

## **Budget 2024-25: A frightening obduracy\***

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There is massive unemployment in the country that especially afflicts the youth; there is a huge and persistent inflation in food prices; there is acute and unprecedented rural distress; there is a crisis in the petty production sector; and income and wealth inequality has reached levels where the whole world is talking about it. One would have thought that a budget presented in the midst of all this would have shown some urgency, some boldness for tackling these issues. But no, not the 2024-25 budget presented by the NDA government to parliament on July 23. Neither in overall State spending (that stimulates aggregate demand and hence employment), nor in spending on specific employment generation schemes, nor in expenditure on welfare programmes, nor in education and healthcare expenditure is there any increase in allocation relative to GDP; on the contrary there is generally a reduction. This cannot even be blamed on a lack of fiscal resources; for there has been a total absence of any fiscal effort.

The strategy underlying this budget is exactly the same as budgets in previous years, which is: to make no effort at mobilising additional fiscal resources; to use the growth in non-tax revenue (a large part of which consists of the profits of the Reserve Bank of India) to increase, to an extent, capital expenditure, including on infrastructure; if welfare expenditure goes up under some heads then curtail it under other heads; and provide budgetary transfers to big capital for providing answers to whatever pressing problems there are.

Let me establish these propositions seriatim. Total central government spending, including transfers to states, is slated to increase by 7.35 per cent between 2023-24 (RE) and 2024-25 (BE). This means a decline in the share of central government expenditure in GDP, which is the very opposite of what is needed to stimulate employment in the economy. This perversity is not because of any fiscal tightness; in fact the ratio of tax receipts to GDP, which is now primarily at the discretion of the central government, was 11.5 per cent in 2021-22, and 11.7 per cent in 2023-24; it is now slated to be 11.8 per cent in 2024-25. This shows a complete absence of any fiscal effort on the part of the government, just a projection of past experience. It is gross non-tax revenue that is supposed to go up by 36 per cent between 2023-24 and 2024-25, of which the largest item “dividends and profits” that includes above all the RBI’s profits, is budgeted to increase by 70 per cent.

On the expenditure side, while the central government’s total expenditure is supposed to increase by only 7.35 per cent, its capital expenditure, excluding what it transfers to states for capital projects, is to increase by 17 per cent, which continues a trend observed in the past few years. This may be thought to be a positive development, but much of this investment is in projects that scarcely affect the lives of the working people; what is more, their multiplier effects leak out abroad to a large extent, so that they scarcely generate much employment domestically. On the other hand the squeeze on other items of expenditure because of this, that could have larger multiplier effects domestically, ensures on the whole a negative impact on employment.

While the finance minister referred to the unemployment problem in her budget speech, her solution for it shows a complete lack of understanding. She announced three schemes for employment, involving transfers to employees and employers, for incentivising the creation of new employment. These schemes are for the formal sector, and even when they provide transfers to employees, the benefit is likely to leak out wholly to employers who would cut back on salary payments to offset whatever transfers are made to employees. In addition she announced a programme for skilling which she claimed would help employment.

The theoretical presumption behind the transfer scheme is that if the wages paid by employers are lower then there will be larger employment. This is a pet theme of bourgeois economics, but there is absolutely no reason to believe in it. The employers will simply pocket the transfers, and employment will remain the same as it would otherwise have been. The skilling scheme likewise is an offshoot of bourgeois economics, according to which unemployment is simply the result of a skill mismatch, that there is never any deficiency of aggregate demand, and that there are always enough jobs for those unemployed, the only problem being that the skill requirements of the jobs are different from what the unemployed possess.

The basic assumptions behind both these sets of schemes are wrong; they are based on Say's Law that "supply creates its own demand", i.e., there is never a deficiency of demand. Marx had attacked this position, an attack that Keynes repeated seventy-five years later. So influential had this position been prior to Keynes that Herbert Hoover the US president before FD Roosevelt had tried to cut wages to raise employment in the midst of the Great Depression, naturally to no avail. The Modi government's intellectual stock does not extend beyond these discredited ideas of nearly a century ago; it has effectively done nothing to alleviate unemployment.

The futility of making transfers to capitalists for stimulating the economy comes through on rare occasions in official pronouncements such as in the Economic Survey. But it is never asked why capitalists do not make investments despite such transfers; instead it is taken to be a moral failure on their part, even though there is an obvious economic reason for it. Capitalists do not invest more just because they have larger profits; they invest more only when they expect the market to expand. If the market is expected to remain stagnant then any addition to capacity will simply mean this newly-added capacity remains unutilised, which will mean earning zero profit on the investment that went into creating this additional capacity. Capitalists in such a situation would much rather use their profits for buying real estate or financial assets on which they can hope to earn significant capital gains in addition to whatever rate of return these assets normally yield. The entire economic thinking of the Modi government therefore is wrong, based on vacuous propositions of bourgeois economics that are broadcast by the IMF and the World Bank.

The government's intent comes out clearly from the allocation for the MGNREGS, which has been kept at Rs 86,000 crores, the same as was spent in 2023-24, which means a reduction in real terms. It will of course be claimed that this amount will be raised if there is a larger demand for it; but demand itself goes down if wages are not paid on time which is what happens when the allocation is low. Besides, many were deliberately excluded from the MGNREGS last year, like in West Bengal, so that last year's expenditure had fallen short of demand; this is sought to be repeated in 2024-25 which is unpardonable.

The same is true of the allocation for NSAP that covers pensions and disability benefits. The amount given to each beneficiary is ludicrously low to start with; but the allocation for 2024-25 is kept at the same level as was spent in 2023-24, which again means a cut in real terms, and hence in the real transfer to each beneficiary. Compared to the budget estimates for 2023-24 the budget estimates for 2024-25 for education shows a 7.8 per cent increase and for health virtually no increase, which means a fall relative to GDP in both sectors. But last year's actual expenditures in these sectors fell below the budget estimates. This itself is serious, but to use that as an excuse for cutting down in the current budget is again unpardonable.

Food subsidy is budgeted to fall from Rs 2.12 lakh crores in 2023-24 (RE) to Rs 2.05 lakh crores in 2024-25 (BE). What this means in effect is that a part of the food subsidy has been shifted on to the shoulders of the kisans whose support prices have been kept inordinately low. Let alone acceding to their demand for the enactment of a law on minimum support prices, the NDA government is actually squeezing them in order to economise on food subsidy. Such niggardliness also means that while Bihar and Andhra Pradesh may benefit from large transfers, other states will be unfairly squeezed out to accommodate them.

What stands out about this budget is its utter lack of awareness about the immense problems facing the people of the country. It used to be said of the Bourbon kings of France (who were overthrown by the 1789 revolution) that "they learn nothing and they forget nothing". This is also true of the NDA government; the budget it has presented pretends as if nothing has happened in the economy demanding urgent attention; it is an amazing display of obduracy.

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