THE HINDU

Big on hopes, short on ideas

The Budget aims to focus on infrastructure and connectivity, but lacks growth-invigorating proposals

Finance Minister Nirmala Sitharaman's fourth successive budget, while commonsensical in its approach, is not exactly bubbling with new ideas. With the economy still in search of durable momentum that could help entrench the recovery from the last fiscal year's record contraction, Ms. Sitharaman has missed an opportunity to address the flagging consumer spending in the wake of erosion in real incomes and savings through a combination of tax breaks for the middle class and cash handouts for the poor. And even as the Minister acknowledges the role public capital expenditure could play in crowding-in private investment at a time when "private investments seem to require that support" and help to 'pump-prime' demand in the economy, the Budget outlay of ₹7.50 lakh-crore for the capital account marks just a 24.4% increase from the revised estimate of ₹6.03 lakh-crore for the current fiscal. To be sure, Ms. Sitharaman's speech highlights the PM GatiShakti, a "transformative approach for economic growth and sustainable development" that is to be powered by the 'seven engines' of roads, railways, airports, ports, mass transport, waterways, and logistics infrastructure. While the broad sweep of the public infrastructure envisioned by the programme could potentially be truly transformative if it were to be executed as imagined, the Budget is largely short on details where it concerns the specifics and pencils in some figures only for the roads and railways components. The Budget lists a 'Master Plan for Expressways' that will be formulated in 2022-23 under the scheme and projects the addition of 25,000 kilometres of roads to the National Highways network. The talk of enabling seamless multimodal movement of goods and people and providing multimodal connectivity between mass urban transit systems and railway stations, however, all sound a familiar refrain from past speeches.

Spending outlays on several other key sectors including health care, rural development and the vital jobs and income providing national rural employment guarantee scheme have all shrunk as a percentage of overall expenditure in the Budget estimates for fiscal 2023 from the revised estimates for the current year, even if in some cases only marginally. That these sectors have been forced to bear the impact of the Government's keenness to broadly stick to a fiscal consolidation road map – with the Budget projecting a narrowing of the fiscal deficit to 6.4% of GDP in 2022-23, from a revised estimate for 6.9% – reflects on its priorities. Government spending on health care ought to have instead been significantly increased, with the lessons from the ongoing pandemic's first two waves serving to illuminate the need for a sizeable enlargement of the public health infrastructure. A source of some solace, though, is the announcement of a 'National Tele Mental Health Programme' to address mental health problems that have been exacerbated by the claustrophobic lockdowns and plethora of anxieties triggered by the pandemic.

In a nod to the ruling party's nationalist moorings and in line with the Government's push to increase self reliance or AtmaNirbharta, the Finance Minister has proposed a series of tariff and policy steps that could help bolster domestic manufacturing in the long run. A key policy element is a commitment to reduce import dependence in procurement for the country's defence forces. To that end the Minister has proposed earmarking 68% of the armed forces' capital procurement budget to domestic industry in 2022-23, a not insignificant increase from the current fiscal's 58% target. The tariff rationalisations, which cover a broad swathe of items ranging from electronics, gems and jewellery, chemicals, inputs used by MSME units and project and capital goods, could, however, have varying short-term impacts. Specifically, the move to phase out the concessional rates in capital goods and project imports gradually and apply a moderate tariff of 7.5% could in the short term hurt infrastructure projects and the setting up of new manufacturing capacity, some proposed exemptions for advanced machinery notwithstanding. The Minister has tried to address the raging debate over how to deal with virtual currencies by adopting a twin-track approach. On the one hand Ms. Sitharaman proposes to introduce in the coming fiscal year a Central Bank Digital Currency that she posits will impart a big boost to the digital economy and "lead to a more efficient and cheaper currency management system". The RBI-issued Digital Rupee would leverage blockchain and other related technologies. In parallel, she intends to tax income from the transfer of any virtual digital asset at the rate of 30%, with deduction allowed only for the cost of acquisition. It remains to be seen if the Government's efforts at bringing the mushrooming trade and investment in a multiplicity of virtual digital assets including cryptocurrencies under the tax net would have a salutary impact besides adding a revenue stream to the exchequer. The Minister's latest budget also skirts mention of the asset monetisation plan mentioned in the last Budget and shows a sharp decline in capital receipts from disinvestment. With just ₹65,000 crore budgeted from asset sale for fiscal 2023, as opposed to ₹78,000 crore as per the revised estimates for the current fiscal, the Minister has had to increase gross borrowings to ₹14.95 lakh-crore, a 24% increase from the current fiscal's budget estimate but a far sharper 43% jump from the revised estimate of ₹10.46 lakh-crore. The resource crunch manifest in the proposed higher debt issuance is ultimately bound to get more acute in the days ahead, given the Budget's lack of growth-invigorating proposals.

A takeaway is the good infrastructure push

On the other side, the programme of fiscal consolidation does need further strengthening

C. RANGARAJAN & D.K. SRIVASTAVA

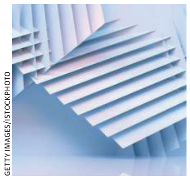
The clear emphasis in the Union Budget on expanding capital expenditure is a welcome directional change, particularly since 45.2% of fiscal deficit is being devoted to finance capital expenditure. This should help accelerate growth not only in the current year but also in the years to follow. However, the programme of fiscal consolidation needs further strengthening. As of now, it remains vague. A relook at the projected income growth for 2022-23 and its impact on revenue projections become necessary.

Perspectives on growth

The Centre's 2022-23 Budget provides a nominal GDP growth estimate of 11.1% for 2022-23. The Economic Survey, on the other hand, had provided a real GDP growth range of 8%-8.5% for this year. Taking the lower end of the real GDP growth estimate of 8%, an implicit price deflator (IPD)-based inflation of 2.9% will deliver nominal growth of 11.1%. The real GDP growth of 8% may, however, be considered somewhat optimistic since 2022-23 would be the first normal post-pandemic year where any significant base effects may not be available. In fact, at the end of 2021-22, real GDP in terms of magnitude at ₹147.5 lakh-crore is estimated to only marginally exceed the corresponding level at ₹145.1 lakh-crore in 2019-20 using the NSO data released on January 31, 2022. In fact, in the second half of 2021-22, when there were no base effects, real GDP growth was only 5.6% using the latest available quarterly data. A real GDP growth of 7%-7.5% in 2022-23 appears to be more realistic. However, this may not undo the Budget's nominal growth assumption of 11.1%. In fact, the IPD-based inflation may continue to be relatively high in 2022-23 since wholesale price index inflation rate is likely to remain high at least in the first half of 2022-23 as these are driven largely by the high prices of global crude and primary products. A more realistic assumption of IPD-based inflation of 5% and real GDP growth of 7.5% would have given a nominal GDP growth of nearly 13%.

Revenues and expenditures

According to 2021-22 (RE), the Centre's gross and net tax revenues are estimated to grow at 24.1% and 23.8%, respectively. This indicates achieving a buoyancy of 1.4 in each case. In 2022-23 (BE) however, the buoyancy has been brought down to 0.9. Again, given the expanded digitisation and formalisation of the economy and the tax assessees, the Centre's tax buoyancy may turn out to be higher than 0.9. If the under-assessment in both tax buoyancy and nominal GDP growth assumption are marginally corrected to



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say 1.1 and 13%, respectively, the Centre's gross tax revenues would have grown more realistically by 14.3%. This would have created fiscal space for either raising expenditure growth or accelerating the reduction in fiscal deficit. In fact, in 2022-23, total expenditure is budgeted to grow by only 4.6% in which revenue and capital expenditures are budgeted to grow by 0.9% and 24.5%, respectively. This spells a welcome structural change in government expenditure in favour of capital expenditures. To the extent that these capital expenditures pertain to non-defence expenditures particularly in expanding construction and other infrastructure sectors, these would be associated with relatively high output and employment multipliers.

While the structural shift towards infrastructure expansion is quite welcome, it would have provided greater transparency had a medium-term assessment of the National Infrastructure Pipeline (NIP) been undertaken in the Budget indicating the sectors of deficient investment as compared to the original targets. The Budget provides for incentivising the States to expand their capital expenditures by permitting them a fiscal deficit limit of 4% of GDP; here, 0.5% points is marked for expanding power infrastructure. In addition, ₹1 lakh-crore has been allocated to States for capital expenditure in 2022-23 as 50-year interest-free loans, over and above the normal borrowings allowed to them.

On the side of revenue expenditures, there is a reduction in budgeted total subsidies to 1.2% of GDP in 2022-23 from 1.9% in 2021-22 (RE). This is also a welcome structural change provided the food, fertilizer and petroleum subsidy numbers are not revised upwards during the course of the year due to the pressure emanating from high global crude prices. The burden of interest payments as a percentage of GDP has gone up from 3.5% in 2021-22 to 3.6% in 2022-23. In fact, interest payments may also come under pressure because of the Government's increased gross and net borrowings from the market associated with high debt-GDP levels.

