Union Budget 2021-22: No step forward, two steps back*

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On the face of it, the figures in the Union Budget 2021-22 suggest that the Government opted for imparting to the Indian economy a massive fiscal stimulus in the Covid financial year (April 2020 to March 2021), which is now being gradually moderated or wound down as the economy 'recovers'. The estimated fiscal deficit of the Central Government (the excess of its expenditure over tax and non-tax receipts) for the financial year ending in less than two months on 31 March 2021 has been placed at a whopping 9.5 per cent of GDP. This is a level way beyond anything in living memory and is 6 percentage points above the original Budget Estimate of 3.5 per cent. This also follows a smaller increase in the previous year, from 3.4 per cent of GDP in 2018-19 to 4.6 per cent in 2019-20.

The truth, however, is entirely different from what the fiscal deficit figure might make it look to be. What appears as a moderation of the stimulus in 2021-22 is actually a retreat from a stimulus that was never given in the first place. The 'stimulus' is purely an artifice of budgetary accounting procedure, through a massive contraction of GDP (the denominator of the ratio) and the attendant plummeting of revenues. Unlike what some headlines have tended to suggest, there is absolutely no spending spree or loosening of purse strings. The purpose of putting out the 9.5 per cent of GDP figure appears to be to shock and awe and to provide the rationalization for what is exactly the opposite of a stimulus, a particularly savage fiscal compression. The Union Budget 2020-21 has only reinforced the existing evidence that the Modi Government has been among the stingiest in the world in the face of an unprecedented crisis, even while making the tallest claims to the contrary. Behind all the spin, however, also lies a darker reality that explains why most of the media has played the role of a cheering crowd for the budget.

The Myth of Expenditure Expansion in 2020-21

The Budget presented by the Finance Minister before Parliament on 1 February of 2021 relates to the future, the financial year stretching from 1 April 2021 to 31 March of 2022. The planned expenditure for that year (Budget Estimates or BE) has been pegged at Rs. 34.8 lakh crores. This is no more than the Rs. 34.5 lakh crores that according to Revised Estimates (RE) would have been the total expenditure incurred by the end of the current financial year. Indeed, if obligatory interest payments are removed from the total, then the planned expenditure in 2021-22 is ***less*** than the revised estimate for total expenditure in 2020-21. It would be downright strange to argue in such circumstances that the Government is proposing to boost its spending if these figures are accepted. The accurate description of the Government's plan instead would be that it is proposing a real contraction of its total expenditures. This is indisputable even if the spin masters try and conceal it in different ways.

It could of course be still argued that the spending in 2021-22 will still be high because it is only a contraction compared to the highly elevated levels of expenditure in 2020-21. After all, the Budget did put out figures that suggested that the extra expenditures by the Government in response to the pandemic was to the tune of Rs. 4.1 lakh crores, which was the excess of the revised estimates over the original plan

made last year of spending Rs. 30.4 lakh crores (BE). This figure initially does look surprising because there has been no evidence of such large scale expenditure. Indeed, in the first nine months of the year the Central Government had spent only Rs. 22.8 lakh crores, which was about 74.9 % of the budgeted amount of 30.4 lakh crores. In the previous year, that is 2019-20, the Government had spent Rs. 21.1 lakh crores in the same period, which was also similarly 75.7% of the budget estimate for that year – and the final figure by end-March 2020 ended up being 26.9 lakh crores which was almost 1 lakh crores less than the full year budget figure. In other words, in order to reach the RE figure of 34.5 lakh crores by 31 March 2021, the Central Government expenditure in the last quarter of the year would need to be Rs. 11.7 lakh crores or double the Rs. 5.8 lakh crores spent in the same period the previous year. This begs the question, why would such a large expenditure of the year have remained pending till the end of the year? Why had it not been spent when the situation in the country was at its worst? And where would such a large expenditure be made in so short a time?

