use.

To expect this strategy to usher in development is a pipe dream, especially at this time when the world economy is slowing down, and when multinational corporations have low inducement to invest anywhere anyway. After all, this was the idea behind Modi's "Make in India" slogan. Now much did that achieve?

Besides, even assuming for a moment that some investment does occur as a result of these blandishments, how many jobs will that create? The rate of growth of labour productivity along the trajectory of Multinationals-led, or Indian big-business-led, growth is so high that even rapid GDP growth rates do not generate enough employment to absorb fully the natural increase in the work-force. To expect such growth to alleviate unemployment is utterly unrealistic. All this is well-known by now; but, the Modi government, like the Bourbon kings of France, "learns nothing and forgets nothing".

Two aspects of the budget are fraught with serious consequences for the future. One is the desire to access international financial markets for government borrowing. There is no earthly reason for this, since the limit on government borrowing comes from the self-imposed ceiling on the fiscal deficit, not from government's inability to borrow from the domestic market. Raising government loans abroad, vastly and directly, increases the hold of international finance upon the Indian State, whereby the slightest delay in debt servicing can cause the imposition of draconian "austerity" upon the country. Besides, it links the foreign exchange market with the financial market, so that a depreciation of the rupee would raise the debt burden of the government, and hence of the country, many-fold, which would make the government particularly vulnerable to external manipulations.

The second issue relates to federalism. The GST itself was a massive attack on the federal structure of the Constitution, which the state governments unwisely acquiesced in. The failure of the GST to garner adequate revenue has put state government finances in a bind. On top of that, in the current budget, the Central government has resorted to cesses and surcharges for raising revenue, which means that this revenue is not shareable with the states. This budget in short has been used to centralize resources in the hands of the Union government. This is dangerous, for when the states are pushed to a corner and come to the Centre for help, it can play favourites and penalize “inconvenient” state governments. This is dangerous for federalism and democracy.

*** This article was originally published in [The Indian Express] on July 8, 2019.**