# Will We Miss the Budget Opportunity?*

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This year's Budget would never have been easy to present, with the economic uncertainty swirling around the globe and the demonetisation-induced domestic downturn still ongoing in the Indian economy. But the Modi government seems to be determined to make its own task harder. It has managed to generate expectations that will almost inevitably be unfulfilled, through a weird combination of denial of the manifold ill-effects of demonetisation, encouragement of all sorts of ideas around the universal basic income, and simultaneous acceptance of relatively rigid fiscal targets.

But consider first the very timing of the Budget announcement, in the context of the enormous complexity of the fiscal projections for this year and the estimations for the coming year that must underlie the Budget-making exercise. This is the first year in which the presentation of the Union Budget has been put forward by a full month, ostensibly to ensure legislative approval for its provisions could be completed in the two months before the beginning of the new financial year on 1 April.

This may sound reasonable, but especially this year there are all sorts of issues with this, even beyond the political concerns that have been expressed by Opposition parties. Even in a normal year, it would be problematic to project annual figures for anything – GDP, tax revenue collections, even public spending – on the basis of data for only the first seven or eight months. But this is no ordinary year. Demonetisation and the subsequent cash shortage have ravaged the economy. We know that there have been some severe adverse impacts, but we do not know how much, how pervasive, how wide and deep and prolonged such effects will be.

The Central Statistical Organisation obliged the government by bringing out its own advance estimates of GDP a month in advance, to assist the budget-making exercise. But since it could not factor in any of the effects of demonetisation, the advance estimates provide us (and the Finance Ministry) with precious little clue of the likely GDP. The "safe" estimate only slightly lowered the expected rate of GDP growth to 7.1 per cent this year, which is certainly an over-estimation.

Data from other sources all point to dramatic declines in informal economic activity and even reductions in formal activity because of declining demand and breakdown of supply chains, as well as falls in employment, wages and incomes of the self-employed. These are not processes that can be undone in a month or two. And since the cash crunch has continued for so long and still persists, the adverse impacts continue to put a further squeeze on current and future economic activity and investment plans. So economic activity will definitely decelerate beyond the CSO's projection.

The revenue projections are also uncertain. The Finance Minister has used the evidence of continued increase of tax revenues in the two months post-demonetisation to suggest that real economic activity has not been hit and that tax revenues may even increase as a result of this move. This is unrealistic for several reasons.

Direct tax collections in the third quarter of 2016-17 are not a good guide to total tax collections over the fiscal year. It is likely that large amounts of advance taxes were paid in demonetised notes, which would lead to a peak of such tax collection in these months rather than in the last quarter of the year. Indirect tax collections in the third quarter of 2016-17 benefited from the 20 per cent increase global oil prices, since the government had increased ad valorem customs and excise duty rates during the phase of lower prices, and did not reduce those rates even as global oil prices increased, thereby generating windfall tax gains. The economic slowdown will most likely reduce tax revenues in the last quarter.

But it is that very slowdown – induced almost entirely by demonetisation – that demands urgent fiscal action. Having caused so much damage to the economy, the central government must do something to contain it or at least mitigate its worst effects. This necessarily requires significantly enhanced public spending, preferably in activities that generate more employment, so as to maximise the multiplier effects, and in ways that would counter the hit on mass consumption caused by the cash crunch. A sensible government would significantly increase the allocations to social spending, and particularly to those areas that are not only massively underprovided, but which require particular attention in the wake of the employment and livelihood losses caused by demonetisation. These include food and nutrition, health and education, spending on which not only improves the quality of people's lives but has the added advantage of string direct and indirect multiplier effects.

If the government were at all truly serious about moving towards some kind of basic income provision (without undermining other public provision) it would begin by universalising the pensions currently provided only to the BPL population, and increasing the paltry sum of Rs 200 per month to half the minimum wage as demanded for years by the Pension Parishad. If the government were sensitive, it would acknowledge the adverse consequences on ordinary people of the disastrous demonetisation, and provide at least some compensation to those who have lost jobs, livelihoods and even lives through no fault of their own, because of this move. But thus far, unfortunately, the government has shown little sign of being sensible, serious or sensitive.

* **This article was originally published in the Indian Express on January 31, 2017.**