A major part of the answer to these questions lies in one single head of expenditure – food subsidies. Under this head alone, the apparent ***extra*** expenditure in 2020-21, the excess of RE over BE, would be about Rs. 3.1 lakh crores which accounts for 75% of the total difference of Rs. 4.1 lakh crores. The pending expenditure under this head, the difference between the RE figure and the amount spent by December 2020 is also almost Rs. 3 lakh crores while last year more than the entire full year expenditure had been spent in the first three quarters itself. If we look at the break-up of the food subsidy, Rs. 3.44 lakh crores is the revised figure of the food subsidy to be to be given to the Food Corporation of India (FCI) under the National Food Security Act. The FCI accounts up to 21 January 2021 however show a subsidy claim of only Rs. 2.19 lakh crores for the year of which it has received Rs. 77,980 crores, which is actually the original BE amount for this head. However, the FCI also has an accumulated unpaid subsidy claim on the Government of Rs. 3.85 lakh crores - which is a result of the long-standing practice of not showing the full expenditure on subsidies in the Central Government’s own account by undercompensating the FCI and instead providing it loans from the National Small Savings Fund. This way the total borrowing of the Central Government in the Government’s own account was artificially reduced by shifting it to the FCI’s account. This is now to be changed and the expenditure and the corresponding borrowing are being brought into the Government’s account directly. This change would have temporarily increased the RE figure from the BE figure even if there had been no increase in the actual subsidy benefit received by people had happened in 2021-22, because part of subsidy expenditure of previous years would get shown as current year expenditure. As such it artificially inflates the level of food subsidy expenditure for the current year. Indeed, the FCI’s claimed subsidy for 2020-21 (till 21st January) is only Rs. 87,000 crores more than in 2019-20 while the excess of RE over BE in the Government’s account is about Rs. 2.66 lakh crores. To put it differently, had the same method been used as in the previous years to determine the food subsidy expenditure of the Central Government, or the new method had been the one used in the past too, the food subsidy bill would have shown an increase of somewhere around Rs. 1 lakh crores between the 2020-21 BE and RE, instead of the 3.1 lakh crores presented. If we adjust for this alone, the additional expenditure in 2020-21 over the original budget estimates would be halved from the Rs. 4.1 lakh crores shown – and going by past

experience and the large amount of expenditure still pending, the final level may be even less than that.

Expenditure Cuts Today as well as Tomorrow

Expenditure on food subsidy was of course one of those expenditures that the Modi Government was compelled to step up beyond the levels originally budgeted in February 2020, in response to the pandemic and the economic collapse. The Statement of Major Variations in Expenditure Between BE 2020-21 and RE 2020-21 shows that the next most important heads where such increase took place were fertilizer subsidies, rural employment, Capital Expenditure of Railways and Social Security and Welfare – which together accounted for about Rs. 1.72 lakh crores of the increase.

- The Rs. 65,000 crores additional allocation for Fertilizer Subsidy under Atmanirbhar Bharat, reportedly used to clear pending dues to fertilizer companies, more than explains the Rs. 62,638 crores extra shown in that head.
- The Rs. 50,000 crores increase in expenditure on Rural Employment is the additional allocation for MNREGA.
- The variation on account of additional Capital Expenditure of Railways of Rs. 38,398 crores attributed to provision of special loan for COVID related resource gap to Railways is in fact significantly lower than the Rs. 79,398 crores shown elsewhere in the Budget documents as the actual amount of the loan. This is because the regular Capital Support from the Budget to the Railways was simultaneously slashed from Rs. 70,250 crores in the BE to Rs. 29,250 crores in the RE.
- The variation shown in Social Security and Welfare, of Rs. 28,534 crores on account of "releases through 'Direct Benefit Transfer' under Pradhan Mantri Jan Dhan Yojana to women account holders" is also less than the Rs. 30,957 crores shown as the actual expenditure under this head.

The indications coming from the above that the Modi Government's reluctance to increase expenditures was reflected in the 'moderation' or neutralization of the increased expenditure under some heads by cuts being imposed on other heads is confirmed by the evidence of how wide-ranging these cuts have been. Among the various alternative ways in which the Budget documents present the break-up or distribution of the total expenditures, one is as Expenditure by Major Items. Table 1 shows the change in 2020-21 from BE to RE figures for expenditures on each of the Major Items as well as the changes in planned (BE) expenditures on these heads in 2021-22. It can be seen from the table that on several important items the expenditure in RE 2020-21 is in fact lower than in BE 2020-21 – and these heads accounted for almost half the total BE expenditure other than interest payments. What is more, a few of them are to experience further cuts in 2021-22 and in many more the increase in 2021-22 will be less than the cut in 2020-21 – in other words the cuts will not be fully reversed, and they will still be below the previous year BE levels. On the other hand, some of the major increases in expenditure in 2020-21 – on food and fertilizer subsidies, rural development and even health are slated to be significantly reversed in

2021-22. Cutting rather than expanding expenditures clearly emerges as the more common feature of the Modi Government's current fiscal approach.

