Revise the Text of the Budget Speech*

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It is that time of year in India, when all eyes and ears turn to the Finance Minister to learn what she will unveil in the annual Union Budget. But it is a moot point whether, even in a year of the novel coronavirus pandemic and economic crisis that speech will be of much significance. Indeed, it could be argued that there may be little point in listening to or poring over a speech that is likely to conceal more than it reveals.

What might be said

Going by past experience, we can make some predictions about the Finance Minister's Budget Speech this year. It can be expected that it will be full of self-congratulatory declarations of how the country, the economy and the government's finances have withstood the pandemic and how the economy is set on a path of revival. It will claim that the government's policies have enabled the country to deal with the spread of COVID-19. It will downplay the completely inadequate health spending even in the face of the pandemic, and use absolute numbers rather than rates of change to suggest that public spending has been directed towards those in need. Ms. Sitharaman may take credit for controlling the fiscal deficit as much as possible despite the reduced tax collections, and even claim that she has been munificent to the State governments by increasing their borrowing limits. She will outline what will turn out to be completely unrealistic spending and taxation plans for the coming year. Meanwhile, the media will wait breathlessly for what they see as the crucial numbers: the ratio of fiscal deficit to GDP in the current year, and in the Budget estimates.

Largely formal sector-centric

Some of this will be only partly correct, much of it will be misleading, and some will be downright wrong. It is certainly true that COVID-19 infections are on the decline in India — as they are in the Asian region generally, including in countries that did not implement the extreme lockdown that India experienced. The "revival" of the economy that is being much touted is from the complete collapse of the first quarter of the current fiscal year, and is largely confined to the formal sector, while most informal activities are still facing crisis. The "recovery" of employment is because of the absence of social security for the vast bulk of Indian workers, which forces them to seek out any income-generating opportunities, simply to survive. Wage incomes are significantly lower than before the lockdown. The stock market reaching stratospheric heights is really more of an indication of how divorced it has become from the real economy and its prospects. The past year has witnessed significant destruction of livelihoods and increases in material distress, poverty and hunger. To talk of economic recovery without factoring these in is untenable.

Now, consider the numbers that will be presented. We know from past Budgets, especially with this government, that the numbers for revenues and spending have been inaccurate, sometimes off by around ₹1,50,000 crore as in Budget 2019-20. This is not only because the actual data are available only for the first nine months. It is also because the Budget numbers are themselves a fudge, with excessively optimistic projections for revenue generation in the remainder of the year and reducing the actual expenditures of the central government by pushing items "off-budget".

Expenditure estimates

The Finance Minister never seems to learn from her own experience of actual revenues being much less than the Budget projections: each year, this mistake is repeated and even amplified. The expenditure estimates are even more disingenuous, because they understate the actual expenditures that should be counted.

This concern has been repeatedly brought up by the Comptroller and Auditor General of India (CAG). A CAG report in 2018 identified at least three methods of reducing the stated expenditure: not paying for the full fertilizer subsidy by using "special banking arrangements"; not paying the central government's dues to the Food Corporation of India (FCI) for the food subsidy, and forcing the FCI to borrow from the market; using other special purpose vehicles to pay for infrastructure investment, like the Long Term Irrigation Fund. In 2017-18, just those three items amounted to ₹1,29,446 crore, or 1.8% of GDP. To these could be added other strategies the central government uses to "reduce" its own spending, like not paying States their rightful dues under the Goods and Services Tax Compensation Fund, or not paying what State governments have already spent on the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA), which is legally mandated.

These strategies are problematic not only because they are non-transparent: they also force other agencies (like State governments and public sector enterprises) to go in for expensive commercial borrowing that unnecessarily adds to their future interest costs. But what all this does underline is that the numbers presented in the Budget are not to be taken seriously, either for current year projections, or for the next year's estimates. This also effectively means that Parliament is reduced to approving a piece of fiction.

CGA data and spending

So what do we have to go by, to gauge the real state of the government's finances? The data from the Controller General of Accounts provide the most reliable information. They tell a rather disturbing story. Between April and November 2020, revenues of the central government predictably collapsed, by around 18%, or ₹181,372 crore, compared to the same period of the previous year. But despite that, expenditures should have gone up, because the lockdown-induced collapse in economic activity meant that public spending would be the only thing keeping the economy afloat.

Indeed, that is what the government promised: in three rounds of stimulus packages, it claimed to inject amounts of ₹1.7-lakh crore in March, ₹20-lakh crore in May and then ₹2.65-lakh crore in November. But it turns out that very little of these apparently large amounts involved actual commitments of more public spending. And the public accounts show that total spending of the central government increased by only ₹86,301 crore. That was only a 4.6% increase — not even enough to keep pace with inflation. In other words, the central government reduced its real spending over the period of the pandemic and economic crisis!

This fiscal stance obviously adds to the material suffering of the people and deprives them of basic goods and essential public services at a time of much greater need. But it is also a macroeconomically stupid strategy, because it adds to contractionary tendencies in the economy, and prolongs the severe demand recession facing millions of small and informal enterprises and hundreds of millions of self-employed workers.

As we saw after demonetisation, policies that destroy informal economic activities set in train processes of economic contraction that eventually come to bite formal enterprises as well. A similar process is under way in India now. Those who celebrate the higher profits of some large corporate houses or the gains in the stock market will find out soon enough that these are ephemeral if the vast bulk of the economy continues to stagnate or decline. Only if the Finance Minister realises this and changes course, moving to a more expansionary fiscal stance that prioritises employment generation and public service provision, would the Budget speech this year be worth listening to.

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