The Ailing Economy needs much more than what Budget 2021 Offers*

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Expectations from Budget 2021 were high. Unsurprisingly so, for an economy battered by two years of slowdown, with a pre-pandemic annual growth rate of 4 per cent being a decadal low and the subsequent collapse in economic activity due to the pandemic which is expected to reduce the GDP by 7.7 per cent. With all-round distress due to declining wages, job losses and decreasing economic activity, which has affected the majority of the informal working class, this budget was expected to go beyond the nitty-gritty of budget numbers and provide a robust path for recovery. Fiscal deficits mattered only as numbers. What mattered more were revenue mobilisation efforts and expenditure priorities of the government.

Despite the leeway available to the government, the performance has been unsatisfactory. In an otherwise visionless budget, what did come as a surprise was the transparency on including the off-budget items. This is certainly a welcome move but matters little to either expenditures or the practice of using off-budget items to dress up numbers. This was a practice introduced by this government and coming clean on some of these is hardly a virtue.

The end result may be the cleaning up of the balance-sheet of the Food Corporation of India (FCI), invested with the twin responsibilities of providing nutrition support through the Public Distribution System (PDS) and the procurement operations at Minimum Support Prices (MSP). The FCI was saddled with a debt of Rs 3.75 lakh crore by the end of December 2020, a significant part of which is now paid by the government. So is the case of the fertiliser subsidy for which the pending Rs 65,000 crore was cleared. The government has earned kudos for doing what should have been a normal practice. But when virtue is in short supply, even small steps of transparency matter.

What is also clear is that the total expenditure of the government in 2020-21 hardly increased compared to the pre-pandemic budget estimates (BE). The total increase in revised estimates (RE) for 2020-21 is only Rs 33,000 crore, around 1 per cent more than what was budgeted. Of course, the natural question to ask is what happened to the mid-year announcements which the prime minister called mini budgets as part of pandemic relief in March 2020 — Rs 20 lakh crore in May 2020 and similar announcements later on. The government did deliver by raising the expenditure on food subsidy, direct benefit transfer to Jan Dhan accounts (Rs 33,000 crore) and the increase in the Mahatma Gandhi National Rural Employment Guarantee (MGNREGA) (Rs 50,000 crore) and so on. But it did so not by generating resources and expanding the fiscal deficit but by cutting down essential expenditure such as agriculture (Rs 18,000 crore), education (Rs 14,000 crore) and social welfare (Rs 14,000 crore). Whether even these revised estimates will remain the same as actual expenditure will only be known in the next budget but for these estimates to be realised, the government will have to increase revenue expenditure by more than 50 per cent, which is extremely unlikely.

The fact that despite the announcements in mini budgets, the actual expenditure increase is no better than what is expected in a normal year is a reflection of the priorities of this government. The budget estimates for 2021-22 suggest no different approach than was seen in previous budgets. While the 2021-22 estimates are only Rs 33,000 crore higher than the revised estimates, even these are based on assumptions which are unlikely to be realised either on revenue mobilisation or expenditure. Delusions of grandeur are also seen in the case of the mega announcement of increase in the health budget to Rs 2.23 lakh crore. This number was achieved by adding one-time expenditures on the vaccine, Finance Commission grants and inclusion of expenditure on drinking water, sanitation and nutrition. The reality is that the budget of the health ministry for 2021-21 is lower at Rs 74,602 crore compared to the revised estimates of Rs 82,445 crore for the current year.

It is the same case with agriculture where grand claims on farmers covered and amount spent on MSP purchases were announced. Essentially a purchase operation without any liability to the government unless given on subsidy, the value of MSP purchases is bound to increase with rising MSP. But such excessive purchases are of little use when the government granaries have been overflowing for the last two years. Despite that, the government refused to extend the free ration scheme beyond November and ignored calls for universalisation of PDS even during the peak of the pandemic when millions were walking hungry due to the lockdown. Like in many other essential ministries, the agriculture ministry also witnessed a cut with estimates of 2021-22 lower by Rs 11,000 crore than last year. No wonder, farmers have little trust in the government's claim of reforms when it refuses to spend even the bare minimum that it promised. Real investment in agriculture has been lower than 2013-14 for every year of this government.

At a time when real wages in rural areas have declined not just compared to last year but also compared to five years ago and farm gate prices have crashed for most agricultural commodities, even the lifeline provided by expenditure in rural areas on infrastructure creation and employment generation has either seen a decline in budgeted expenditure or remained stagnant. The budget for the ministry of rural development is lower by Rs 66,000 crore compared to the RE of last year. For example, the MGNREGA budget of Rs 73,000 crore is barely enough to cover the increase in wages by 11 per cent announced in March. It is only 1.8 per cent higher than the actual expenditure of 2019-20, but 52 per cent lower than the RE of last year. Similarly, for the Pradhan Mantri Gram Sadak Yojna (PMGSY), the budget for 2021-22 has been cut by Rs 4,500 crore, not even enough to cover inflation between the two years.

Budget estimates are not just a reflection of the expenditure priorities of the government for the next year but also an account of the promises made last year. While it has failed to deliver what was promised through the main budget and subsequent mini-budgets, estimates for next year also point to missed opportunities to use fiscal measures to revive the ailing economy. Unlike the pandemic, where the arrival of vaccines has given hope, the ailing economy needs much more than this budget.

*** This article was originally published in [The Indian Express] on February 7, 2021.**