

Budget 2023-24: Neither growth nor welfare friendly*

C. P. Chandrasekhar

If we ignore the hype that accompanies and follows the presentation of the Centre's annual budget, there are principally two strands in it that have attracted attention. The first is the claim of the finance minister Nirmala Sitharaman that in a growth-accelerating intervention, the step-up in capital or investment expenditure during the second term of the Modi-led government is to be sustained with a further 37 per cent rise from the Rs. 7.3 lakh crore revised estimate for 2022-23 to Rs. 10 lakh crore in 2023-24. The second is the evidence that budgetary allocations point to significant reductions or scaling down of growth in social and welfare expenditures in areas varying from the employment guarantee programme to expenditures on health.

Budgetary provisions for the coming financial year are hardly sacrosanct. Most allocations fall short of budgeted by the end of the year. And some are increased, based on supplementary demands, during the year. Moreover, ever since the presentation of the budget has been brought forward from the last to the first day of February, even the 'revised' estimates of revenue mobilised and expenditures incurred in the current or ongoing financial year are more in the nature of projections, inasmuch as there are still two months left in the financial year and actual data for the most recent month/s are yet not collated. Given the evidence that the government has turned increasingly callous when ensuring the integrity of official statistics, it is to be expected that some of these revised estimates are also influenced by larger agendas embedded in the budget. For example, in what is an implausible coincidence, receipts from both Corporation and Income taxes as per the revised estimates for 2023-24 are both exactly Rs. 1.15 lakh crore higher than the budgeted figures of Rs. 7.2 lakh crore in the case of the former and Rs. 7 lakh crore in the case of the latter.

What needs to be assessed, therefore, are the larger trends the budget bares, especially the two noted earlier. What has surprised many is the decision of the finance minister to refrain from hiking expenditures and cut back on social spending in this pre-election year, which makes this budget the last full budget to be presented during the second Modi government. The rhetoric in Part A of the Finance Minister's budget speech seemed to prepare listeners for an "election budget", by hyping the "achievements" recorded during the three governments of the National Democratic Alliance (NDA) and holding out promises of more to be achieved in the years stretching to the 100th anniversary of Indian independence in 2047. Yet, in the final figures, the ratio of projected central spending to the projected GDP in 2023-24 is placed at 14.9 per cent, which is lower than the figures for both pandemic years 2020-21 and 2021-22 (17.7 and 16 per cent) and the 'recovery' year 2022-23 (15.3 per cent). The conventional understanding of the political business cycle characteristic of democracies is that spending rises sharply in a pre-election year. Budget 2023-24 seems to belie such expectations.

That understanding also expects social and welfare spending to spike before the elections. Budget 2023-24 once again goes against the grain, by not just curtailing social spending but doing so in a year when spending on capital expenditure is budgeted to rise significantly. Capital spending is being privileged relative to social spending within a shrinking expenditure budget in a pre-election year. The most

striking reduction in social spending is the sharp cut in budgeted expenditure on the National Rural Employment Guarantee programme. As compared with the budgetary allocation of Rs. 73,000 crore for 2022-23, the actual expenditure is estimated to have amounted to Rs. 89,400 crore according to the revised estimates (RE). It has been pointed out that even the enhanced expenditure in 2022-23 was far short of requirement. Wage payments have been delayed significantly and the availability of employment opportunities under the scheme have been well below actual demand. Yet, the budgeted expenditure under this head has been slashed to Rs. 60,000 crore for 2023-24.

Social spending has been subjected to similar cuts in a host of areas. For example, the food subsidy bill is expected to decline from Rs. 2.8 lakh crore in 2022-23 to Rs. 1.97 lakh crore, in keeping with the decision to do reduce the quantity provided per person by doing away with the provision of 5 kg of free food grain (in addition to the subsidized ration) for those covered by the National Food Security Act. In a period of rising fertilizer prices, fertilizer subsidies have been cut from Rs. 2.25 lakh crore in 2022-23 to Rs. 1.75 lakh crore in the budget estimates (BE) for 2023-24. Overall allocations for health and education also do not reflect significant increases even in nominal terms, before adjusting for inflation.

