

MY VIEW | VOX HETERODOX

Union budget: An opportunity lost to boost economic growth

The arithmetic of the budget is particularly suspect as it overestimates revenues and underestimates expenditures



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The Union budget is not only the annual financial statement of the government in Parliament, but also the primary instrument for the short-term macro-management of the economy. The latter was particularly important this year. Economic growth has slumped to its lowest level in decades. Investment as a proportion of gross domestic product (GDP) has declined steadily. Investor confidence has been battered. Industrial production has witnessed a contraction, so visible in automobiles and fast-moving consumer goods. The crisis in agriculture runs deep. Rural India, home to two-thirds of our population, has witnessed a stagnation or decline in consumption and incomes. Unemployment is at an all-time high.

There was a crying need for the government to act here and now. Yet, the budget for 2020-21 was clearly not one that should have been presented by a government elected with a decisive political mandate just eight months ago. Instead of being confident, it was hesitant and diffident, possibly because of a misguided fiscal conservatism.

The budget speech, at 160 minutes, was long on words but short on substance. The abundant political rhetoric was framed around three themes: an aspirational India, economic development and a caring society. However, people will judge this budget in terms of outcomes, rather than intentions, which affect their daily lives.

Governments always, and everywhere, fudge figures to claim fiscal virtue. But the arithmetic of the budget is particularly suspect. It overestimates revenues and underestimates expenditures.

In 2020-21, nominal GDP growth is projected at 10%. Yet, revenues are estimated to rise by 14% for income tax and 12% for corporation tax. GST revenues, where both implementation and compliance leave much to be desired, are estimated to rise by 13%, compared with a revenue shortfall of 8% in 2019-20.

The illusory cushion implicit in disinvestment receipts estimated at ₹2.1 trillion, compared with revised estimates of ₹0.65 trillion in 2019-20 although only ₹0.2 trillion has been realized so far, is even greater. Of this, ₹0.9 trillion is to come mostly from Life Insurance Corporation (LIC), while ₹1.2 trillion is to come from other public sector firms, largely from Air India. Given the political complexity of asset sales by government, where price discovery is so elusive and due diligence so time-consuming, this expectation represents a triumph of hope over experience.

The provisions for expenditure on subsidies and establishment are, as usual, inadequate. Despite the tall claims, as a proportion of total government expenditure, the allocations for education at 3.3%, health at 2.2%, rural development at 4.8%, and social welfare at 1.7%, are all lower than in 2019-20.

The fundamental problem with the budget is that it does little, if anything, to address the slowdown in the economy. The emphasis on infrastructure is both necessary and desirable. But supply-side responses can drive output growth at best in the medium term. In the short-run, stimulating domestic demand is the only means of reviving economic growth. In any economy, there are four sources of demand: investment, exports, government consumption expenditure, and private consumption expenditure.

The budget could have pushed up public investment. But capital expenditure as a proportion of total expenditure is 13.5%, compared with 12.9% in 2019-20. The milieu is simply not conducive to stimulating private investment as interest rates remain high, while the financial sector is unable or unwilling to lend, and intimidation by tax authorities or enforcement agencies has sharply eroded investor confidence.

Exports have stagnated in the range of \$300 billion for the past six years, while the share of exports in GDP has dropped from 17% to 12%. Yet, the budget neglects exports altogether.

The budget was the only means of stepping up government consumption expenditure. Alas, revenue expenditure as a proportion of total expenditure remains almost unchanged at 11.7% compared with 11.5% in 2019-20.

In an economic slowdown, when income growth is subdued, private consumption expenditure can rise only if there is an increase in the disposable

income of households. But nothing was done for the rural poor or small farmers. The allocation for the rural job guarantee scheme is ₹0.61 trillion, 9% less than ₹0.71 trillion 2019-20, while the allocation for PM Kisan is ₹0.75 trillion, the same as 2019-20 (though disbursement was only ₹0.55 trillion). For the urban middle class, with incomes less than ₹5 lakh, tax rates have been reduced but only if they give up exemptions and deductions. Six rates and six slabs, in place of three, complicate the structure, while the tax relief will be marginal.