Debt and fiscal balance

According to estimates given in the Economic Survey for 2021-22, the general government debt relative to GDP is close to 90% at the end of 2021-22 and 2022-23. In the Medium-Term Fiscal Policy cum Fiscal Policy Strategy Statement attached to the Union Budget, the Centre's debt at the end of these two years is estimated to be 59.9% and 60.2%, respectively. Thus, in spite of the fiscal deficit to GDP ratio going down from 6.9% to 6.4%, the debt-GDP ratio is still slated to increase in 2022-23. This may be marginally adjusted downwards if the nominal GDP growth increases above what is assumed in the Budget. Such high debt-GDP levels pre-empt a substantive part of the Government's revenue budget. In fact, interest payments to revenue receipts ratio in 2021-22 and 2022-23 are 39.1% and 42.7%, respectively.

The reduction in fiscal deficit relative to GDP by a margin of 0.5% points between these two years is a welcome directional change. The Medium-Term Fiscal Policy Statement indicates reaching a level of 4.5% by 2025-26. This implies an average rate of reduction of 0.63% points per year in the next three years. It would have been best for the Medium-Term Fiscal Policy Statement to clearly spell out the fiscal deficit adjustment path over the course of the next three to five years. In fact, given the Government's high debt-GDP levels, the Centre's Fiscal Responsibility and Budget Management (FRBM) Act requires it to be re-examined to recast the sustainable levels of debt and fiscal deficit and the adjustment path.

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A bold effort at public investment-led growth

But the Budget barely mentions the fall in share of private consumption in GDP and rising economic inequality

R. NAGARAJ

The Union Budget starts with a self-congratulatory announcement that India's domestic output (GDP) is likely to grow 9.2% this year (2021-22) over last year – the highest among the world's large economies. What is unsaid is that India's output contraction the previous year (2020-21) was among the worst in the world. Compared to the pre-pandemic year (2019-20), the current year's GDP will be marginally higher by 1.3%, as per the Economic Survey. If the adverse effect of the ongoing wave of the Omicron virus is factored in, the (estimated) modest rise in GDP may vanish. Thus, it is worth starting with the factually accurate picture that India lost two years of output expansion. In other words, per capita income today is lower than it was two years ago. Regarding sources of demand, the share of private consumption declined by three percentage points of GDP between FY2020 and FY2022. The Government stepped up its expenditure to mitigate the decline, but only modestly; hence, the marginal output expansion. In contrast, the United States boosted public spending by about 10% of GDP, and its output roared back!

This year's Budget seeks to boost public investment by 35.4% at current prices over last year to raise its share in GDP to 2.9% from 2.2% last year. With grant-in-aid for state investments, the Budget hopes to increase public investment share to over 4% of GDP. The Budget hopes to trigger a virtuous investment-led output and employment growth by arguing in favour of the "crowding-in" effect of public investment on private investment. The theory is sound and is a welcome change from the past policy stance. The crux will be to mobilise resources to finance the investment as the Budget seeks to reduce the fiscal deficit ratio, as per the schedule laid out in the last Budget. The critical question is whether additional tax and non-tax revenue (that is disinvestment proceeds) will be sufficient to finance the investment plan.

To refresh our memory, last year too, public investment was sought to be raised by about the same proportion (34.5%). I had written, "These figures certainly look impressive. The realisation of these investments would crucially depend on tax revenue realisations, disinvestment proceeds, sale of rail and road assets and the Government's ability to raise resources from the market, without raising interest rates for the private sector." (https://bit.ly/3AWzxKP) It is ditto and holds for this year as well. Indeed, public investment has picked up in the current fiscal, by barely 0.2% of GDP. With the threat of higher (imported) inflation (on account of rising international oil prices) and rising interest rates (on account of the US Federal Reserve's decision), meeting the ambitious investment target would be challenging, but it is worth attempting.

On the employment crisis

But the larger question is: how will it address the sharp decline (of

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three percentage points of GDP) in private consumption, which is likely to be caused by loss of employment? The derived demand for labour from an infrastructure boost may be limited, as the suggested projects are machinery intensive, not labour intensive. The Budget does not directly address the employment crisis caused by the novel coronavirus pandemic and the lockdown. The employment crisis would call for enhanced allocation for the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) and initiating a similar scheme for meeting urban unemployment. Instead, shockingly, the Government has slashed the allocation for MGNREGA by 25% over last year.

Industrial slowdown

The manufacturing sector's share in GDP has been stagnating at around 15% of GDP for quite a while. The annual industrial growth rate has sharply slowed down from 13.1% in 2015-16 to minus 7.2% in 2020-21. Perhaps a most telling example of the industrial slowdown is the fall in two-wheeler sales. As per news reports, it fell to 11.77 million units in 2021, below 11.90 million units sold in 2014. Expectedly, employment has contracted, most of which in the informal or unorganised sector. Lack of demand is the real problem, with low capacity utilisation. Indeed, the proposed public investment would create demand for capital and intermediate goods. But if a substantial share of such investment "leaks" out as imports, then the industrial output may not get the desired boost.

It is essential to appreciate that India has become an import-dependent economy, especially on China. Despite the clarion call for Atmanirbhar Bharat, India's imports have shot up. Research reports show that India's trade deficit with China has gone up from $57.4 billion in 2018 to $64.5 billion in 2021. The figure would be much higher by China's official trade account. And the deficit would be even higher if exports from China and Hong Kong to India are combined.

Premature on PLI scheme

India launched a production linked incentive scheme (PLI) for numerous technology-intensive products, starting with mobile phone assembly a few years ago to augment production and reduce imports. The Budget has mentioned the overwhelming response to the scheme. However, evidence on the number of such projects that have taken off, their investment and employment generation and rise in domestic content in such industrial units is too sparse. Hence, it is premature to claim the success of the PLI scheme.

India launched the "Make in India" initiative in 2014-15 to raise the manufacturing sector's share in GDP to 25% and create 100 million new jobs in the industry by 2022. However, the Government diagnosed the principal barrier to increasing manufacturing in India as excessive and dysfunctional regulation holding back the private initiative.

The solution, it was argued, was to improve India's rank in the World Bank's Ease of Doing Business (EDB) index. India did splendidly to improve its rank – from 142 in 2014 to 63 by 2019-20. But the improved ranking failed the industrial sector miserably, with a steady slowdown, noted above. Last year, the World Bank scrapped the index as it was flawed globally and reportedly politically motivated (https://bit.ly/3HlaWSm).

Yet, the present Budget harps on improving the EDB index and reducing regulatory constraints on industry and infrastructure to boost growth. It appears shocking as the Government refuses to learn from past mistakes.

To sum up, the Budget for 2022-23 is a bold effort at public investment-led growth – quite similar to last year's. The widely discussed concerns of the unemployment crisis, fall in the share of private consumption in GDP, and rising economic inequality (caused by the pandemic and the lockdown) have been barely mentioned in the Budget. Instead, the Budget pins its hope on investment to boost employment, as derived demand for labour. Without fully committed funds for capital investment, the success of the ambitious effort remains questionable.

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LETTERS TO THE EDITOR

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Hits and misses

Presented on the very threshold of major Assembly elections this month, Budget 2022-23 is significant in eschewing self-defeating populism that was *de jure*. It has also in a similar vein apparently put growth over fiscal deficit worries. But then of this, ₹1 lakh-crore that was to have been borrowed by the States is now a loan to them from the Centre's account – just a transfer of onus. The key must lie in the full and even utilisation of this kitty. Though funds available to MSMEs have gone up substantially in this Budget, the problem till now has been with the lower end of the sector that was unable to have access.

This underscores the need for the Government's administrative acumen to ensure the flow of funds more than its higher provisioning. The equity market is clearly very pleased with the Capex bonanza but the tax-payer has not been given relief. Given the palpable and extended inflation regime, the Government has chosen to shift much of its fiscal burden onto his shoulders.

R. NARAYANAN,
Navi Mumbai

■ The presentation is a mixed bag. In the backdrop of a discernible rise in tax revenues which have offered huge space for a hike in capital expenditure, the Finance Minister has announced a conspicuous jump of 35.4% in the outlay for capital expenditure to fund various infrastructure projects. It will augur well for our ailing economy that has been struggling to script a robust economic recovery following the havoc unleashed by the COVID-19 pandemic. If the introduction of a tax regime for the taxation of digital assets can be considered a significant step in the mainstreaming of this asset class, the announcement of the launch of a digital currency by the Reserve Bank of India (RBI) is an indication that the Government will discourage private cryptocurrencies. The Budget's push for a transition toward a greener economy is laudable. While the Budget has underlined the need for government focus on long-term growth support, it lacks measures to boost employment generation on the ground.

M. JEYARAM,
Sholavandan, Tamil Nadu

■ The Budget has disappointed many. The salaried class continues to suffer without much relief or rebates. The COVID-19 pandemic has thrown the salaried class in disarray, robbing them of their savings.

