

# Union Budget 2021-22: A Macroeconomic Analysis

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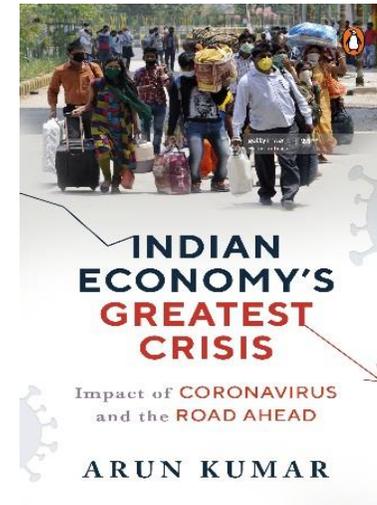
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# Preliminary

- Based on theoretical framework of my EPW article Sept. 26, 2020
- And, book released in December end.



- Greatest crisis of Indian economy and society; collapse of economy unprecedented - its social and political impact will be long lasting.
- Headed to a new normal and need to plan for it.

# Introduction

- There are lots of things in a budget but need to spell out the crucial aspects
  - That is always the macro aspect of it
  - If this is not right then the micro aspect will also not work out well.
- Once in a century budget?
  - far short of what was needed
- The economy needed to be restored to its pre pandemic levels?
- Part A of the speech
  - spells out what would sound nice and shows that the government means business
- The Atmanirbhar Bharat Scheme – the framework- Supply side

# Expectations from the Budget

- Boost growth which is still less by 10% - not government stated recovery at 0.1%
- **Health** had to be a major component
  - Expenditures to be greatly stepped up on health - many announcements were made.
  - But has come down from Rs.82,445 crore this year to Rs.74,602 crore for next year
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- Increased allocations to agriculture, rural and defence were required - Not in evidence

	2019-2020 Actuals	2020-2021 Budget Estimates	2020-2021 Revised Estimates	2021-2022 Budget Estimates
Defence	318665	323053	343822	347088
Agriculture and Allied Activities	112452	154775	145355	148301
Education	89437	99312	85089	93224
Health	63425	67484	82445	74602
Rural Development	142384	144817	216342	194633

# Missing Macro

- Part A did not start by giving the macro picture of the economy
- Similarly at the end, additional revenue from the various tax proposals is expected – not given
- The current year has been one of crisis with demand shortage, massive unemployment and many businesses facing closures, farmers and the unorganized in distress and so on
- So, need to step up expenditures sharply so as to generate demand.
- Expenditures budgeted for are at Rs.34.8 lakh crore
- this year's expenditure estimated at Rs.34.5 lakh crore
- Decline in private sector demand needed to be compensated by public sector expenditure

# Fiscal Deficit

- The Fiscal Deficit is estimated at 9.5% - overall around 20%
- expected to fall to 6.8% next year. Likely to be higher
- The part of deficit which is a transfer from budget to the FCI – will not increase demand

# Two Problems regarding the Deficit

- So, we have the same expenditure and a smaller deficit (BE) – how will economy revive
- Two problems arise in this context
- First, the deficit would be higher – because revenues will be short
- Economy in 2020-21 has not shrunk by 7.7% but much more – unorganised sector issue
- Usually when fiscal deficit shoot up the government cuts back capital and social sectors
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- Second, disturbingly, key items that could boost demand quickly have been curtailed for 2021-22
- Like, MGNREGS, National Social Assistance Programme, PM Awas, PM Kisan and Food Subsidy.

# Boosting Business sentiment

- Signal via not touching them via taxation or cess, etc.
- Disinvestment and monetization of assets
- Sale of Public Sector assets – disinvestment of LIC an issue

# Public Sector

- Minimum government and maximum governance
- Public Sector is being dismantled
- Public sector even more needed now, after the pandemic
- It needs to be made efficient which it can be
- Market failure is widespread in a capitalist economy as it gets more complex
- Requires ending cronyism - Requires accountability
- Not less rules but implementation of rules
- – Not if cronyism continues
- Not if politics is not cleaned up

# Investment and Disinvestment

- Public investment - expenditure on capital items will be stepped up from Rs.4.39 lakh crore to Rs.5.54 lakh crore
- Step up disinvestment – So, in net there is little increase in capital expenditure
  - These are mostly capital intensive ones
  - Net employment generation negative – cutting labour intensive and spending on capital intensive projects
  - The former is immediate while the latter is medium and long term

# Disinvestment: Political Aspects

- Likely to be crony capitalism in allocation of new projects
- Likely to be shortfall as usual
- Political opposition is likely which will slow down the programme
- Instead need to step up expenditures on local infrastructure, education and health
- Monetization of assets
- If lot of assets come to the market in a short time, asset prices will drop and then the cronies can buy them cheap.

# Taxation Issues

- Taxation and revenue issues
- GST issues
- Direct Tax aspects
- Growth less so revenue likely to be less
- Deficit is likely to be higher

# Other Issues

- Talk of self-reliance and then trying to attract more foreign investment – contradictory
- Rise in Foreign Exchange Reserves due to sharp fall in imports – shows that activity is low
- Share market rise and growing financial sector instability
- Political aspects: Focus on States going to polls

# Conclusion

- One can say that FM has not taken correct macro into account and
  - Missed an opportunity to bring the economy faster on its tracks
- Rather than structural changes there was need to boost demand
- Higher deficit should have been resorted to both in current and next year
  - To boost demand and production
- Headed to a new normal and need to plan for it
- Basic problems of education and unorganized sectors not addressed
- Rather than go for high cost infrastructure needed local infrastructure