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Central budget 2021-22: Some observations

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This article focuses on following issues. First is the question whether the budget is going to realize the targets with reference to resource mobilization. There is remarkable slippage between the budget estimates and revised estimates for 2020-21. The budget for 2021-22 shows a revenue growth of 15%; 14.9% in tax revenue and 15.4% in non-tax revenue. And we know that given the pandemic situation, it may not be possible to achieve the revenue targets. If that is so, how the Finance Minister is going to meet the expenditure targets? I feel that a lot more emphasis should have been there on resource mobilization. The revenue target through disinvestment in 2020-21 was 2.1 lakh crore. But revised estimates show that only 32,000 crores could be mobilized. The Finance Minister has set a lower target of 1.75 lakh crore for 2021-22. In all probability, in the coming budget i.e. 2022-23, Finance Minister will repeat the same story.

The Finance Minister has opened up many sectors for disinvestment. In the pandemic situation, people may not be interested to invest in loss making public enterprises. One silver lining in the whole scenario is that the Finance Minister has proposed disinvestment of Life Insurance Corporation(LIC) of India. Public sector enterprises are considered as 'family silver' by most people of leftist ideological persuasion. LIC of India is one of the important items of the 'family silver'. The conservative view holds that 'family silver' should not be sold off. I do not subscribe to this conservative view. I believe that the Finance Minister has done a very good job by proposing to sell this. I feel that the division, public sector and private sector is artificial. What is important is the overall size and strength of the economy. The society had invested in the public sector when private sector was unwilling to invest in those sectors. As the private sector comes forward to invest in those sectors, there is nothing wrong in selling these assets to private sector and use the resources productively. Now, due to the pandemic situation, the country is not able to mobilise adequate public resources through tax and non-tax sources. So the government is left with no option other than selling the family silver. I think there is considerable scope for mobilizing resources by monetization of public assets like land.

Coming to public expenditure, the budget proposes 34.5% increase in capital expenditure. By the time budget is finally approved and expenditures are incurred, you know, it may not be possible for the Finance Minister to control revenue expenditure. Capital expenditure will have to be slashed to accommodate the increase in revenue expenditure. Because this is the way finances are managed for quite some time in our country. I am a bit apprehensive about it but let us hope for the best. If the performance of the economy improves and production process is fully carried out, GST revenues may show faster growth. GST revenues of the past few months suggest such a trend. Thus 15% to 20% increase in capital expenditure is possible.

I do agree that the Finance Minister has limitations in mobilizing additional resources in the backdrop of the pandemic. But still she could have tried to mobilise a few more thousand crores by raising the marginal tax rates of super-rich. This could have been achieved without much adverse impact on the level of consumption and welfare to the elites. As our Finance Minister Dr. Thomas Isaac rightly pointed out, the corporate sector received lot of concessions. I feel that the Corporate sector itself would have benefitted much if resources were mopped up from them and transferred to the poorer sections through some kind of cash transfers. It is really baffling to me why this is not done.

There is absolutely no proposal in the budget to raise the income of the ordinary people. This is different from the scenario emerging from most developed and developing countries. You know in developed countries lot of cash transfers are taking place. In the United States, families are given $ 1200 as cash transfers. I do agree that it may not be possible for India to match this. But if the Finance Minister had announced a cash transfers to the tune of Rs.500 to farmer families and families of marginalized sections, it will straight away reach the local market. The increased consumption of industrial products will lead to increased industrial production and tax revenue. I think the Finance Minister should have done something more in this direction.

Now I turn to the recommendations of the 15th Finance Commission. As Keralites, we are all happy about the recommendation of the Commission to award revenue deficit grant. But I tell you this is a trap. We have been trying to wipe out revenue deficit as required by 13th and 14th Finance Commissions. We have failed to meet the targets of Fiscal Responsibility and Budget Management Act. In fact, the 14th Finance Commission awarded revenue deficit grant to wipe out revenue deficit by 2018-19. Now we know where we stand. There is ample opportunity for Kerala to mobilise public resources. The only point I would like to make is that the Central Finance Commissions should incentivize resource mobilization. The revenue deficit grant has turned out to be a temptation to incur revenue deficit. Thank you.