Carrying over Fiscal Conservatism*

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A lenient tax regime that favours private capital and restrained debt-financed spending are quite evident

Bruised by the COVID-19 pandemic, Indians, like their counterparts elsewhere in the world, are looking for renewal. So, even granting that an annual budget is not a corrective for all ills, evidence of a change in course was expected in Budget 2021. Change also seemed possible. With the worst of COVID-19 and the lockdown-triggered contraction behind it, the government could intensify efforts to not just accelerate recovery but also turn its attention to the neglected health sector and redress the damage inflicted on the poor by the novel coronavirus pandemic.

Conflicting signals

Official signals were, however, conflicting. Coming at the end of a year of the pandemic, Finance Minister Nirmala Sitharaman claimed that the Budget would be one "like never before". But experience did not give cause for confidence. Additional expenditure by the Centre incorporated in multiple packages over the last year have been estimated as amounting to only around 1.5% of GDP. Yet, there were statements to the effect that much had already been done before the Budget. The multiple stimulus packages were identified as several mini-Budget-like interventions, and the Budget, it was argued, had to be seen as just one more event in that series.

Overall, the Budget seems to carry over the fiscal conservatism witnessed during 2020-21. In that fiscal year, when the crisis called for hugely enhanced spending, total central government expenditure increased by just 13.4%, relative to what had been originally budgeted, when the pandemic had not been factored in. Since expenditure on the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) programme and on food subsidies had to be increased as minimal support measures in the context of the economic disruption, spending elsewhere had clearly been reduced. Despite the extraordinary crisis, falling revenues had led to the government holding back on its aggregate spending to rein in the fiscal deficit and its debt.

Revenue base erosion

Tax concessions, such as the sharp reduction in corporate tax rates in September 2019, and the misconceived Goods and Services Tax regime, underlie the erosion of the revenue base. Though presented before the COVID-19 pandemic was officially acknowledged, the Budget for 2020-21 had projected only a modest increase in the revenue receipts of the Centre, from ₹16.8-lakh crore in 2019-20 to ₹20.2-lakh crore. The revised estimates suggest that revenue receipts actually fell to ₹15.6-lakh crore.

Moreover, the government's ambitious disinvestment agenda that was expected to pull in ₹2.1-lakh crore of non-debt capital receipts seems to have been completely derailed. The sum garnered was just ₹32,000 crore. In the event, if spending had to be hiked significantly, deficit concerns had to be dropped. The government was clearly not willing to go in that direction, keeping expenditure growth low relative to requirement. That conservatism seems to persist. Total expenditure is projected to rise by just 0.95% in 2021-22 relative to revised estimates for 2020-21, even if 14.5% relative to the Budget estimate for 2020-21.

Unwinding support measures

With fiscal conservatism persisting, the government is set to wind down even the limited support it afforded to those hit hard by the pandemic. During the current fiscal, expenditure on the MGNREGA programme touched an estimated ₹1,11,500 crore (RE) as compared with a budgeted ₹61,500 crore and an actual expenditure of ₹71,687 crore in 2019-20. Many deprived of jobs and livelihoods were supported by the programme. There is no reason to believe that all of them can now return to their erstwhile occupations, since the economy is still performing poorly.

Yet, allocations for the MGNREGA programme are, going by Budget figures, to be drastically curtailed, from the ₹1,11,500 crore spent in 2020-21 to ₹73,300 crore in 2021-22. The picture is the same with food subsidies, which are to be reduced from as much as ₹4,22,618 crore in 2020-21 to ₹2,42,836 crore in 2021-22. Clearly, in the government's perception, the case for support is over, and the time has come to unwind even the limited support measures that the pandemic forced it to undertake.

What then makes the Finance Minister declare this Budget as being one "like never before"? Amid the multiple claims made in Part A of the Budget speech, two claims seem to be specially geared to creating the image of a never before Budget.

One is a declaration that the Budget incorporates a package for "health and well being" that would take spending on its constituent items from a budgeted ₹94,452 crore in 2020-21 to ₹2,23,846 crore in 2021-22. An increase in health spending, of 137%, is presumably influenced by the lessons from the pandemic.

The other is a multi-faceted infrastructural investment thrust supported with a claimed 35% increase in capital spending, from ₹4.12-lakh crore budgeted in 2020-21 to ₹5.54-lakh crore in the Budget for 2021-22.

Explaining health spending

However, these claims lose force when subjected to scrutiny. To generate the huge increase in health spending, the Budget speech resorts to a rather expansive definition of what can be considered health. In fact, allocations for the Department of Health and Family Welfare do not reveal any significant increase. Budget 2020 provided for around ₹65,000 crore for the Department of Health. Compared to that figure, the Budget estimate for 2021, of ₹71,269 crore, points to a not-too-spectacular 9.6% increase.

What is more, the Budget estimate for 2021-22 is 9.6% lower than the revised estimate of expenditure of the Department of Health and Family Welfare in 2020-21, of ₹78,866 crore. To generate the impressive increase in the allocation to "health and well being", the Budget speech includes in the figure expenditure on the Jal Jeevan Mission aimed at providing safe and adequate drinking water through individual household tap connections. That component of the "health and well being" Budget rises from ₹10,905.50 crore in the revised estimate for 2020-21 to ₹49,757.75 crore in the Budget estimate for 2021-22, being favoured by a ₹50,000 crore allocation from the cess-financed Central Road and Infrastructure Fund originally created to finance roads and highways. Drinking water matters and must be provided but cannot be a substitute for core health facilities.

Wishful thinking

In the case of the infrastructural push described in the speech, the budgetary funding provided hardly seems adequate. What emerges is that the intention is to experiment with diverting resources garnered from the sale of existing assets of the public sector to part finance new investments in infrastructure. Besides disinvestment of equity, strategic sale, and privatisation of the public financial sector, expected to yield ₹1.75-lakh crore in 2021-22, there is much stress on "monetising idle assets", especially land, available with public agencies.

As the failed experiment with an overambitious disinvestment agenda included in Budget 2021 suggests, this effort to strip public units of their assets to support private-led infrastructural expansion may be more in the nature of wishful thinking.

The pandemic notwithstanding, Budget 2021-22 suggests that there is no change in the neoliberal fiscal stance of the current government. A lenient tax regime that favours private capital, restrained debt-financed spending, and excessive reliance on disposing of public assets to finance limited expenditures remain the principal elements of that stance. The pandemic may have forced increased spending in a couple of areas. But even before it recedes, the government seems bent on restoring the old normal.

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