It seems that macroeconomic understanding in the government is clouded by a misguided deficit fetishism. And if that was indeed the concern, why did the government slash corporation tax rates last year, which meant that the estimated revenue forgone enlarged the fiscal deficit by 0.75% of GDP?

In an economic downturn, counter-cyclical policies that increased government expenditure were the only means of reviving economic growth in the short run. That would have led to buoyancy in government revenues, reducing the fiscal deficit

compared with what it would otherwise be. However, in the absence of a stimulus, a persistent slowdown would mean continuing revenue shortfalls that would only enlarge the fiscal deficit further. Thus, if the budget had stepped up government expenditure, ironically enough, it would also have helped the objective of fiscal consolidation, creating a win-win situation. This opportunity was lost because of flawed thinking.

QUICK READ

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true leader will unite, not divide the country.

Apparently, we Kashmiri Pandits are damned if we do and damned if we don't. On one hand, Pandits speaking out about their trauma, a necessary therapeutic process, are accused of fuelling tensions. On the other, they are called traitors if they empathize with the plight of Muslims or refuse to tar them all with the same brush.

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a "masterpiece", James Cameron, made one such film called *Titanic* (1997). I do not recall anyone complaining about the lack of historical context when it was released, though it was set against one of the greatest tragedies of the early 20th century. People recognized it for what it was, an escapist tear-jerker that turned out to be one of the highest-grossing films of all time. Indeed, Cameron could have been an Indian in his previous life, given his penchant for schmaltzy, overlong musical interludes, and tales of doomed yet timeless love.

There have been other films set against political and historical backdrops of major significance, although it was the romance that ultimately drew audiences. Chopra, being the master that he is, avoids the oft-repeated mistake of mixing genres and has thus given us not only an emotional tour-de-force, but a devastating document of one of the worst tragedies of post-1947 India, the expulsion of Kashmiri Hindus from their ancestral homeland.

Chopra also avoids the trap of reducing the Kashmir issue to a Hindu-Muslim binary. A refugee himself, he is only too aware of the convoluted nature of the conflict and the equally horrific trauma inflicted

on both communities. He offers a fig leaf as well as a solution to cynics and naysayers. Empathy, he seems to say, is the highest virtue and perhaps the only way Kashmiris can heal. Not through the machinations of vested interests who would exploit the suffering of Kashmiris to play one side against the other, but through mutual empathy and acknowledgement of shared suffering.

Kashmiris have no choice but to find the empathy within themselves, for it is sorely lacking in some sections of the Indian media and online world of professional rabble-rousers. The rabid among the Hindu right went apoplectic on the film's release, accusing it of "whitewashing" genocide and soft-pedalling the role of Islamists. Some even went so far as to call for the Hindu "traitors" behind the film to be burnt alive.

Conversely, Chopra and the film's co-writer, Rahul Pandita, were accused by some of

typecasting Muslims as villains, thus worsening tensions between the two communities. "The film stands at the danger of feeding into a one-sided perspective in an already polarising time," wrote Kenneth Rosario in *The Hindu*. "While the film ascribes Muslim militant extremism to personal loss, the moral upper-hand is always with Kashmiri Pandits." This last charge is made because the male protagonist, Shiv Dhar, advises some Hindu children against chanting communal slogans, saying that a

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is a cultural critic, author and film-maker

My mother rarely uses hyperbole to describe films, especially from Hollywood, so I was naturally curious to know why she had described Vidhu Vinod Chopra's *Shikara* in superlatives on her social media page. Film critics in India had given the film middling reviews, saying it worked as a poignant love story, but did not provide sufficient political context to the long-festering Kashmir conflict. Most of the reviews were very similar in tone and verbiage, which left me wondering if Indian critics are capable of original thinking.