Table 1: Changes in Expenditure on Major Items (Values in Rs. Crores)

Item	Change in Expenditure [Increase (+)/Decrease (-)]			
	Share in Total Expenditure Excluding Interest in BE 2020-21 (%)	**In RE 2020-21 over BE 2020-21**	**In BE 2021-22 over RE 2020-21**	**In BE 2021-22 over BE 2020-21**
Transfer to GST Compensation Fund	5.8	-29051	-6317	-35368
Petroleum Subsidy	1.8	-2125	-25795	-27920
Pension	9.0	-6289	-15065	-21354
Total of Above 3	**16.6**	**-37465**	**-47177**	**-84642**
Agriculture and Allied Activities	6.6	-9420	2946	-6474
IT and Telecom	2.5	-27171	20930	-6241
Education	4.3	-14223	8135	-6088
Social Welfare	2.3	-14247	8831	-5416
Planning and Statistics	0.3	-3930	308	-3622
Home Affairs	4.9	-16281	15415	-866
Development of North East	0.1	-1189	798	-391
Total of Above 7	**21.0**	**-86461**	**57363**	**-29098**
Energy	1.8	-9285	9384	99
Union Territories	2.3	-1582	1744	162
Scientific Departments	1.3	-7671	8288	617
External Affairs	0.7	-2347	3155	808
Urban Development	2.1	-3249	7790	4541
Commerce and Industry	1.2	-3712	11108	7396
Total of Above 6	**9.4**	**-27846**	**41469**	**13623**
Food Subsidy	5.0	307048	-179782	127266
Fertiliser Subsidy	3.1	62638	-54417	8221
Rural Development	6.2	71525	-21709	49816
Tax Administration excluding Transfer to GST Comp Fund	0.8	23817	-10311	13506
Health	2.9	14961	-7843	7118
Others	3.6	10115	-6843	3272
Total of Above 6	**21.5**	**490104**	**-280905**	**209199**
Defence	13.8	20769	3266	24035
Transport	7.3	48985	14461	63446
Finance	1.8	8737	41350	50087
Transfer to States	8.6	6554	86301	92855
Total of Above 4	**31.5**	**85045**	**145378**	**230423**
Grand Total Excluding Interest	**100.0**	**423378**	**-83870**	**339508**
Interest		-15303	116801	101498
Grand Total including Interest		**408075**	**32931**	**441006**

Source: Union Budget 2021-22, Budget at a Glance

That, however, is by no means all. The item showing the greatest increase in 2021-22 over the RE of 2020-21 in Table 1 is 'Transfer to States', Rs. 35,000 crores of which is the special allocation for Covid-19 vaccination. That there is still a balance increase of Rs. 57,855 crores might suggest that more resources are going to be devolved to states. This again is the opposite of what is true. Transfers to states take place under several different Items so that the total transfers to states is more than what is shown in Table 1. It also includes one especially important transfer which does not appear as an expenditure in the Central Government Budget – namely the states' share in Central Taxes. The amount states received under this head in 2018-19 was Rs. 7.61 lakh crores, which was 36.6 per cent of the Gross Receipts from all Central Taxes. In 2019-20, however, this amount had dropped to precipitously to Rs. 6.51 lakh crores or 32.4 per cent of the Gross Receipts. The level was budgeted to recover in 2020-21 to 7.84 lakh crores but instead has plummeted further - what the RE figures show is that states will receive only Rs. 5.5 lakh crores which is 28.9 per cent of Gross Receipts. For the coming year, 2021-22, this has been budgeted to recover partially to 6.7 lakh crores (30 per cent of Gross Tax Receipts), still far below the 2018-19 figure. This is also only if this truly materializes and as we shall see shortly, it may not. Even with this figure, however, the picture that emerges is that any increases in transfers to states that fall within the Central Government's expenditure account, such as transfers for expenditure on Centrally Sponsored Schemes (like MNREGA) or Finance Commission Grants, has tended to be completely neutralized by the reduction in the devolution of states' share in Central Taxes. In 2020-21 this meant a reduction of total transfer of resources to states and Union Territories by Rs. 76,729 crores compared to the BE figure. Including the additional support for Covid vaccination, states are budgeted to receive only Rs. 74,565 crores more in in 2021-22, which would still be marginally lower than the amount they were budgeted to receive in 2020-21.

