Union Budget 2020-21 and the Issue of the Fiscal 'Stimulus'*

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It hardly needs emphasizing that the context for the Union Budget for 2021-22 is an exceptional one. The country continues to face a highly uncertain future on both the pandemic and economic fronts and their mutual impact on each other. However, the Economic Survey has tried to reassure us that our nation's "far-sighted" leadership has always had things under control. If the Survey's reasoning is to be believed, what actually happened – more than 10 million confirmed cases of Covid-19, more than 1.5 lakh deaths due to it, and a 15 per cent plus contraction in GDP in the first half of the year, millions of migrants on the road, etc. – was more or less in line with what was anticipated by the Government and is evidence of India's "win-win strategy" of opting for some short term pain for medium and long-term gain. These gains it is argued will follow from the slew of 'reforms' whose pushing through in the eyes of many reflected a cynical, but not wholly successful, attempt to take advantage of the pandemic situation to push through policies that would hurt the common people. The common essence that links all these so-called 'reforms' together is that they are facilitating greater control of big corporate capital, Indian as well as foreign, over the nation's productive capacity and resources and increasing their power – in the sphere of production and in the market - to exploit the labouring people and condemn them to a life of misery, whether they are in or out of employment.

The Finance Minister and the ruling party have now promised for 1 February 2021 a "game-changing" budget. Going by the evidence thus far, however, a truly game changing budget can be ruled out, desperate though is the nation's need for it. The game was already loaded heavily in favour of big business and the wealthy and, became (or rather was made) even more so during the last year. Any 'stimulus' that the budget is likely to involve, once all the inevitable window-dressing is seen through, will be designed to push further in the same direction. Between promoting profit-making and repairing the damage to livelihoods and incomes of the people, the priority will be on the former even as the means to the latter rather than the other way around. However, whether the 'stimulus' will have any significant fiscal component or be mainly through the announcement of other measures along with the budget remains to be seen. As the situation stands now, any meaningful fiscal stimulus will require a significant departure from the orthodoxy enshrined in the FRBM Act to which the Government has shown exceptional commitment even during the pandemic. Any such departure, however, will be only temporary if it happens, and only to the extent that it protects the powerful interests that lie behind that orthodoxy.

If we go back a year to when the Union Budget for 2020-21 was presented before Parliament by the Finance Minister, it was just two days after the first confirmed case of Covid-19 was reported in India and almost two months before the country went into lockdown. At that time, the WHO was still some way from declaring Covid as a pandemic as most known cases were confined to Wuhan. No one had till then anticipated what was going to follow and instead of the massive economic contraction that was to come, the attention was focused on the already experienced slowing down of the growth of the economy. To stimulate a flagging economy in such a 'normal' year the Finance Minister had planned on increasing the Central Government's expenditure by 12.7 per cent over the Revised Estimates (RE) for 2019-20. This

would translate into a 13.2 per cent increase over the actual for 2018-19, which eventually was marginally lower than the RE figure. Three quarters of 2020-21 have now passed and it has been a period in which the world over Government's have been forced to expand spending in order to respond to the unprecedented public health and economic challenges that emerged. However, in the 9 month period till December 2020 (April-December), the Government of India's total expenditure had increased by just 8.1 per cent over the actuals for the same period last year – a lower increase so far than what had been budgeted for a non-Covid situation.

Even the increase of 8.1 per cent is a bit of an illusion. Elimination of just one item which appears under capital expenditure, namely Loans Disbursed, reduces the increase to just 5.1 per cent and turns a supposed increase of 20.9 per cent in capital expenditure into a contraction of -4.1 per cent. This increase in loans, to the order of nearly 300% over last year, is not real expenditure by the Central Government or public investment. It would appear to be mainly accounted for by increased lending to state governments – which has been necessitated because states have not been provided enough revenue either as compensation for GST implementation losses or as their share in Central revenues. Indeed, the state's share in Central Taxes in the April-December 2020 period are nearly 22 per cent lower than in the same period a year ago. This follows an almost 15 per cent decline in the full 2019-20 year over the receipts that states received in 2018-19.