Reviewers in India also seem curiously unaware of the difference between documentaries and works of fiction, albeit inspired by real events, designed for a mass audience. There is a long list of acclaimed romantic films set against tragedies in which the love story is foregrounded, while the historical context is merely scaffolding for the romance.

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MINT CURATOR



The moon as sighted in New York

GETTY IMAGES

Apply to Nasa and lose five-sixths your weight

Going into space is a dream shared by children and adults around the world. Although humans have not stepped foot on the Moon in almost half a century, Nasa hopes to change this. It plans to land the first woman—and the next man—on the lunar surface by 2024. And now the US space agency is looking for candidates to take part in its future missions. So with applications opening from 2 to 31 March, what does it take to become an astronaut? Since the 1960s, Nasa has selected 350 candidates to train as astronauts, with 48 currently in the active astronaut corps. But as it is a US federal agency, the first requirement to join Nasa is American citizenship, although dual nationals are also eligible to apply. A science background is another key requirement...Qualified medical doctors may also apply.

BBC

The boy who can catch a fly with his tongue

A young boy who appeared on TV alongside his family for a news feature has become a viral star after eagle-eyed viewers spotted his bizarre skill. Film crews for *The Project* were visiting rural communities in Australia to see how recent rainfall was impacting the lives of many who had been struggling during drought conditions... But as [the mother] speaks to the camera, a clip posted on Reddit zooms in on the face of her son... When a fly lands on his cheek, his smile begins to pull to one side to locate it, before his tongue comes out to pull the insect into his mouth. No sooner has he swallowed the fly that it is replaced by another, and he again shows off his tongue dexterity... A man in the video can be heard laughing at the clip as he says: "he's got two of them" before the camera cuts away. Thousands of people were left confused by what they had just watched, as reported by *LadBible*, as one wrote: "Bear Grylls, the early days."

Daily Mirror, UK

Ghost DNA hints of Africa's missing humans

Scientists reported on Wednesday that they had discovered evidence of an extinct branch of humans whose ancestors split from our own a million years ago. The evidence of these humans was not a fossil. Instead, the researchers found pieces of their DNA in the genomes of living people from West Africa. Arun Durvasula and Sriram Sankararaman, two geneticists at the University of California, Los Angeles, described this so-called ghost archaic population in the journal *Science Advances*. Their discovery may shed light on human genetic diversity in Africa, which has been hard to chart until now because the fossil record is sparse. The new study builds on a decade of research into ancient DNA extracted from human fossils. In 2010, a team of researchers published the first genome of a Neanderthal.

The New York Times

These species have 50 years to escape earth

In just 50 years' time, a third of all plant and animal species on our planet could be wiped out due to man-made climate change, US scientists have warned. The damning new study of humanity's impact on ecosystems around the world examined recent extinctions due to climate change, along with rates of species movement and various projections of future climatic conditions. The researchers said their study is probably the first to estimate broad-scale extinction patterns due to the climate crisis by using data from recent climate-related extinctions and from rates of species movements. The research team, from the University of Arizona, used data from 538 species at 581 sites around the globe and focused on species which had been studied at the same place at least 10 years apart.

Independent, UK

A prescription drug that gets you over your ex

A Montreal researcher says he has found a way to take the emotional sting out of a bad breakup by "editing" memories using therapy and a beta-blocker. Dr Alain Brunet has spent over 15 years studying post-traumatic stress disorder (PTSD), working with combat veterans, people who have experienced terror attacks and crime victims. Much of his research has centred on the development of what he calls "reconsolidation therapy", an innovative approach that can help remove emotional pain from a traumatic memory. At the heart of his work is a humble pharmaceutical—propranolol—a beta-blocker long used to treat common physical ailments like hypertension and migraines, but which research now suggests has a wider application.

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