P.S.S. MURTHY,
Hyderabad

■ Apart from a digital rupee, there is hardly anything noteworthy for the middle class. I-T slabs remain unchanged. For many Indians, the cost of living remains high. The Finance Minister has only highlighted inessential plans. It is time Budgets brought a smile to the face of the middle class.

K.R. HARI KARTHIKEYAN,
Theni, Tamil Nadu

■ The budgetary allocation for the AYUSH Ministry has increased over four times in the last seven years. It was ₹691 crore in 2014-15; it is ₹3,050 crore in 2022-23. Yet, there has been no substantial research output from the institutes run by this Ministry. Ayurveda continues to be perceived in some influential quarters as pseudoscientific. This underscores the fact that knowledge-production first requires a robust intellectual resource. Where there is a dearth of this vital resource, increased funding would only result in the draining of public money.

DR. G.L. KRISHNA,
Bengaluru

■ The Union Budget fails to address the basic issues that haunt the economy. All the support extended to start-ups, Micro, Small and Medium Enterprises, the defence sector, and other sectors with an emphasis on 'Make in India' will have the least impact on the economy or employment in the absence of vibrant, market-driven growth. Reforms in e-education, communication and digitalisation of the economy will only aid corporates and the affluent.

A.G. RAJMOHAN,
Anantapur, Andhra Pradesh

■ There does not seem to be much concern for the honest tax-paying citizen who files his returns on time. Instead, one has 'time' being given to taxpayers who submit incorrect returns.

KATURU DURGA PRASAD RAO,
Hyderabad

■ The criticism, especially from the Opposition, is on expected lines. Nobody appears to be bothered about the overall growth of the nation especially with the future in mind. The Budget does look ahead. And, the media needs to analyse the Budget in a positive way.

V.S. GANESHAN,
Bengaluru

Focus on accelerating growth with stability

The Budget is in the desired direction in the given circumstances, but its impact on the economy will depend on the efficiency of implementation

M. GOVINDA RAO, *former Director, NIPFP, and Member, Fourteenth Finance Commission, is now the Chief Economic Adviser, Brickwork Ratings. Views are personal*

With the country yet again grappling with another wave of the COVID-19 pandemic, there are concerns about faltering growth and increasing unemployment. With international commodity prices, particularly crude oil prices, continuing to rise and with advanced economies draining liquidity and increasing interest rates, there is limited scope for monetary policy and heavy lifting of the economy, for growth acceleration must come from fiscal policy. It is in this context that the focus fell on the Budget to address the task of accelerating growth and creating new employment opportunities and the task of fiscal consolidation became secondary.

Accelerate growth, create jobs

The Budget for 2022-23 presented by the Union Finance Minister does not disappoint on this count. At 2.9% of GDP, the budgeted capital expenditure for 2022-23 is higher than the revised estimate for the previous year by 24.5% even as the overall growth of expenditure is just 4.6%. An increase of almost ₹1 lakh crore is for assisting the States to catalyse the development of infrastructure by giving them interest-free loans over and above the regular loans to be given according to Fiscal Responsibility and Budget Management limits. Most of this is for developing multi-modal transportation networks. In addition, about ₹60,000 crore has been budgeted for providing tap water for 3.8 crore households and another ₹48,000 crore for affordable housing. In addition to reviving the economy, many of these projects are employment-intensive and will help in reducing unemployment.

The increase in capital expenditure is to be accomplished even as the fiscal deficit is budgeted to be reduced from 6.9% in the current year to 6.4% in 2022-23. Of course, this is higher than the limit of 5.5% recommended by the 15th Finance Commission under a slow recovery scenario, but the Finance Minister in her Budget speech stated that the rate of consolidation will be faster in the coming years to reach a level below 4.5% by 2025-26. In fact, revenue deficit and primary deficit numbers are also budgeted to decline in the next year.

How realistic are these estimates? On the revenue side, the estimates look conservative. Total revenue receipts are estimated to increase by just 6% over the revised estimate and this is partly due to the high base figures as the revised estimate for 2021-22 is higher than the Budget estimate by 16.4%. On non-tax revenues, a sharp decline of 14% is budgeted mainly due to lower estimates of dividends from public sector enterprises and the Reserve Bank of India. On disinvestment proceeds, as against the budgeted ₹1.75 lakh crore in 2021-22, the revised estimate is placed at ₹78,000 crore and for the next year, it is budgeted at ₹65,000 crore. The critical question is whether the government will be able to contain the revenue expenditure growth next year at the budgeted level of less than 1%. In particular, the total subsidy bill for 2022-23 is budgeted lower by ₹1.15 lakh crore from the revised estimate of 2021-22 which includes a lower food subsidy of about ₹79,638 crore and fertilizer subsidy of ₹34,900 crore.

An important concern is the increasing protectionist trend and continued differentiation in import duties. Minute rate differences and taxing inputs at lower rates increase the effective rate of protection, adversely impact competitiveness and give rise to special interest groups lobbying for higher import duties.

Tax proposals

On tax proposals, the most notable measure is the decision to levy tax on transactions in virtual digital assets in the hands of the recipient with 1% deducted at the source. Equally important measures are extension of tax incentives for start-ups by one year and extension of the commencement date for concessional tax for new entities by one year up to March 31, 2024, due to the delay in completion of the projects caused by the pandemic. On the personal income tax front, although there was a clamour for increasing the exemption limit, deductible allowances and rate brackets, the Finance Minister decided to maintain the status quo. Perhaps, in the interest of simplification, she should have rationalised the tax system by getting rid of the options of rate structure with and without incentives introduced last year and keeping only the one without the incentives with a lower rate and reducing the number of rate brackets to four including the exemption limit. There is a proposal to levy surcharge on long-terms capital gains uniformly at 15% for all types of capital assets. The Budget has also introduced a number of measures to reduce compliance burden, encourage voluntary compliance, reduce litigation, and improve the ease of doing business.

However, an important concern is the increasing protectionist trend and continued differentiation in import duties. Minute rate differences and taxing inputs at lower rates increase the effective rate of protection, adversely impact competitiveness and give rise to special interest groups lobbying for higher import duties. While the Production-Linked Incentive seems to be helping some of the newer industries and is helpful in increasing exports, it is necessary to erect a competitive wall rather than relying on scaffolding through incentives.

On the expenditure side, besides a significant increase proposed on capital expenditures, the PIL schemes for 14 sectors are expected to improve the competitiveness of Micro, Small and Medium Enterprises (MSMEs), help in increasing exports and create 60 lakh new jobs. Hopefully, the excessive protection and reservation given to MSMEs will not prevent them from becoming bigger and more competitive to take advantage of the scale economy. There are proposals to spend ₹2.37 lakh crore direct payment of MSP value to farmers' accounts as well as ₹1,400 crore in 2022-23 on the Ken-Betwa river-linking project, create 100 new cargo terminals in the next three years, and during the year, build 25,000 km of highways.

In the right direction

By and large, the Budget is in the desired direction in the given circumstances. However, it must be noted that despite the hype regarding the Union Budget, almost 60% of the actual spending is at the State level. Besides, the impact of the Budget on the economy will depend on the efficiency with which the various proposals are implemented. Let us hope we will break the jinx of poor implementation.

A betrayal of the social sector when it needs help

The government seems to have prioritised meeting its fiscal deficit targets rather than using this opportunity to signal a path of employment-centred and inclusive growth

DIPA SINHA *is faculty at Dr. B. R. Ambedkar University Delhi*

India continues to rank poorly in various global indices that reflect the quality of life, human capital or human development in the country, such as the Human Development Index (rank 131 out of 189 countries) and the Global Hunger Index (rank 101 out of 116 countries). It is well documented that the pandemic over the last two years has had a severe impact on the health, education and food security of the poor and informal sector workers. A number of recent reports, including the Oxfam's 'Inequality Kills' report and the ICE360 survey, well establish that the recovery in economic growth in India is K-shaped, meaning that the incomes of the poorer sections of the society are decreasing, while those of the richer sections are increasing. As many have argued, while this trend has been exacerbated by the pandemic, the country has been experiencing increasing inequality over the last couple of decades. Further, the period after 2016 has also seen stagnant real wages and increasing unemployment.

A conservative view

In this context, it was expected that the current Budget would see an expansion in government spending on the social sector. Greater spending on the social sector can contribute to improvements in human development outcomes, provide a cushion to people during the current economic crisis and also contribute to boosting private consumption demand which in turn can have a positive multiplier effect on the economy. However, despite the current situation of a demand crisis, the Budget has taken a conservative view and seems to have prioritised meeting its fiscal deficit targets rather than using this opportunity to signal a path of employment-centred and inclusive growth.

A complete disconnect

While it acknowledged that learning among children has been affected because of prolonged periods of school closures, the government announced that it will expand its 'one class, one TV channel' scheme instead of announcing enhanced allocations for schools so that they can reopen with vigour. This reveals a complete disconnect with the situation on the ground where school infrastructure needs upgradation, teacher vacancies need to be filled and efforts need to be made to bring back children who have dropped out of school and also have huge learning losses to catch up on.