This unusual display of fiscal conservatism seems to be driven by the need to establish, at least in the budget, that the Modi government is committed to fiscal consolidation. Evidence of that is the plan to reduce the fiscal deficit from an estimated 6.4 per cent of GDP in 2022-23 to 5.9 per cent in 2023-24 and the Finance Minister's declaration that the government intends to return to the path of fiscal consolidation "reaching a fiscal deficit below 4.5 per cent by 2025-26 with a fairly steady decline over the period". The choice of emphasising that commitment in a pre-election year suggests that the government is so concerned with appeasing financial players and the international financial institutions that it wants to be seen as abjuring so-called "populist measures" aimed at garnering support among the mass of voters. The final numbers would definitely vary, but this is the declared intent.

However, there is one question that still needs answering. If resources are available to hike capital expenditure significantly, why did the government, given the political circumstances, not choose to divert them at least partially to raise social spending. Part of the reason is that some of the spending increase is just 'speculative'. For example, the Rs. 10 lakh crore capital expenditure estimate for 2023-24 includes expenditures undertaken by the states using the Rs. 1.3 lakh crore that has been offered for another year through the 50-year-interest free loan window. States are expected borrow and meet a part of the capital expenditure target, with the cost to the centre restricted to the interest that it underwrites. In the past, states have been reticent to avail of this window, because it restricts their choice as to what can be financed with their borrowing. There is no reason to expect that would change.

But even allowing for some exaggeration of the scale of likely capital expenditure, the bias towards such spending in the budget cannot be denied. Part of the reason the central government has greater "flexibility" in this area, is availability of funds that have been earmarked for the purpose. One example of such earmarked resources are the receipts from the cesses on petrol and diesel (not shared with the states) that accrue to the Central Road and Infrastructure Fund (CRIF). These are to be deployed for investment in infrastructure projects, the range of which have been widened

significantly over the years. The other is the accrual of funds from disinvestment and asset monetization to the National Investment Fund (NIF), which too is being used for infrastructure projects based on the principle that brownfield assets need to be monetized to finance greenfield investments. Though the government has curbed its proclivity to set over-ambitious and unrealisable targets for receipts from disinvestment such as sums of Rs. 1.75 lakh crore or more, it has provided for receipts of Rs. 61,000 crore under this head for 2023-24, which is just marginally higher than the revised estimate of Rs. 60,000 crore for 2022-23. Earmarked sources of receipts of these kinds play a crucial role in explaining the “stickiness” of capital expenditure growth. For example, of the Rs. 1.89 trillion invested on “highways” and “roads and bridges” in 2022-23, as much as Rs. 1.54. trillion came from these two sources.

The claim is that this hike in infrastructural spending would lead to an acceleration of growth, returning India to the high growth trajectory it was on during the 2000s. But the combination of fiscal conservatism and the privileging of capital expenditure over social spending has growth implications. Fiscal consolidation would adversely affect income generation through its direct impact on employment and earnings or through indirect impacts on disposable incomes after accounting for increased expenditures on food, health and education. A consequence would be lower consumption expenditures among the poor and middle classes, with attendant effects on overall growth.

So, if the enhanced capital expenditures are to stimulate the economy, they must more than make up for the loss of dynamism resulting from dampened consumption expenditure. That would be difficult because capital spending on infrastructural projects would move resources into capital projects. The contribution to employment growth or multiplier effects on overall income of those projects are likely to be much smaller than what would be delivered by the employment and output increases delivered by higher consumption expenditures. The net effect on growth could be negative.

That outcome could have been avoided if the government was less fiscally conservative and had used opportunities for increased spending based on additional resource mobilisation through taxation. The available evidence is clear that sharp increases in the income and wealth of the rich in India has resulted in a substantial increase in income and wealth inequality. This provides the grounds for mobilising additional resources through taxes levied on the superrich whether in the form of income or wealth taxes, or both. Such taxes are both feasible and warranted. But the tax forbearance, ostensibly to incentivize private savings and investment, that has characterized the fiscal stance of NDA governments rules out initiatives of that kind. In the event, inequality persists while the prospects for a robust revival of growth based on additional tax-financed spending fade. And, the burdens that such a trajectory imposes on the poor and middle classes is worsened, not just by the inflation that is left uncontrolled, but by the curtailment of even the woefully inadequate social protection that government intervention offers.

* This article was originally published in the [Frontline](#) on February 7, 2023.