Taxation: The Move Towards Centralization and a More Regressive System

The fiscal deficit is a difference between two magnitudes and the real reason for the increase in it is the collapse of revenues. A tendency towards such a collapse was inevitable given the contraction in GDP that the economy has experienced in 2020-21. However, an adverse trend in revenues preceded this contraction. Nominal Gross Revenues from Central Taxes had ***declined*** by 3.4 per cent even in 2019-20 even though nominal GDP had supposedly increased by over 7 per cent. In response to the revenue collapse in 2020-21, the Government did have the option of increasing the burden of direct taxes on the corporate sector and the rich in a staggered manner and that would not have been an anti-stimulus measure if the additional revenue translated into public expenditure (indeed, the income base for those revenues would also have expanded as a result). The path chosen instead was to raise the excise duties on petrol and diesel, a measure that the Modi Government has repeatedly resorted to since 2014 – indeed, it has been its solitary go to measure for raising revenues. New hikes in petrol and diesel duties were put in place even before the reopening after the lockdown had proceeded. In two steps taken in March and May of 2020, the excise duties on petrol and diesel were raised by Rs. 13 and Rs. 16 per litre respectively. The result of these was that despite the lockdown and economic contraction resulting in a squeeze on consumption of petrol and diesel, revenues from Central Excise Duties boomed substantially in 2020. While the revenues from all other taxes in 2020-21 are going to be Rs. 6.17 lakh crores less than was originally estimated at the time of last

year's budget, revenue from Union Excise Duties is headed to be Rs. 94,000 crores ***greater.***

Excise duties on petrol and diesel are the closest that one might get to having ***universal*** taxes that everyone has to share the burden of. This is because they enter into the price of everything, directly or indirectly. They constitute therefore not only a regressive tax but raising them in the context of a demand constrained situation is also unambiguously a contractionary policy. That this additional levy was imposed on those who experienced losses of an already low income makes it a particularly gross measure. What direction things are headed in can be gauged from the following. In 2018-19, India's nominal GDP was 189.7 lakh crores, and, in that year, Corporate Tax receipts were Rs. 6.6 lakh crores, those from income taxes were Rs. 4.7 lakh crores while receipts from Union Excise Duties were Rs. 2.3 lakh crores. In 2020-21, when the nominal GDP is estimated to be at a Rs. 194.8 lakh crores level, Corporate Tax Revenues are going to be less than Rs. 4.5 lakh crores – a reduction as a proportion of GDP by 1.2 percentage points from 3.5 per cent to 2.3 per cent. Income taxes are pegged at a level of Rs. 4.6 lakh crores – which would be 2.4 per cent of GDP as against 2.5 per cent in 2018-19. Union Excise Duties are however going to be at a level of Rs. 3.6 lakh crores – a rise from 1.2 per cent to 1.9 per cent of GDP. These together describe a process of where the taxation system is being used as a mechanism of redistribution of income from the working people to the rich and the corporate sector in the midst of an economic catastrophe. That no measures have been announced of raising direct taxes (even the corporate tax concession announced in 2019 has not been withdrawn), while the raised levels of petrol and diesel taxes have been retained, point towards this process being carried on in the coming year too. Confirmation of this can be had by looking at the projections of revenues from different heads. A further dimension of the fiscal approach to fuels is the development on the expenditure side - a process of cutting both the LPG and the Kerosene subsidies, which is the reason for petroleum subsidies showing a fall in Table 1. In both heads the RE levels for 2020-21 are lower than the original BE figures – which means they fell in the category of expenditures which were reduced. For 2021-22, a further 60% cut in the LPG subsidy and the elimination of the kerosene subsidy has been planned.

An additional dimension of the changes in taxation is its increased centralization and the squeezing out of the states, as already indicated. A major part of the increased taxes on petrol and diesel, Rs. 9 in each case, was under the head Road and Infrastructure Cess rather than Basic or Special Additional Excise Duty. Cesses are not included in the divisible pool of central taxes and therefore state governments do not receive a share of the revenues for them. By adopting this method, the Central Government ensured that this compensation for loss of revenues was not shared with the state governments. The Union Government is now carrying this process further by Budget 2021-22 imposing a new Agriculture Infrastructure Development Cess (AIDC) on several items including petrol and diesel, while correspondingly reducing the basic customs and excise duty components. In other words, the tax burden on the people will remain the same but the part of revenues which has to be shared with states will be reduced. Since this combination of mutually cancelling out measures cannot have any effect on total revenue realization, the only possible explanation for this lies in the motivation behind it of centralizing the tax pool. Combine this with the refusal to meet its promise on GST loss compensation in the name of the Covid crisis

and forcing states to borrow instead – a clear pattern of squeezing the finances of states is evident which of course adds to the public expenditure compression.