This is also reflected in the lower spending in the last two years as seen in the revised estimates (RE). The budget for school education at ₹63,449 crore is a slight improvement over last year's ₹54,873 crore (2021-22 budget estimates, BE) and a mere increase of 6% in nominal terms compared to 2020-21 BE of ₹59,845 crore. After a grand announcement rechristening the school mid-day meal scheme as Pradhan Mantri Poshan Shakti Nirman, simply called PM Poshan, the allocation for the scheme has reduced from ₹11,500 crore last year to ₹10,233 crore this year.

The resources allocated for crucial government schemes in the fields of health, education, nutrition, and social protection have remained stagnant or show negligent increase. In fact, the budgets for these schemes have been declining in real terms since 2015.

In the midst of a pandemic, and despite repeated statements about strengthening the public health system, the overall budget for the Department of Health and Family Welfare at ₹83,000 crore has gone up by only 16% over the BE for 2021-22 and by less than ₹1,000 crore compared to the RE for 2021-22, which is ₹82,921 crore. However, by including water and sanitation in the budget for health, there is an increase being shown in health spending as a proportion of GDP. While spending on the drinking water mission is also extremely important, for the sake of consistency it cannot be clubbed with the health budget. Also, even though the budget for the Jal Jeevan Mission has increased from ₹50,000 crore to ₹60,000 crore, only 44% of the allocated funds to the Department of Water and Sanitation for 2021-22 has been spent as on end December 2021.

Through the pandemic period, the Public Distribution System has been a lifeline for many, although only 60% of the population are covered by ration cards currently under the National Food Security Act. Those who were eligible benefited from the additional free foodgrains that they have been given under the Pradhan Mantri Garib Kalyan Anna Yojana (PMGKAY). However, the food subsidy (BE) for 2022-23 at ₹2.06 lakh crore is only enough to cover the regular NFSA entitlements. The indication is that there is no plan to extend the PMGKAY. The food subsidy RE for 2021-22 is ₹2.86 lakh crore.

Budgets for important schemes such as Saksham Anganwadi, maternity entitlements and social security pensions are around the same as the allocations for last year. The allocation for MGNREGA at ₹73,000 crore also does not reflect the increased demand for work or the the pending wages of ₹21,000 crore.

Continued negligence

On the whole, in the Budget for 2022-23, the social sector has once again been betrayed while this is perhaps a time when it needs the most support. As seen above, the resources allocated for crucial government schemes in the fields of health, education, nutrition, and social protection have remained stagnant or show negligent increase. In fact, the budgets for these schemes have been declining in real terms since 2015. India already starts off from a weak position of having very low spending in the critical areas of social protection, education and health. For instance, the World Social Protection Report 2020-22, brought out by the International Labour Organization, shows that the spending on social protection (excluding health) in India is 1.4% of the GDP, while the average for low-middle income countries is 2.5%. Budgets on health and education have also been low, much below the desirable levels of 3% and 6% of the GDP. This continued negligence does not bode well for inclusive development in India.

A Budget that sends mixed signals on health

While the Budget promotes social determinants of health, there is less than anticipated increase for health programmes

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SAKTHIVEL SELVARAJ *is Director, Health Economics Unit, PHFI*

Though the Finance Minister referred to the Omicron variant of COVID-19 and the need to maintain caution, the clear signal that emerged from the Budget is that COVID-19 is no longer perceived to be a major threat and that the post-COVID-19 phase of development must focus on capital-intensive infrastructure projects. The commitment to primary healthcare that was strongly articulated in the Budget of 2021 was much more muted this year.

Definition of health

The Finance Minister expanded the conventional definition of health in her presentation of the Budget of 2021, when she included water, sanitation, nutrition and air pollution control. The Economic Survey, released a day before this year's Budget, reported that expenditure on health reached 2.1% of GDP with an annual increment of 0.4% in the last two years. This suggests that we are on track to reach the government's target of 2.5% by 2025. Recent increases represent both the redefined accounting categories and the COVID-19-related attention to augmented health services. Whether the health sector by itself will display a budgetary momentum of increased allocations was a feature of interest before the Finance Minister rose to present this year.

Supply of tap water to 38 million more homes will be welcome and so will the provision of housing under the Pradhan Mantri Awas Yojana and initiatives for pollution control which include expansion of zero emission public transport services, incentives to reduce crop stubble burning and battery-swapping policy. These along with expansion of digital classroom support to schools across the country will promote the social determinants of health.

Need for higher investment

For the health programmes themselves, there has been less than anticipated increase. The National Health Mission received a 7.4% increase over the money expended last year. With a large need to strengthen both rural and urban primary care, this is disappointing. There is a need to galvanise the Urban Health Mission which has moved slowly thus far. A number of rural and urban Health and Wellness Centres need to be established and activated with staff, equipment and supplies. While some of it will come from the infrastructure mission, the requirement of trained human resources calls for higher investment.

The allocation for the Pradhan Mantri Jan Arogya Yojana (PMJAY) stays unchanged at ₹6,412 crore. The expenditure last year was ₹3,199 crore. This represents a 100% increase. The scheme fell short of utilising its allocated budget for the past two years because of reduction in non-COVID-19 care under its payments and also because of the limited number of accredited hospitals in Tier-2 and Tier-3 urban locations and rural areas. It does not also cover the cost of outpatient care and medicines outside a hospital setting. Unless these limitations are overcome, mainly private sector hospitals in well-developed urban locations will be able to utilise it.

Vaccines for COVID-19 received an allocation of ₹5,000 crore as against ₹39,000 crore the previous year. This suggests that the government believes that all the eligible persons who need to be vaccinated through public funding will receive the vaccines in the current financial year and that there would be no major threat which would call for large-scale investments in new vaccine procurement.

The Health Infrastructure Mission has got an allocation of ₹5,156 crore. Since its launch in October last year, it has spent ₹900 crore. Since the mission has projected an expenditure of ₹64,120 crore over six years, the allocation seems to fall short of ambition. Perhaps, next year's Budget will show catch-up growth. The Pradhan Mantri Swasthya Suraksha Yojana, which focuses on expansion of tertiary care facilities, has been allocated a 35.1% increase, keeping in with the promise of an AIIMS in every State and upgrading of several medical college hospitals.

AYUSH has been given a 14.5% increase, while the Department of Health Research sees an increase of only 3.9%. This is surprising, given the impetus given to continuing need for COVID-19 research and development of new vaccines. There is also a need for health systems and implementation research to support effective delivery of national health programmes that span communicable diseases, maternal and child health, nutrition, non-communicable diseases and mental health. Development and evaluation of appropriate and affordable health technologies too would be in keeping with the spirit of Atmanirbhar.

The Digital Health Mission has an allocation of ₹200 crore. Given the potential and promised services under that mission, the allocation appears sub-optimal. However, there is a welcome initiative to establish 23 Telehealth centres to provide support for mental health services across the country. The National Institute of Mental Health and Neurosciences (NIMHANS) at Bengaluru will coordinate these services. The International Institute of Information Technology (IIIT) in that city will provide technical support. While this is a much-needed initiative, mental health services must extend even to those who are not digitally enabled. That requires strengthened primary care services everywhere.

Vaccines for COVID-19 received an allocation of ₹5,000 crore as against ₹39,000 crore the previous year. This suggests that the government believes that all the eligible persons who need to be vaccinated through public funding will receive the vaccines in the current financial year and that there would be no major threat which would call for large-scale investments in new vaccine procurement. Since the government has granted market licensing to Covishield and Covaxin, the policy indicates that the private sector would be the principal source for providing additional vaccines to those who may seek it. If there is a resurgence of COVID-19 due to a new threatening variant, a special package may be needed. At present, that does not appear to be highly probable.

To end on an appreciative note, the Finance Minister deserves plaudits for providing tax relief to differently abled persons, whose parents or guardians have crossed the age of 60 years. This takes into account the fact that employment and the earning capacity of the person who provides such support usually diminishes at that age.

