

## **Union budget 2021-22: A reallocation from subsidies to finance**

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### **Introduction**

The pandemics' detrimental tentacles had engulfed the entire World, irrespective of the latter's size or growth. India being a home to 136 crore of people was not kept aloof. The grave repercussions of the prevalent disease were aggressively seen in every walks of life. Being a country with high population and relatively blemished health sector, with respect to more or less aligned nations, the severity of the pandemic lay a catastrophe to the lower income groups. The hullabaloo raised during the lock down, to curb the spreading of the pandemic had cost 67% of workers to lose their job. It was even more severe for the urban dwellers with 81% of casual workers remaining unemployed and costing 66% of the rural counter parts to go jobless as per the survey by Azim Premji University, 2020.

Naturally all eyes were up to the saviors of this raw deal; The Government. Since health falls under State List, the state governments, throughout the country remained vigilant and alert from time to time. Regrettable, the Central government remained hushed until the Budget for 2021-22 financial year was presented, with just Rupees 34.8 lakh crores spending, which let down, the spirits and the ardor to fight the repercussions. The hostile greet from the side of the fiscal authorities are literally unwelcomed by the common men. This article tries to comment on some of the important stand points and proposals to survive the ruinous situation sown by the end of the year 2019.

## **I. A link from the past to the present/ has Covid 19 the real cause for the down turn of the economic situation?**

The so called inconceivable target of lifting Indian economy to USD 5 trillion by 2024, seems more challenging, with the Covid 19 pandemic got about by the end of 2019. While keeping a watch on the past records of the growth rates or inequality, unemployment, a matter of concern that could be raised undoubtedly shall be as 'Was India's economic situation a truly created haven for the former to achieve the earmark of USD 5 trillion?'. The gruesome situation which was already gaining its momentum by mid of 2019 was accelerated and marked its peak with the advent of the pandemic. The evidence of the declining growth rates of Gross National Income was visible since 2017-18 and finally culminating to a negative value of -7.9% (Statistical Appendix, Economic Survey, 2021). The repeated iterate or blame for torching the flame of economic slowdown, could arguably be due to the implementation of demonetisation in 2016 and initiation of GST in 2017. The dirigisme government, however was over burdened with highly ambitious schemes for the common good of the nation, keeping its spread to all sectors of the economy, they had also announced 'AtmaNirbhar Bharat' in 2020 with a total outlay of Rupees 20 lakh crores.

Faultily, it remains quite ironic to point out the negligence towards the daily wage earners and the casual employees, while scheming various proposals; India being a home to 67% of household earning less than Rupees 10,000 a month. It also seems grotesque to claim the fact of just top 10% of the population holding 77.4% of the total national wealth, which heightens the country's acclaim as Billionaire Raj (Chancel and Piketty, 2017).

In common parlance, a counter cyclical fiscal measures adoption would do good to an economy like ours whose marginal propensity to consume (MPC) remains high due to the deprived proportion remaining larger than the fortunate (Harilal, 2020). The extent of spending by people depends on their MPC. These expenditures directly generate income directly, and indirectly the multiplier via MPC plays its own role. The Economic Survey, 2020-21 highlights the twin economic shocks generated by the pandemic voraciously. But it is evident from the Budget for 2021-22, that they had drastically failed in addressing the real issue of meeting the needs of the needy at the earliest. It would be advisable to take a look at the comparative growth rate analysis of the major outlays of expenditure for the upcoming year in Table 1.

