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Budget 2023: A return to the Washington Consensus

The Indian government believes that the growth of the economy, through a trickle-down process, will lead to lower unemployment

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At the beginning of her budget speech, finance minister Nirmala Sitharaman clearly outlined the vision of the present government for the Indian economy and the economic agenda to achieve it. The vision consisted of a technology-driven and knowledge-based economy with strong public finances and a robust financial sector, while the agenda for delivering this vision focused on facilitating opportunities for citizens, especially the youth to fulfil their aspirations, a strong impetus to growth and job creation, and ensuring macroeconomic stability.

The budget proposals were consistent with the vision and agenda, and it would be difficult for commentators to find any arguments against the allocations to different sectors and schemes. From agricultural processing units to capital expenditure in infrastructure, from enhanced spending on green technologies to reduction in personal income taxes, the 2023-24 budget has pressed all the right buttons to sustain India’s growth rate.

Given that this is the eighth and the last full budget of the Modi government before the 2024 elections, it is interesting to articulate the government’s overall macroeconomic worldview over its tenure that has emerged quite sharply from the present budget. Perhaps the simplest characterization is to liken it to the Washington Consensus, the most celebrated document outlining neoliberal economic policies, drafted by John Williamson in 1990 and extended in 2004. Except for the explicit thrust to globalization in the Washington Consensus which has waned in the present era of deglobalisation, we can see a return to some of its fundamental tenets by the present government, and a break away from the rights-based approach to development that the UPA regime moved towards, albeit tentatively, between 2004 and 2014.

The foremost tenet proposed in the Washington was the need to consolidate the fiscal deficit. Although economists are aware that fiscal deficit target numbers are non-discretionary as government tax collections depend on the performance of the economy during the course of the year, pursuance of deficit target numbers are important in so far as they act as a self-imposed constraint by the government on itself, which limits its interventions to give greater space to the private sector guided by market forces. There is also the belief that reining-in government expenditure will contain the quantum of public borrowings in the market to keep interest rates in check and prevent private sector investment spending from being crowded out. The fiscal deficit target number has become an obsession for successive governments in India since 1991 in spite of deviations during successive crises. This year the target has been fixed at 5.9% with a further reduction to 4.5% of GDP by 2025-26.

The Washington Consensus also called for restricting fiscal activism; however, the one area where government intervention is welcomed is on infrastructure spending. This is seen as important in order to raise productivity, induce demand and support private sector activity. The increase in capex by 33% this year to Rupees 10 lakh crore is a definitive step in this direction. Containing revenue expenditures and the overall fiscal deficit would simultaneously enable greater room for private sector participation in infrastructure projects through directed lending by banks and other financial institutions.

Although there have been no additions to the list of Central Public Sector Enterprises (CPSEs) in this budget, privatization, a key pillar of the Washington Consensus, has been pursued actively by the government. Similarly, rationalisation of the tax structure and adopting moderate tax rates, rather than steeply progressive rates, is another element that was highlighted by the Washington Consensus. It may be recalled that in the 2019 budget, the finance minister had proposed raising the surcharge on the incomes of HNIs by 3 to 7% but in this year's budget the highest surcharge has been reduced from 37 to 25%, an indication that there has been a change in the government's stance towards addressing concerns over rising income inequalities, a move that syncs well with the Washington Consensus.

A conspicuous absence in the Washington Consensus was the purposeful targeting of unemployment through macroeconomic policy. In fact, the word 'unemployment' appears only once in Williamson's paper of 2004, and that too in the references, and not the main body of the paper. Ignoring unemployment was in fact a deliberate move away from Keynesian macroeconomics with a belief that if all other neoliberal policy prescriptions were implemented, the market system led by the private sector would ensure that the economy would gravitate towards full employment with price stability. At the same time, some unemployment during this transition cannot be ruled out, making it necessary for governments to provide adequate safety nets particularly to the poorest of the poor.

From a careful analysis of this year's budget, it is possible to delineate that the government has moved in line with the Washington Consensus in this regard too. The allocation to MNREGA, a rural (partial) job guarantee scheme has been slashed by 30%, from the revised estimates of Rs. 89,154.65 crore for 2022-23 to just above Rs 61,000 crore in 2023-24. Moreover, any hope for an urban job guarantee scheme as suggested by the Economic Advisory Council to the Prime Minister (EAC-PM) in 2022 has also receded. At the same time, the allocations for subsidies on provision of free foodgrain and pulses under the PM Garib Kalyan Anna Yojana has been increased to Rs. 2 lakh crores.

John Maynard Keynes had once remarked, "look after the unemployment and the budget will look after itself." Modern Money Theory (MMT), a Post Keynesian economic framework, has strongly proposed a universal job guarantee scheme rather than a more hands-off approach of a universal basic income or food distribution programme since the former is more sustainable and less inflationary as it adds to production capacity, productivity and aggregate supply, and not merely aggregate demand. However, the neoliberal agenda has been to side-line job guarantee programs, especially in advanced countries, based on the belief that full employment would lead to tight labour markets and consequently, higher wages and inflation.

While provision of food is in itself absolutely essential for the poor and has been effectively implemented by the government, it raises a deeper concern over neoliberal policies that see the pursuit of economic growth as both a necessary and sufficient condition to pull the masses out of poverty through the trickle-down effect. Unfortunately, with 80 crore people or close to 60% of India's population still depending on the government for their bare subsistence needs, it raises questions over neoliberal economic policies in alleviating poverty that have been followed since the reforms of 1991.

While neoliberal macroeconomics has decentred unemployment from the budget, it may take decades more to realize whether economic growth by itself can succeed in achieving full employment and surmounting poverty.

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