THE HINDU

WEDNESDAY, FEBRUARY 2, 2022

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Text & Context

NEWS IN NUMBERS

Defence spending

5.25 In ₹ lakh crore was the defence allocation for FY2022-23 in the Union Budget. The defence budget had a major push on procurement of weapons and military platforms from domestic players as well as to involve them in defence research and development. The Finance Minister said 68% of the outlay for defence procurement will be set aside for buying from the domestic industry and that 25% of the allocation for R&D will be kept for collaboration with the private sector. PTI

Central vista

2,600 In ₹ crore was the amount allocated to the Housing and Urban Affairs Ministry in Budget 2022-23 for the construction of non-residential office buildings of the Central Vista project, including the Parliament and Supreme Court. Six infrastructure firms, including Tata Projects Limited, L&T Limited and Shapoorji Pallonji and Company Limited, are in the race to win the contract to construct the Executive Enclave, which will house the new PMO and other offices. PTI

Coal budget

39 In percentage, the decrease in the share of the budget allocated to the coal ministry for FY23. According to Budget documents, the expenditure for financial year 2021-22 was at ₹534.88 crore. The expenditure budget of ₹393.24 crore in the 2022-23, includes ₹314.54 crore on central sector schemes/ projects and ₹12.96 crore on Coal Mines Pension Scheme. The actual expenditure budget for financial year 2020-2021 stood at ₹571.6 crore. The investment in public enterprises increased to ₹21,420.00 crore in budget 2022-23 PTI

Slight increase

3 In percentage, the increase in the budget allocation to the Women and Child Development Ministry. It stood at ₹25,172.28 crore in 2022-23, a slight increase of 3% from ₹24,435 crore that was given in 2021-22. The budget allocated for Saksham Anganwadi and POSHAN 2.0 (Umbrella ICDS - Anganwadi Services, Poshan Abhiyan, Scheme for Adolescent Girls) was ₹20,263 crore, a small increase from ₹20,105 crore in 2021-22. The budget allocated for Mission Shakti was ₹3,184 crore in 2022-23, increased from ₹3,109 crore in 2021-22. PTI

Home Affairs

1.85 In ₹ lakh crore was the allocation to the Ministry of Home Affairs, with the majority of spending on central police organisations like the CRPF, BSF and for improving the infrastructure along the international borders. The 2022-23 budget allocation to the MHA, is ₹1,85,776.55 crore, about 11.5% more than the current fiscal when it was allocated ₹1,66,546.94 crore. Modernisation of police forces, intelligence gathering apparatus, women safety, cyber security also got priority in budget. PTI

COMPILED BY THE HINDU DATA TEAM

EXPLAINER

The strategy behind North Korea's missile tests

What message do the recent IRBM tests in North Korea send to the larger international order?

THE GIST

- North Korea, on Sunday, test fired their IRBM Hwasong-12. Its immediate neighbour, South Korea, has decried the tests. South Korea has long followed the Sunshine Policy to improve relations with its northern neighbour. However, the American president, Joe Biden, in the face of North Korea's increased aggressiveness, worked with South Korea to scrap its missile guidelines which limited the types of missiles it could work on.
- The COVID-19 pandemic, multiple natural disasters, and the sanctions by the U.S. have ravaged North Korea's economy. Kim Jong-un is therefore, looking to work towards increasing the agricultural output, and with his recent visit to a new agricultural facility, also trying to send a message on the domestic front in order to safeguard his political position.
- North Korea, like any other state, is looking to safeguard its interests and is doing it in the best way it knows. Kim doesn't want to give up power and considering the U.S.'s ambitions for the Korean peninsula, from his perspective, strengthening North Korea with a robust ballistic missile and a nuclear weapons programme is the only way to keep more conventionally powerful forces at bay.

RISHABH KACHROO

The story so far: North Korea, on Sunday, test fired their IRBM (Intermediate Range Ballistic Missile) Hwasong-12. This can be seen as a multipronged strategy to not only signal its adversary far west and work as an effective way to refine their weapon systems but also serve as a propaganda tool for its people who are currently going through a severe food crisis. The Korean Central News Agency, North Korea's state news agency, reported that the test "confirmed the accuracy, security and operational effectiveness of the "Hwasong-12"-type weapon system under production".

What has been South Korea's response?
Its immediate neighbour, South Korea, has decried the tests with its president, Moon Jae-in, calling it a "challenge toward the international community's efforts to denuclearise the Korean Peninsula, stabilise peace and find a diplomatic solution". It has long followed the Sunshine Policy to improve relations with its northern neighbour. Under this policy, South Korea seeks to work towards improving relations with North Korea through actions that signal its commitment to non-interference in North Korean matters and improving economic cooperation with them. It has also continued to work on the development of its ballistic missile programme. Within a few months of coming to power, the American president, Joe Biden, in the face of North Korea's increased aggressiveness, worked with Moon Jae-in to scrap South Korea's missile guidelines which limited the types of missiles (in terms of their range) South Korea could work on (first introduced in 1979). This also served as a strategic tactic in the region for the Americans to allow South Korean missiles to potentially reach China. As of now, South Korea's biggest weapons in its arsenal are the Hyunmoo series of missiles and the Haeseong missile. As Moon Jae-in's term comes to a close, he is looking to continue to make efforts for peace talks.

What is the domestic situation in North Korea?
Recent evidence coming out of North Korea tells us that Kim isn't even remotely close to considering clamping down on testing; if anything, he wants more. It is also important to note here that this recent test was a confirmational one. With this, he just further proved North Korea's ability to hit the U.S.'s island territory of Guam. The continued American sanctions are unlikely to make an impact of the kind the U.S. is hoping for as China would be more than happy to help its ally. One sign of hope for the West to come out of North Korea, even if a bleak one at that, is Kim Jong-un's recent push for agricultural growth and economic development. He is looking to work towards increasing the agricultural output, and with his recent visit to a new agricultural facility, also trying to send a message on the domestic front in order to safeguard his political position. The message he is sending out to this people is simple–I see the challenges we are facing, and I am actively working to resolve them. The COVID-19 pandemic, multiple natural disasters hitting North Korea, and the sanctions by the U.S. and the western community at large have ravaged North Korea's economy. It would be in the interest of the U.S. to not let this opportunity pass and offer something concrete to North Korea to help improve their situation as North Korea would seek to further strengthen ties with China.

Why is North Korea adamant on pumping huge resources into its weapon programme even as it suffers on the economic front?
Kim doesn't want to give up power and considering the U.S.'s ambitions for the Korean peninsula, from his perspective, strengthening North Korea with a robust ballistic missile and a nuclear weapons programme is the only way to keep more conventionally powerful forces at bay. Experts worry about North Korea reneging on its self-imposed moratorium to not test Intercontinental Ballistic Missiles and nuclear weapons. Kim had first hinted about not being bound to this moratorium back in 2019. It would be an unwise reading of the situation to imagine North Korea giving up its nuclear capabilities. A more realistic goal ought to be to get it to dial down on the tests. In addition to serving as a bargaining tool to bring North Korea to the negotiating table, its economic situation should also be seen as a potential recipe for disaster as weapons and weapons technology can find their way out to other state and non-state actors. It has already long been suspected of being involved with Syria, Pakistan, Egypt, Iran, and reportedly, much recently in an indirect manner, with Taiwan. With the recent tests, Kim has only shown his resolve to continue such acts of belligerence.

How advanced is the country's weapons programme?
Its ballistic missile programme situation seems more robust than ever, only exacerbated by the 'confirmatory' tests it seems so adamant on doing. Their arsenal boasts of short range, medium range, intermediate range, and intercontinental ballistic missiles (ICBMs), in addition to a wide array of cruise missiles and potentially at least two submarine-launched ballistic missiles (SLBMs). Additionally, at the very least, they also possess the capability to weaponise chemical and biological agents. Its actual possession of chemical and biological weapons is debated. It has also conducted 6 nuclear tests since 2006 with the last one being in 2017 (reportedly a hydrogen bomb). It continues to produce enriched Uranium and weapons-grade Plutonium. It went on a self-administered moratorium in 2018 on the testing of long-range ballistic missiles and nuclear weapons which it later clarified (multiple times) to not being bound to. It is reported to possess enough fissile material for at least 45 nuclear weapons.

What next?
Maybe, merely looking at the strategic external perspective won't tell us the whole story. Perhaps the domestic front can further help us in understanding North Korea's actions. 2022 is the year that will see the 80th birth anniversary of Kim's father, Kim Jong-il, and the 110th birth anniversary of the country's founder, Kim Il-sung. With such 'momentous' occasions, North Korea may be looking to portray a show of power to its people. As mentioned before, this act serves as a multipronged strategy.

The geopolitical rationale of the missile test is simple–it gives Kim Jong-un leverage. Kim has seen the fate of the likes of Ukraine, and South Africa. He has seen Libya's fate. He understands the kind of leverage ballistic missiles and nuclear capabilities give him. What remains to be seen is exactly how far out can he play this act of brinkmanship.

Deadly tests: This picture from the Korean Central News Agency released on August 30, 2017 shows North Korea's intermediate-range strategic ballistic rocket Hwasong-12 lifting off from the launching pad at an undisclosed location near Pyongyang. AFP

North Korea, like any other state, is looking to safeguard its interests and is doing it in the best way it knows. This is neither a strategic anomaly nor does it run counter to its philosophy of *juche* (self-reliance) and *songun* (military-first). Whether or not it runs counter to certain nations' interests and how it impacts the larger weapons proliferation processes at play is an entirely different area of discussion. It says more about the hegemonic interests of larger powers which lead to the emergence of conflicts that continue to brew for years and potentially threaten the stability of the international order than it says about North Korea's way of responding.

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EXPLAINER

The FTA talks between India and the United Kingdom

How will a free trade agreement help both countries and in which sectors?