**Table 1.** Expenditure on major items (Rs. crore)

	2019-2020	2020-2021	2020-2021	2021-2022			
Particulars	Actuals	Budget Estimates	Revised Estimates	Budget Estimates	(3)-(2)	(4)-(3)	(3)-(4)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Pension	183955	210682	204393	189328	-6289	-15065	-7.4
Defence	318665	323053	343822	347088	20769	3266	0.9
<b>Subsidy -</b>							
<i>Fertiliser</i>	81124	71309	133947	79530	62638	-54417	-40.6
<i>Food</i>	108688	115570	422618	242836	307048	-179782	-42.5
<i>Petroleum</i>	38529	40915	38790	12995	-2125	-25795	-66.5
Agriculture and Allied Activities	112452	154775	145355	148301	-9420	2946	2.0
Commerce and Industry	27299	27227	23515	34623	-3712	11108	47.2
Education	89437	99312	85089	93224	-14223	8135	9.6
External Affairs	17246	17347	15000	18155	-2347	3155	21.0
Finance	18535	41829	50566	91916	8737	41350	81.8
Health	63425	67484	82445	74602	14961	-7843	-9.5
Home Affairs	119850	114387	98106	113521	-16281	15415	15.7
Interest	612070	708203	692900	809701	-15303	116801	16.9
IT and Telecom	20597	59349	32178	53108	-27171	20930	65.0
Rural Development	142384	144817	216342	194633	71525	-21709	-10.0
Social Welfare	44649	53876	39629	48460	-14247	8831	22.3
Urban Development	42054	50040	46791	54581	-3249	7790	16.6
<b>Grand Total</b>	<b>2686330</b>	<b>3042230</b>	<b>3450305</b>	<b>3483236</b>	<b>408075</b>	<b>32931</b>	<b>1.0</b>

Source: Budget at a Glance, Union Budget 2021-22

## II. Reallocation from subsidies and rural development to IT and finance

Let us start with simple arithmetic of Union Budget 2021-22. The total size of the Budget is Rs. 34.83 lakh core, which is 14.5 percent higher than the previous Budget 2020-21 (Table 1). For the preceding two Budgets the average growth rates had been around 13 percent. Now, the point is how far the 14.5 percent growth rate in Union Budget 2021-22 is justifiable or even sizable during the time of a Pandemic. It may be noted that the effects of COVID-19 on the economy was neither felt apparently nor foreseen at the time of the Union Budget 2020-21. Therefore, the Revised Estimates of 2020-21 showed an increase in the expenditure to the tune of Rs.4 lakh crore over the Budget Estimates 2020-21 (13.4 percent). An increase of 13.4 percent in Revised Estimate over the Budget Estimate for the same financial year is not quite a usual phenomenon, but a manifestation of additional expenditure the Government

had to incur due to the COVID-19. However, if we compare the size of the Budget 2021-22 with the Revised Estimates of 2020-21 (RE), then the increase is just 32931 cores – less than one percent increase in the total expenditure. Had the Government learnt a lesson from the sudden jump in the 2020-21 RE and forecasted the dent of COVID on the economy for the following years, it could have expanded the expenditure sizably. Hence, one could easily surmise that the Union Budget 2021-22 is in no way an active fiscal policy during the time of a Pandemic but tried to reallocate resources from rural sector to IT and Finance.

India, is chiefly composed of higher rural population (2/3rd of total population, 2011 Census) which contributes for 46% of national income, and 70% of workforce (Chand, Srivastava and Singh) unquestionably calls for greater attention from the authorities. Majority of the natives' livelihood depends on agriculture and allied activities. Since the First Five Year Plan (1951-1956) a keen importance and massive proportion of funding was extended for the overall development of agriculture. Apart from the usual budgetary allocations, the governments from the past were thoroughly interested to announce and implement various schemes such as MGNREGS, DAY-NRLM, DDU-GKY, PMAY-G, NSAP etc. to uplift the quality and worthiness in the life of the rural inhabitants.

Interestingly, it is devastating to expose the figures which necessitates the requirements of the aforementioned part of the economy, immoderately being pulled down from the past proportions. On the other hand, a pull from this sector is diverted to IT and Telecom along with Finance. This reallocation can be assured as 'bolt from blue' to the overwhelmingly troubled rural community.

Budgetary allocation is drafted in such a manner that a major segment is allotted for protecting the country in the form of Defence allocations (Rupees 3,47,088 crores in 2021-22), and a major chunk for meeting the expense of the past borrowing in the form of interest (Rupees 8,09,701 crores). Right next to defence comes subsidies which is further subdivided into fertilizer, food and petroleum. Belittling, the allocation to petroleum subsidies, fertilizer and food subsidies alone counts for a large share (Rupees 3,22,366 crores), which constitutes 42% less than the revised estimates of 2020-21 allocations.

In a situation of grave distress, where the immediate transfer of funding should have targeted the destitute, the system was so happy to keep the poor in poverty itself. The past records of subsidy allocation urge for the circumstances of poor rural people to a status of gaining

enough for their life, rather than making them wealthy. A gist of fund allocated to major agriculture schemes is explained in Table 2.