Conclusion: Driving India's Economy and the People to the Brink

While the advent of the Covid-19 pandemic itself was outside the Modi Government's control, the same cannot be said about how it responded to the pandemic. That response worked more to generate an economic collapse than to contain the pandemic and the public health crisis. The economic policy component of the response was marked by an extreme refusal to loosen the purse strings which also had a direct bearing on the magnitude of the crisis. The ballooning of the fiscal deficit to an unprecedented level thus indicated no real stepping up of expenditure. Over 61 per cent of the increase in the deficit from BE and RE of Rs. 10.5 lakh crores were accounted for by the lack of realization, of budgeted tax and non-tax revenues and also the planned receipts from disinvestment. Another 20 per cent or more is on account of artificial inflation of the expenditure through accounting jugglery. This artificial inflation of course served the purpose of concealing that the pandemic induced net increase in total expenditure was abysmal. It also means that going forward the full level of the food subsidy has been brought within the ambit of the process of reducing the Central Government's fiscal deficit, eventually to 3 per cent of GDP. In other words, the intentions behind the apparent cleaning up of accounts at this juncture are not necessarily above board.

The reaffirmation of the objective of fiscal consolidation and progressive reduction of the fiscal deficit was made loud and clear by the Finance Minister. How this will be sought to be achieved is clear from what has been already done – a regressive push in taxation, a squeezing of the states' share in taxes and compression of expenditure. This will be combined with disinvestment and privatization of public enterprises for which a road map has also been laid. In the meanwhile, the rich and the wealthy will finance the government not by paying taxes but by lending against which they will receive interest and by buying profitable public assets that will be privatized.

So, you have a Central Government fiscal policy that: a) Cuts expenditure on most heads over two years and forces state governments to follow suit by squeezing them financially; b) not only centralizes a shrinking revenue pool but also increases the burden of taxation on common people; and c) effectively redistributes income in favour of the corporate sector and high income groups. Whatever one would call such a policy, anyone seeing any 'fiscal stimulus' character in it would need to get their eyes and head checked. Given its context of an economic catastrophe along with a public health disaster, it is a particularly hard and heartless adherence to neo-liberal fiscal orthodoxy. If there is no stimulus or demand expanding component in it and it also aggravates the extreme inequality already existing, it would also end up pushing India's economy further towards the brink.

The extreme concentration in the ownership and control of wealth in India, the latter more than the former, has already proved itself to have a strong self-reproducing and reinforcing character. Those who monopolize the use of much of this wealth, the leading component of which are a few big business houses, are unable to create adequate gainful employment for the vast majority for whom labouring is the only option for survival. Instead, they use them as a permanent reservoir of exploitable cheap labour, which has fuelled greater inequality in the distribution of income and

narrowness of the demand base for accumulation and growth. The last decade has proved that the contradiction between the two sides of this regime of growth and accumulation has become increasingly sharper. As its expansionary element is consequently becoming more and more mired in a crisis, the accumulation regime of Indian capitalism is also turning more parasitic in nature. Between the tendency towards increasing corporate encroachment and monopolization of existing economic activities and assets, and the expansion and creation of new ones, the tilt towards the former is becoming stronger by the day. Neo-liberalism is a handy weapon for that, and a communal and authoritarian regime an effective vehicle for its implementation, and a crisis is an opportunity for such a regime. The Union Budget for 2021-22 in the background of a battered economy, and the fact that India's corporate bigwigs are cheering - it despite the missing stimulus - are testimony to this reality. That there is no 'atmanirbhar' element in even that is shown by the raising of FDI limits in insurance after the increase in defence production announced earlier – India's 'defence' is being 'insured' against risk by placing it in foreign hands. This, the exceptional commitment shown to fiscal consolidation, and the absence of any measure to control volatile capital flows are instead signals to 'assure' international capital that India is in 'safe' hands from their point of view.

Yet, as India's economy is being pushed downhill and its working people are being pushed towards an increasingly hopeless situation, the unprecedented movement of farmers should also serve to draw attention to the possibility that the potential for change may also be growing in the womb of that crisis.

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