Budget 2023-24: Ignoring the economy's basic problem*

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The most outstanding feature of the Indian economy today is the sluggish increase in real consumption expenditure. Between 2019-20 and 2022-23 for instance the per capita real consumption expenditure has grown by less than 5 per cent which is less than the rate of growth of the gross domestic product. Even the meagre recovery from the depths of the pandemic in short has been investment-led rather than consumption-led. This has two obvious problems: first, such a recovery is patently unsustainable; it would simply lead to a pile-up of unutilised production capacity, of unused infrastructure, and hence of unrecoverable loans by banks that would inevitably choke off the recovery, apart from threatening the stability of the financial system itself. Second, the basic rationale of growth is to improve the living conditions of the masses; and if the level of consumption of the masses remains stagnant, then there is little point to this growth.

The primary task before the 2023-24 budget therefore was to stimulate consumption in the economy, for which there had to be above all an increase in social sector expenditure: an obvious reason for instance that foodgrain stocks lie unused with the FCI, in a country reeling under the impact of hunger, is the lack of purchasing power in the hands of the people after they have paid exorbitantly for basic healthcare, housing, education and other such pressing needs. But this is precisely what the budget has not done; on the contrary what it has done, is to squeeze government expenditure on the social sectors in order to make resources available for increasing capital expenditure even further. The most shocking instance of this is the sharp drop in MGNREGS expenditure to Rs 60,000 crores, where it was a decade ago, and which amounts to only about half of the Rs 112,000 crores that had been seen in 2021-22. Since the new proof of work on this scheme now requires internet connectivity that does not exist in much of rural India, the inevitable conclusion is that the government wants to wind up this scheme altogether!

Even though the government tom-toms its "achievement" in providing 5 kg of free foodgrains per month to 81 crore people, there is an actual sharp reduction even in the nominal food subsidy by 31 per cent compared to the revised estimates for 2022-23, which would mean squeezing one segment of the poor in order to subsidise another. Likewise, on rural development there is a reduction even in the nominal outlay. On education and health, there are small increases in outlay in nominal terms, but when inflation is taken into account these sectors would witness a decline in real terms.

All this is not surprising given the anti-consumption and hence anti-poor stance of the government. The striking feature of the 2023-24 budget is that government expenditure including transfers to states is expected to increase at a rate lower than the gross domestic product; its share is supposed to fall from 15.3 per cent in 2022-23 (revised) to 14.9 per cent, a fall almost matching the fall in the ratio of the fiscal deficit from 6.4 per cent to 5.9 per cent.

The parsimony in stimulating consumption is reflected also in the decline in transfers to state governments. Transfers to the states in 2021-22 amounted to Rs 460,575 crores, which came down to Rs 367, 204 crores in 2022-23; this was further cut to Rs

307,204 crores according to the revised estimates. The current budget provides only Rs 359, 470 crores, which, far from making good the shortfall in 2022-23, is even lower than the budget estimates for the last year. Since the state governments are substantially responsible for expenditure on social welfare, the Centre, itself niggardly in this respect, has imposed niggardliness on the state governments as well, through its deliberate centralisation of resources that palpably undermines the federal structure.

Within the reduced central expenditure relative to GDP, there has been a sharp increase in capital expenditure. The finance minister made much in her speech of this increase in capital expenditure from Rs 7.5 lakh crores to Rs 10 lakh crores, citing this as the panacea for the scourge of unemployment that currently afflicts India. What she glossed over however were four basic points: first, exactly the same amount of money, if spent on the social sector, would have at least the same employment effect; second, this sum, if spent on the social sector would have been directly beneficial for the working people, in whose case, as the Economic Survey presented to the parliament the previous day has admitted, there has been an absolute decline in real wages. Third, the multiplier effects of expenditure that (via larger social sector spending) directly or indirectly augments the purchasing power in the hands of the working people, are much greater than the effects of public capital expenditure, so that the impact on unemployment, of an identical amount spent on the social sector would have been far greater than when it is spent as capital expenditure. And fourth, much of capital expenditure “leaks” out abroad in the form of imports of capital goods, unlike in the case of a boost to the consumption of the working people, which further strengthens the point about the asymmetric employment effects of the two modes of spending.

The import dependence of capital expenditure has increased in recent years under the neoliberal dispensation, which is a major reason for the stagnation in the country’s own capital goods sector despite the investment-led recovery that we have been witnessing of late. In the absence of greater protection of the domestic capital goods sector, expecting larger capital expenditure to generate any noticeable larger domestic employment is just a pipe-dream. The budget, instead of providing greater protection from imports, has on the contrary lowered customs duties on a range of imports; to claim under these conditions that the proposed step-up in capital expenditure will boost employment to any significant extent, is sheer chicanery.

What is more, between the two ways of spending, through larger capital expenditure or larger social expenditure, since the former is more import-intensive, it will only worsen the balance of payments problem toward which the country is headed. India’s export growth has suffered because of the world recession, despite a massive depreciation of the rupee; and the current account deficit for the latest quarter for which we have data has been in excess of 4 per cent of GDP. The government could have killed at least three birds with one stone if it had increased social expenditure instead of boosting capital expenditure: it would have directly improved the people’s lot; it would have boosted employment to a far greater degree; and it would have kept the balance of payments current deficit in check. Instead, it chose an option that is patently much worse.

So far I have only compared two options before the government, arguing that it chose the worse one; but of course the government is not confined just to these two options.

The ratio of government revenue to GDP, according to the government's own estimates, is likely to remain unchanged next year compared to the current fiscal year. But the fact that there has been a massive increase in income and wealth inequality is well-known, and in a period of rising inequality, even in the absence of a wealth tax, the ratio of tax revenue to GDP should show an automatic increase; with a wealth tax or other revenue-raising efforts at the expense of the rich, this should be even more pronouncedly the case. What is remarkable about the budget is the absence of any serious revenue-raising measures.

The budget of course has provided income tax relief to certain segments of the salaried classes; but its myopia in two senses is quite amazing: one, its utter indifference to the need to raise government revenue as a proportion of GDP in a period of sharply increasing income and wealth inequalities; and two, its utter indifference to the need to provide larger social expenditure which could boost purchasing power with the working people and its emphasis instead on capital expenditure whose employment generating effect largely leak out abroad.

To call this budget myopic however, as I have done, is perhaps to miss the point. The infrastructure sector is where its "crony capitalists" have a special interest; spending on the infrastructure sector therefore is a way of helping its "cronies". And this particular government, on its past performance, can hardly be expected to put the interests of the economy as a whole, let alone those of the working people, above the interests of its crony capitalists.

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