K.S. VIJAY ELANGOVA

The story so far: Last month, India and Britain launched trade talks in Delhi, with an aim to finalise a free trade agreement (FTA) as soon as possible. The proposed pact with Britain could help double bilateral trade by 2030, a Government statement said, after talks between Commerce and Industry Minister Piyush Goyal and U.K. Secretary of State for International Trade Anne-Marie Trevelyan.

What is an FTA?
An FTA is an agreement between two countries wherein it allows free flow of goods and services to and from both sides, removing all tariff barriers to boost trade with one another.The U.K.'s somewhat fettered wings to the European Union's horizons have been fully undone, after Brexit happened, and Britain can now fly the world with full-flown wings, especially its trade. The first such flight was seen when the U.K. signed an FTA with Australia on December 17, 2021, eliminating almost 99% of tariff on both sides, allowing free flow of goods between the two countries. This will save nearly $10 billion for Australia in its exports of agricultural products to Britain and the U.K. will save several hundred million dollars in automobile, liquor and cosmetics exports. The pact further helps Britain access the Pacific Rim, an 11-nation trade conglomerate including Australia called the Comprehensive and Progressive Trans-Pacific Partnership.

GETTY IMAGES

What does it mean for India?
Likewise, Brexit also paved the way for Britain to freely and comprehensively negotiate a new free mega trade deal with India, talks for which are underway. The £1 billion investment and commercial trade deal India signed with Britain on May 4 last year creating 6,500 jobs in the U.K. was a kick-starter to this, opening a new chapter in commerce between them. As Lord Karan Bilimoria, President of the Confederation of British Industry, put it: "The free trade deal between India and the U.K. will usher in a new era in the annals of India-British trade cooperation. The renewed partnership will bring in enormous changes not only in trade, but enhanced cooperation in agriculture, education and health sectors." He also said, "India's traditional stakes are high in Britain as British Indian companies cumulatively turned over more than £85 billion just last year even amid the pandemic. And India's trade would see a quantum jump when the free trade pact is signed, from £23.3 billion when they inked an Enhanced Trade Deal last year to £50 billion post-FTA. The British inward investment into the subcontinent was nearly £21 billion in the last two decades making Britain as the largest western investor in India, and this will also see a substantial increase." With India set to becoming the world's third largest economy by 2050, India not only becomes the U.K.'s most preferred partner, its 1.5 million diaspora in the isles would get a shot in the arm when the FTA is signed.

What is India seeking from the U.K.?
While the talks between Ms. Trevelyan and Mr. Goyal, under the aegis of the 15th U.K.-India Joint Economic and Trade Committee, centred around removing all trade bottlenecks, and green trade, India is also seeking cooperation from Britain to reduce its carbon footprint by 45% while steadfastly promoting green energy. Ms. Trevelyan sounded pretty optimistic, "This is just the start of a five-star year of U.K. trade, forging closer economic partnerships around the globe and negotiating deals that work for businesses, families and consumers in every part of the U.K."

"FTA negotiations with India and the already-signed FTA with Australia," as Lord Bilimoria detailed, "mark Britain's deft Indo-Pacific tilt, beyond the absolute EU-bind."

What are the sectors that will benefit?
With trade between India and the U.K. set to soar, there are substantial activities simultaneously taking place in other sectors, especially agriculture and education. The second Green Revolution, aimed at increasing food production in India to 400 million tonnes in the next 15 years, is led by plant ecology scientist and co-chair of the Global Food Security Strategic Research Initiative Prof. Howard Griffiths of Cambridge University under Transforming India's Green Revolution by Research and Empowerment for Sustainable food Supplies (TIGR2ESS). The TIGR2ESS, led by the chief investigator, Prof Griffiths, would strengthen alliance between Indian and British experts in social policy and science, hydrology and crop science based on the thesis of making modern agricultural practices reflect the needs of society acceptable to India today. The research programme, funded by Cambridge University to the tune of £9 million, will have diverse partners such as the University of Cambridge (leader), Rothamsted Research, John Innes Centre, Centre for Global Equality, Universities of Essex and East Anglia, The British Dietetic Association and 19 higher education and research institutes in India including the National Institute of Agricultural Botany, Hyderabad and seven NGOs. There are also animated parleys between these countries for more cooperation in education, and possibly, India would allow more U.K. universities to open their branches in the subcontinent after the FTA. Lord Bilimoria, who also is Chancellor of Birmingham University, said, "The cooperation in education between India and the U.K. is already on for years as many exchange and collaborative programmes have taken place and some U.K. institutes have already set up their Indian campuses, but will reach its peak when the Indian government allows more U.K. universities to open their direct branches in India."

Vijay Elangova is a senior journalist based in the U.K.

THE GIST

- An FTA is an agreement between two countries which allows free flow of goods and services to and from both sides, removing all tariff barriers to boost trade with one another. The U.K. had earlier signed an FTA with Australia in 2021.
- The £1 billion investment and commercial trade deal India signed with Britain last year creating 6,500 jobs in the U.K. was a kick-starter to talks for an FTA, opening a new chapter in commerce between them.
- The TIGR2ESS, an initiative by both countries, is aimed at increasing food production in India to 400 million tonnes in the next 15 years, There are also animated parleys between these countries for more cooperation in education.

Funds slashed: Women renovate the children's park as part of the MGNREGA at Paraniputhur in Kancheepuram district. • FILE PHOTO

FROM THE ARCHIVES

The long road to timely MGNREGA payments

There remain delays in the stage where the Central government transfers wages to the workers' accounts

THE GIST

- Eight crore MGNREGA wage transactions were pending on Diwali. The PAEG recently released important metrics on MGNREGA implementation which showed that funds allocation this financial year is 34% lower than the revised budget allocation of last year.

- There are two stages in the wage payment process. In Stage 1, States must electronically send invoices to the Central government within eight days of completion of work. These invoices contain essential worker details. The Central government then processes the invoices and transfers wages directly to the workers' accounts. This is Stage 2 and must be completed within seven days after Stage 1. If Stage 1 plus Stage 2 exceeds 15 days, then workers are entitled to a delay compensation for each day's delay. However, none of these compensations have been allocated by the centre and the delay in payments continue.

- The Central government issued a circular to segregate invoices based on caste of workers. While 46% of payments to SC workers and 37% for ST workers were completed in the mandated seven-day period, it was a dismal 26% for non-SC/ST workers. After critical media reportage, the Central government revoked the caste-based segregation of wage payments. However, the Government has not assumed any accountability by paying compensation for delays.

RAJENDRAN NARAYANAN
ANURADHA DE

In light of the Union Budget reducing allocations for the MGNREGA, this article dated November 8, 2021, by Rajendra Narayanan and Anuradha De outlines how technical tinkering and the lack of funds to the MGNREGA is delaying the payment of workers.

There is a famous parable of the 13th century mystic Mullah Nasruddin. He was once spotted under a street light searching frantically for a key that he had lost. A passer-by noticed the frazzled Nasruddin and stopped to help him. After both of them spent a long time searching for the key, the exasperated passer-by asked Nasruddin if he was sure that he had dropped his key there. Pointing to his house far away, Nasruddin said that he had, in fact, lost the key near his house. Agitated, the passer-by shouted at Nasruddin: "If you lost the key near your house, why are you wasting time searching for your key here?" To which Nasruddin, with no sense of irony, responded, "There is no light near my house but there is light here, so I am searching for the lost key here."

Delays in payments

This parable captures the essence of wage payment delays under the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA). Eight crore MGNREGA wage transactions were pending on Diwali. The People's Action for Employment Guarantee (PAEG) recently released a tracker with important metrics on MGNREGA implementation. It showed that funds allocation this financial year (FY) is 34% lower than the revised budget allocation of last year. And this year's funds have been exhausted. The Ministry of Rural Development issued a press release in response to these stating, "Currently Rs.8921 crore funds are available which can meet the wage liability..." This statement is misleading as the Ministry has not accounted for pending arrears of ₹17,543 crore from previous years. In a welcome move since the media reports, the Chief Ministers of Odisha and Tamil Nadu wrote to the Prime Minister seeking additional funds for MGNREGA.

There is ample evidence by now, including an admission by the Ministry of Finance, that delays in wage payments are a consequence of insufficient funds. There are two stages in the wage payment process. In Stage 1, States must electronically send invoices, also called FTOs, to the Central government within eight days of completion of work at a worksite. These invoices contain essential worker details like their names and bank account numbers. The Central government then processes the invoices and transfers wages directly to the workers' accounts. This is called Stage 2 and is the Central government's responsibility that must be completed within seven days after Stage 1. Since Supreme Court orders in 2018, Stage 1 delays have reduced while Stage 2 delays continue. As per the Act, if Stage 1 plus Stage 2 exceeds 15 days, then workers are entitled to a delay compensation for each day's delay. However, in violation of the Act and the Supreme Court's orders, no delay compensation for Stage 2 is even being calculated. Instead of ensuring sufficient funds for timely payments, the Central government has repeatedly tinkered with the payment architecture as if payment delays are an artefact of technological hurdles. The Nasruddin parable appeared in a new avatar this year. Earlier, the invoices were not segregated by caste. On March 2, the Central government issued a circular to segregate invoices based on the caste of workers (Scheduled Castes, Scheduled Tribes, and 'Others').