**Table 2: Outlay on Major Agriculture Schemes (in Crore Rupees)**

Particulars	2019-2020 (Actuals)	2020-2021(BE)	2020-2021(RE)	2021-2022(BE)	(2)-(3)	(4)-(1)	(3)-(4)	(7)/(3) *100
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	
Price Stabilization Fund	1713	2000	11800	2700	9800	10087	-9100	-77.1
Assistance to State agencies for intra-state movement of food grains and FPS dealers	1679	3983	8000	4000	4017	6321	-4000	-50
Food subsidy to FCI	75000	77983	344077	202616	266094	269077	141461	-41.1
Food subsidy to Decentralized Procurement	33508	37337	78338	40000	41001	44830	-38338	-48.9
Scheme for Assistance to Sugar Mills	100	500	3900	1000	3400	3800	-2900	-74.4
Scheme for Creation and Maintenance of Buffer Stock	100	200	500	600	300	400	100	20
Scheme for providing assistance to Sugar Mills on export	-	-	-	2000	-	-	2000	-

A cautious administration always tries to bring sensible alteration and remaking at the time of distress. But, the budget of 2021-22, turned out to go in opposite direction of vamping the wounds of the rife. On one extent, planning for a long term investment in sectors like IT and Telecom (Rupees 53108 crores) cannot be treated as a sign of right decision.

The sketch of the fiscal draft was however so comforting for the corporates as the tax cut which had led to a reduced tax collection was retained. This impasse situation, should have been avoided with proper tuning of the what so ever available funds.

Along with IT and Telecom, Finance also constitutes a major share of the total fund (Rupees 91,916 crores) thus completely derailing the human capital expenditures into education and

health along with a few Core of the Core Schemes and major Central Sector Schemes. A more fascinating point which shall be noted here is in terms of revenue collected via GST, which shot up to Rupees 6,30,000 crores (BE of 2021-22) with a 3% increment from the actuals of 2019-20. This evidence is quite engrossing, and questionable as the economy is still consuming, despite the difficulties showered. It would have been highly appreciable to have chalked out some relaxation in GST rather than pouring benefits to the fortuitous.

### **III. A peek through the fiscal catapults**

Indian economic dual policies (both fiscal and monetary policy) had come worthy to the nation in various unpopular situations. The Housing Bubble of 2007-08 itself being a unique example. However, the condition does not seem acceptable with analyzing the fiscal framework of the same for the last few years. Though both the policies aim at elevating the rate of capital formation in both public and private sectors alike, their modus operandi remain different and separated.

Receipts and expenditure being the major components of fiscal policy, any imbalance in the former duos is met via borrowings, whose cost is left on the shoulders of generation to come. Empirically analyzing the fiscal situation via financial statements, the share from tax and non-tax revenue alone (mobilized from one's own sources), comprise 51.34% (Rupees 1,788,425 crores) including the supposed disinvestment shooting up to 56.74% (Rupees 19,63,425 crores). Woefully, this lop sided increment could be seen in all the elements of Revenue Budget excluding the non-tax receipts.

Counter checking with the expenditure components, interest payment on past borrowings alone count for 23.2% of the total expenditure (Rupees 8,09,701 crores) which calls for the sole motivation for widening the Primary deficit (3.1% of GDP: Rupees 6,97,111crores). Meanwhile, the government open heartedly kept its establishment cost at 1% of total expenditure accounting for Rupees 6,09,014 crores along with capital expenditure contributing 16% of the total. Therefore, it is unreal and inexact as well as faulty to claim the 2021-22 fiscal policy to be common man friendly.

### **IV. Uplifting the real sectors**

Keeping the fundamentalist ideologies as the foundation, a macro economic structure realizes to build strong foundation and lay pillars for even stronger real sector. Laxity towards

agriculture in general and rural development in particular, at no cost shall aggravate the tantrums laid by the pandemic. Consequently, outperformance of global growth indicators like SENSEX shall remain duly unimpressive and insignificant. The dialectic in this regard shall be pointed towards the role played by the monetary authorities. The well-built and powerful monetary policy of the nation is rightly in a context of guarding the monetary system. The extreme intrusion of the fiscal policy keeps both sides of the coin topsy turvy, leaving the whole country in a state of bewilderment. With the given situation being extraordinary, the response of the monetary policy authorities to the current economic condition is nowhere to be seen.

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