A second successive year of decline in the amount received by state governments as their share in central taxes reflects the growing crisis of revenues from these taxes. In last year's budget, the RE of gross revenues from Central Taxes in 2019-20 was put at Rs. 21.63 lakh cores as against the much higher Rs. 24.61 lakh crores in the original Budget Estimates (BE) for the year. The trends then were indicating that the outcome would likely be poorer and as it turned out, the actual revenues were lower than even the RE figures by about 1.53 lakh crores. The impact of this shortfall was greater on the share of states than on the Centre's net revenues. Despite this the Union Government's fiscal deficit ballooned to 4.6 per cent of GDP in 2019-20, a level similar to what it had been at the beginning of the decade when the process of 'fiscal consolidation' – a euphemism for reducing the fiscal deficit by curbing public expenditure - was initiated and then sustained by two successive governments. But this fiscal 'slippage' happened not because of increased spending but because of poor revenue realizations and was one reason why the so-called 'decisive' Government when it came to imposing an ill-planned lockdown dithered on pushing up spending. The consequence was one of the largest contractions witnessed by any economy of the world, which devastated so many enterprises and hit the incomes of millions. No wonder then that the relief to the people was also so paltry - as per the date presented in Economic Survey, expenditure on direct benefit transfers up to December 2020 disbursed to 42.1 crore beneficiaries was just Rs. 68,914 crores - amounting to just Rs. 1637 per beneficiary and just about Rs. 500 per capita.

The economic collapse of 2020-21 has of course led to a further aggravation of the crisis of revenues. In yet another instance of the proneness to impose a burden on common people, the Government turned to its by now favourite route of raising revenues – it increased excise duties on diesel and petrol in two instalments by Rs. 13 and Rs. 16 per litre of petrol and diesel, respectively. As a result of this, revenues from Excise Duties in April-December 2020 are a whopping 54 per cent higher than

in the same period as earlier – though consumption of these fuels has been about 12 and 17 per cent lower. Even this has not, however, compensated for the decline in revenue under other heads so that April-December revenues from Central Taxes are still over 3 per cent lower this year as compared to a year ago. Revenue realizations can be expected to improve a little in the remaining quarter of the year. However, it unlikely to be sufficient to bring down the fiscal deficit from the nearly 6 per cent of estimated 2020-21 GDP level already reached - unless of course there is a significant squeeze on expenditures in the same period.

On the back of these two years of deviation from so-called 'fiscal prudence' because of what has happened on the revenue side, will the Finance Minister be willing to change the established habit and really step up the gas on the spending side? No doubt the economy needs precisely such a stimulus and it can be justifiably argued that not spending is only aggravating the revenue crisis by curbing growth of economic activity from which revenues come. Additional spending can also be ultimately financed by taxing more the rich, the wealthy and the corporate sector – including in the future to service the debt incurred for today's spending. For this there is considerable scope given the extremely low levels of direct taxation in India. This is also the route Government should be committed to taking if the interest is not merely addressing the immediate economic disruption but also the longer term structural factors that are generating increasing inequality and mass unemployment, which in turn are increasingly becoming barriers to growth. Alas, that is precisely what the moneybags backing the Government do not want. If they are to be pleased, the Finance Minister will be leaning towards a 'stimulus' which involves some combination of tax concessions (like the corporate tax reduction in 2019) and increased spending on things like infrastructure – with the burden of balancing the books today and in the future being placed on the people in several ways that will be sought to be concealed. It is perhaps the case for such a stimulus that the Economic Survey has tried to make. The massive and enduring protests of farmers will, however, serve to remind the Finance Minister of the perils of taking a completely one-dimensional view on this matter.

*** This article was originally published in the News Click on January 31, 2021.**