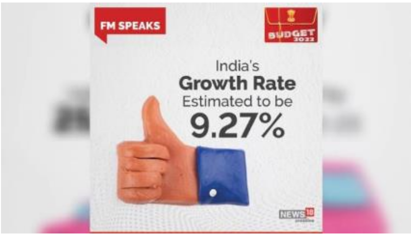
moneycontrol

Budget 2022 — Focusing on economic growth

Government uses the Budget as an instrument of structural reforms

SASHI SIVRAMKRISHNA

FEBRUARY 01, 2022 / 04:54 PM IST



The Budget 2022-23 is clearly forward-looking, betting on India's long-term economic growth as the basis of its overall development strategy. Conspicuous by its absence was the budget, and more generally fiscal policy, as an instrument of stabilIsation and allocation of financial resources to underdeveloped sectors of the economy. With the minimal disruption caused by the third wave of the pandemic and the possibility that the worst of Covid 19 may be over, the budget clearly seemed to put the crisis behind us as an aberration and the necessity to go ahead from where we were in Q4 2019.

There are, however, two major concerns that cloud the return to normalcy post the pandemic. First, private consumption expenditure, the key driver of growth, still remains significantly below Q4 2019 figures. When we look at the figures for the United States, levels in real personal consumption expenditure began to decline sharply in February 2020 but showed a return to these levels by January 2021, followed by a slight dip and then a more sustained return to February 2020 levels by March 2021. This was essentially due to the aggressive fiscal policy measures pursued by the US government in 2020-21 and the year after. India's subdued private consumption expenditure is still reeling from a conservative approach to fiscal policy during the pandemic crisis. Once again, no substantive measures through personal tax breaks were mentioned in the budget to offset the impact of uncertainty on consumption spending. Fear over any increase in fiscal deficits may have been the reason to not provide any tax breaks to the private sector.

The other critical macroeconomic parameter that finds no reference in the big picture budget announcement is unemployment. India has been reeling under chronic unemployment even before the pandemic. The decline of the informal sector and the low employment elasticity of modern manufacturing had put enormous pressure on the employment demand to be created in the services sector. The pandemic, which adversely hit urban services more than either manufacturing or agriculture, painfully accentuated the crisis. It is unlikely that growth alone will be sufficient to overcome the problem in the near term. Even rural employment seems to be a challenge given that demand for MNREGA jobs still remains high. It was therefore felt that the introduction of an urban job guarantee program would be appropriate at this juncture to not only tackle employment but also rekindle consumption demand. However, neither did any such proposal find mention in the budget nor were allocations to the existing MNREGA programme announced.

Perhaps the large increase in capital expenditure to about Rs.7.5 lakh crore is what stole the show in today's budget announcement speech by the finance minister. The acceptance of capital expenditure as a more appropriate policy measure than a job guarantee programme is that it will not only provide jobs and create demand but also enhance our capacity to produce more in the longer term, making growth more economically sustainable. At the same time, it involves the corporate sector and is associated more closely with a modernising economy. However, questions remain on the actual employment generation by large-scale infrastructure projects, especially of low-skilled workers. This makes it possible that growth gets delinked from employment generation and can exacerbate the feared K-shaped recovery.

A key driver of growth is private sector investment or gross fixed capital formation. The budget explicitly calls for private sector participation in several projects although it does not provide any specific proposals to boost private sector investment spending. Implicitly, the government seems confident that if growth revives, private sector consumption and investment spending will be restored to satisfactory levels.

The slew of measures announced in the budget announcement — on the ease of doing business to energy storage systems, data centres and digital technologies — once again points out to the government using the budget as an instrument of structural reforms so that relaxing supply-side constraints will be sufficient in driving growth. The Keynesian perspective that views the budget as an instrument of creating new demand in the economy once again recedes as fears over the pandemic fade. This was made clear by the finance minister when she categorically stated that the government was keen to return to smaller deficit of 4.5 percent of the GDP by 2025-26 even as the process to do so has already been set in motion in the present budget.

Although there is no doubt that India must embrace the future and cannot turn its back to new digital technologies and modern industrial development, it must confront some persistent issues that continue to challenge the developing world, including the widening inequalities in income, wealth and between regions as well as poverty and malnutrition. Fiscal policy, or more specifically direct government spending and not merely supply-side reforms, remains a powerful instrument to address these concerns.

Sashi Sivramkrishna studies macroeconomics from a Modern Money Theory (MMT) perspective.