In order to investigate Stage 2 delays and the impact of caste-based invoices, as part of LibTech India, we released a report called 'Heavy Wait'.

Instead of ensuring sufficient funds for timely payments, the Central government has repeatedly tinkered with the payment architecture as if payment delays are an artefact of technological hurdles

We analysed 18 lakh invoices across 10 States from April to September. In our sample, Stage 2 was completed only for 29% of the invoices within the mandated seven-day period. In fact, for nearly two-thirds of the transactions in Jharkhand and more than half the transactions in Chhattisgarh, Madhya Pradesh and West Bengal, Stage 2 exceeded 15 days. There was also a steady increase in Stage 2 delays from July to September indicating depletion of funds. If the Central government's recent claims of allocations being adequate are true, then what is the explanation for such massive delays in wage payments?

Caste-based segregation

There were significant variations in delays by caste. While 46% of payments to SC workers and 37% for ST workers were completed in the mandated seven-day period, it was a dismal 26% for non-SC/ST workers. The negative impact of caste-based segregation was felt acutely in poorer States such as Madhya Pradesh, Jharkhand, Odisha and West Bengal. For instance, Stage 2 was completed in seven days for only half the transactions for SC/ST workers in Madhya Pradesh. This was much worse for non-SC/ST workers in Madhya Pradesh for whom only 7% of transactions were completed in that period. In addition to such stark differences, in West Bengal, the Central government kept pending nearly 45% of the wages beyond 15 days as on October 13.

As this newspaper reported earlier, caste-based segregation has also resulted in tensions at worksites. It had also resulted in a threefold increase of workload for computer operators at blocks. Our Right to Information request to access the circular met with a hazy response. When questioned by the media earlier about this move, the Central government said that "For better accounting purposes, it has been decided, in consultation with the Department of Expenditure, to have a category-wise (SC, ST and others) wage payment system." No doubt, knowing the earnings of SC/ST households is useful. But it could have been done after the wages were paid. Toying with the Act using the veil of better accounting is illegal. After critical media reportage, the Central government, in a welcome move, has revoked the caste-based segregation of wage payments. However, the Central government has not assumed any accountability by paying compensation for delays despite the evident damage caused by caste-based segregation of payments.

Additionally, in our large sample analysis, we found no difference in the time taken for payments through the Aadhaar Payment Bridge Systems (APBS) and traditional account-based payments. In fact, APBS has given rise to a litany of complicated problems like misdirected payments and payment failures due to erroneous Aadhaar mapping with the payment software. Misdirected payments happen when one person's Aadhaar gets linked to somebody else's bank account. These problems are difficult to resolve even for bank and block officials resulting in increased hardships for workers. These minimally warrant an impartial, independent assessment and audit of the payment systems. Lost keys cannot be found where they were not lost in the first place. In the same vein, technical fixes cannot be substitutes for political will. Official data show that the work demand this year is similar to that of last year. As such, at least ₹50,000 crore needs to be allocated urgently and the Central government, in compliance with Supreme Court orders, must automatically calculate and pay the workers their entitled delay compensation.

Anuradha De is a researcher with LibTech India; Rajendran Narayanan teaches in Azim Premji University, Bengaluru, and is associated with LibTech India and PAEG

THE DAILY QUIZ

Finance Minister Nirmala Sitharaman presented the Union Budget yesterday. In the light of the momentous event, here is a quiz on previous Finance Ministers and Union Budget presentations of India.

1 The Union Budget was presented at 5 pm on the last working day of February as per British-era practice. Who was the finance minister who moved the practice of presenting Union Budgets in the evening (5:00 PM) and instead tabled it around noon?

2 Who is the first woman to have presented the Union Budget of India?

3 After being presented separately for 92 years, in which year and under which Finance Minister was the railway budget merged into the Union Budget and presented together?

4 Who holds the record for presenting the maximum number of Union Budgets? This person also had the honour of delivering 'Leap Year Budgets' twice.

5 What does the French word 'Bougette' mean and why is this significant in the last couple of years in the context of the Union Budget?

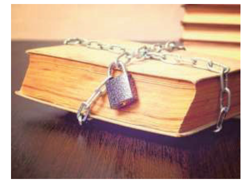
◄ What is happening in this image?

Please send in your answers to the **dailyquiz@thehindu.co.in**

Answers to the previous day's daily quiz: 1. 'From Me to You' (U.K., April 1963) and 'I Want to Hold Your Hand' (USA, February 1964), 2. 'Please Please Me', 3. 'Love Me Do' and Andy White, 4. 'Ticket to Ride', 5. 'Yesterday', 6. 'Hey Jude', 7. 'The Long and Winding Road', 8. '1', 9. 'Eleanor Rigby'

Early Birds: Pooja Khyalia| Nirav Mehta

Compiled by: Venkataraghavan Srinivasan



BIBLIOGRAPHY

Censorship and its impact on reading

By banning books for their difficult content, we remove the possibility for conversation

SUDIPTA DATTA

When Delhi University announced last August that it was dropping Mahasweta Devi's short story, 'Draupadi', from the undergraduate English syllabus, students around the country began to share it online. Set around the Naxalite movement, 'Draupadi' is a retelling of the powerful eponymous character from the *Mahabharata*. Mahasweta Devi's Draupadi or Dopdi as she is called, is a rebel who is cornered by the police trying to put down forces she represents, and some of the reasons given for the story being dropped were that it was explicit, mentioned rape and showed the armed forces in poor light. In the U.S., school boards of various States have voted to keep out notable works of literature including John Steinbeck's *Of Mice and Men*, Harper Lee's *To Kill a Mockingbird*, Toni Morrison's *Beloved* and most recently Art Spiegelman's Pulitzer Prize winning graphic novel, *Maus*, on the holocaust.

Often, a ban is likely to put a book in the hands of more readers. As soon as a Tennessee school board announced that it was dropping *Maus*, just before the International Holocaust Remembrance Day on January 27, sales began to soar on Amazon even as bookstores in the U.S. handed out free copies. The book tells the story of Spiegelman's ties with his father, Vladek, who survived a concentration camp, and moved to New York. Jews are presented as mice ('maus' is German for mouse) and the Germans as cats. Vladek and Art have an uneasy relationship but soon his father narrates to him how the noose began to tighten for Jews in Poland and the inevitable journey to a concentration camp. Vladek ends up in Auschwitz, and shows his son the number that was etched on his hand, 175113. The school board was apparently upset with the use of curse words and some nude imagery; the U.S. Holocaust Memorial Museum criticised the ban, pointing out that *Maus* plays a critical role in teaching students about the Holocaust when millions of Jews were killed. One of the most famous books to have been banned is of course James Joyce's *Ulysses*, first serialised in an American journal, then published in its entirety by Sylvia Beach, owner of the Paris bookshop, Shakespeare and Company, on February 2, 1922. To mark 100 years of its publication, Shakespeare and Company has created an ensemble recording of the text read by writers including Margaret Atwood, Ben Okri and Jeanette Winterson, and other artists, musicians and comedians from across the world. The stream-of-consciousness novel, which profiles a day in the life of Stephen Dedalus, Leopold Bloom and his wife Molly Bloom, has survived controversy, bans and legal action to be hailed as a "monument to the human condition." India and other countries banned Salman Rushdie's *The Satanic Verses*, and Iran's spiritual leader, Ayatollah Khomeini, issued a fatwa against the writer in 1989 for the book, considered blasphemous of Islam. Rushdie was provided police protection in the U.K. where he lived then, and he chose an alias– Joseph Anton (later the title of his memoir) –and went into hiding before emerging years later to live in the U.S. George Orwell's dystopian novel *Nineteen Eighty-Four* was banned in Russia till 1990. Deborah Caldwell-Stone, director of the American Library Association's office for intellectual freedom, told *The New York Times*, that aggressively policing books for inappropriate content and banning titles could limit students' exposure to great literature, including towering canonical works. Among the most frequent targets are books about race, gender and sexuality, *NYT* reported. Writer Laurie Halse Anderson, whose young adult books have frequently been challenged, said "pulling titles that deal with difficult subjects can make it harder for students to discuss issues like racism and sexual assault. By attacking these books, by attacking the authors, by attacking the subject matter, what they are doing is removing the possibility for conversation." In his 2021 book, *Dangerous Ideas*, Eric Berkowitz chronicles the cultural history of censorship and thought suppression through the ages, raising a pertinent question: Will the compulsion to silence the other ever be resolved?

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THE EDITORIAL PAGE

WORDLY WISE

IF A FREE SOCIETY CANNOT HELP THE MANY WHO ARE POOR, IT CANNOT SAVE THE FEW WHO ARE RICH.

— JOHN F KENNEDY

The Indian EXPRESS

FOUNDED BY

RAMNATH GOENKA

BECAUSE THE TRUTH INVOLVES US ALL

MEASURED STEPS & A LEAP TO SPEND

FM Sitharaman's budget keeps a calm head as pandemic continues, and politics heats up. It bets on investment, desists from fiscal adventurism, holds back on privatisation

ON MONDAY, PRIME Minister Narendra Modi called for delinking the Union budget from elections -- the former's importance "transcends our (political) differences", he said. Finance Minister Nirmala Sitharaman's budget for 2022-23 appears to take its cue from the PM's exhortation. Even as elections in Uttar Pradesh, Punjab, Uttarakhand, Manipur and Goa are around the corner, the budget has refrained from measures that put more money in the hands of people – whether through increasing cash transfers to farmers under PM-Kisan from the current Rs 6,000 per year, or by providing income tax relief to the middle class. The outlay on MGNREGA has been slashed to Rs 73,000 crore, from Rs 1,11,700 crore in 2020-21 and Rs 98,000 crore in revised estimates (RE) for 2021-22.

The focus of the budget, instead, has been on ramping up public sector capital spending. The Centre's own capex for the coming fiscal is budgeted at Rs 7.5 lakh crore, which is Rs 2 lakh crore higher than the 2021-22 RE and more than double the Rs 3.36 lakh crore in 2019-20. This step up in government expenditure in the form of investment as opposed to consumption is bold, and welcome. Bold, because it resists the temptation of raising spending that can yield political dividends in the short term. An announcement on hiking the annual PM-Kisan benefit amount to, say, Rs 9,000 per farmer, would have certainly appealed to rural voters in the context of the upcoming elections. Welcome, because it looks at the medium and long term. The Indian economy needs investments in roads, railways, mass transport, irrigation and waterways that will boost productivity and reduce logistics costs. Given their long gestation periods, investments in such projects can today be undertaken only by the government. These investments can, in turn, stimulate demand for steel, cement, capital goods and commercial vehicles, apart from crowding-in private investment.

OF COURSE, THIS approach carries its own risks. For one, it assumes a return to normal economic activity in 2022-23, which would hopefully be free of disruption from a new wave of infections. The fact is that the economy will continue to struggle from the setbacks induced by the pandemic over the last two years. The poor and lower middle class households have suffered income losses along with a significant draw-down of savings. This is going to act as a drag on private consumption for some time to come.

The Modi government has also had to reckon with the problem of scarce resources at its command. Any attempt to boost both consumption and investment would have come at the cost of a higher fiscal deficit. The resultant increase in government borrowings would have further driven up interest rates, harming growth prospects. In fact, even with its fiscal deficit budgeted lower at 6.4 per cent of GDP, as against 6.9 per cent in 2021-22 (RE), the Centre's gross market borrowings are pegged at a whopping Rs 14.95 lakh crore. That alone was the reason for yields on the benchmark 10-year government bond to close at 6.83 per cent on Tuesday, up from 6.68 per cent the day before. To that extent, Sitharaman has made the right call. Any fiscal adventurism would, moreover, have backfired in the present global context, where governments and central banks are in the process of tapering their pandemic-induced stimulus measures. Simply put, 2022 is not 2020.

THAT SAID, THE budget has some glaring absences. The most prominent one is the scaling back of the disinvestment target. Last year's budget invited praise for its boldness in targeting Rs 1.75 lakh crore receipts from the sale of government stake in PSUs. The revised estimates show collections at a modest Rs 78,000 crore – in a year of record capital raised by the private sector, including the likes of Zomato, Paytm, and Nykaa. For the coming fiscal, a mere Rs 65,000 crore is being budgeted from disinvestment. This could arguably be a consequence of the recent protests by young people over limited public employment opportunities amid perceptions of a "sell-off of national assets". Whatever be the reason, there was not even a mention of privatisation or asset monetisation in Sitharaman's budget speech this time. Nor has any attempt been made to raise urea prices and bring it under the nutrient-based subsidy regime or to phase out the current open-ended minimum support price procurement of wheat and paddy. The possibilities of such reforms appear remote ahead of the 2024 general elections.

On the whole, Sitharaman's budget holds no big surprises. To a large extent, it does good by not doing bad. The markets have heaved a sigh of relief not only because of the step-up in capital outlays, but also because of the absence of any proposals on wealth or inheritance tax or grandiose new schemes. Now, the focus needs to shift to implementation of schemes that are already drawn out, such as production-linked incentives and the ambitious Gati Shakti digital platform. Bringing back growth is not just an economic necessity, but also a political imperative. It is important to do this in a manner that is fiscally sustainable, while bringing down general government debt to much below the existing 90 per cent of GDP.

UNBLOCK

Mere mortals need Twitter to rant and rave. For West Bengal Governor, CM it should be the opposite

EVEN BY THE hyper-partisan standards of Twitter, a chief minister of a state blocking the governor on a social media platform is bad form. But West Bengal Chief Minister Mamata Banerjee has gone ahead and done just that. She blamed her ire on the frequent comments of Governor Jagdeep Dhankhar, who she accused of trying to become a "super paharadar (guard)" over an elected government. Several Trinamool Congress leaders have followed their leader – they too have blocked the governor's tweets. Dhankhar, who, it has to be said, is not known for a record of restraint or reticence in keeping with the constitutional office he holds, most recently called West Bengal a "gas chamber" of democracy. Neither the friction, nor the war by hyperbole between the chief minister and the governor is surprising. But this – refusal to even communicate -- is a new low.

Some would argue that Banerjee's decision is mere grandstanding, with little real-world effects, and hence unimportant in the larger scheme of things. Or, that in the hurly-burly of social media, where few rules of etiquette anyway apply, chief ministerial conduct cannot be held to unrealistically high standards. But it must be remembered that the constitutional relationship between a chief minister and the governor is bound by propriety and decorum. It does not allow, surely, one to block another, like a common troll. Even if the relationship comes under strain, it does not behove the West Bengal Chief Minister to use the weight of her office to settle a petty verbal duel.

The world over, the use of social media platforms by politicians has eroded the common or middle ground of public spheres. While the "real world" task of politics, by definition, is about negotiating and navigating conflicting points of view, social media has only licensed confrontation and adversarial aggression. It indulges the leader's fantasy of an Opposition-mukt or criticism-free public discourse. But blocking Dhankhar's tweets does not really achieve much beyond the dopamine high of point-scoring. Neither does the governor's over-enthusiasm for using his Twitter handle as a megaphone for his dissatisfaction serve the cause of his office. Both Banerjee and Dhankhar need to signal a ceasefire in their hostilities. Like for much of West Bengal, a chat over tea at Raj Bhavan might help.

The struggle to spend

Governments face a new fiscal situation: They have more funds than they can allocate

NEELKANTH MISHRA

FOR ALL OF the last decade, the primary metric for evaluating budgets was the fiscal deficit. How much would the government target to bring it down by, and how credible were the numbers? The source of that stress was the massive stimulus set in motion by the government well before the global recession showed up, as it was inundated by taxes in the 2006 to 2008 period. The challenge with that stimulus was that it was hard to roll back, much of it being a large increase in state and central government salaries and pensions.

The narrative after the recent economic downturn could not have been more different. It is now "how much can the government really spend"?

Tax collection is surprising positively, and should be more than 1 per cent of GDP higher than before the Covid-19 lockdowns (though assumptions are lower). Further, financial markets appear to be expecting both central and state governments to incur large fiscal deficits for several years, with the anchor shifting higher by 3 per cent of GDP. Let us assume that GDP being below where it was supposed to be if the pandemic had not happened means an extra per cent-and-a-half of costs for the government. Interest costs have risen as governments borrowed to bear a large part of the economic loss during the lockdowns. Further, some government expenses, like salaries and pensions, keep rising irrespective of the level of GDP. This still leaves 2.5 per cent of GDP of space for governments to increase spending.

Even for governments, it is difficult to spend such large sums productively at short notice. Struggling to spend, the central government has been clearing arrears and bringing into the budget expenditures that were earlier off the budget. Last year, it did so with the fertiliser and food subsidies, and this year, the use of extra-budgetary resources has dropped to nearly zero. Further, more than Rs 50,000 crore of export incentives were paid, in addition to a similar amount for the debt write-off for Air India. While the transparency this brings is commendable, and clearing of arrears is prudent, they do not add to aggregate demand.

In any case, despite these efforts, government cash balances with the RBI are now at a record high of Rs 5.5 trillion; for perspective, this number should be around half a trillion in normal times. We estimate that more than half of this is cash parked by state governments.

> If the tax-to-GDP ratio continues to climb, as it appears likely to, fiscal space may continue to expand, even if headline deficit ratios fall as planned over the next four years. While a permanent increase in government spending may be unwise until we are sure this trend will last, a surge in unused sums also runs the risk of some governments getting tempted into wasteful expenditure.

The challenge for the next year remains much bigger. During the pandemic, the distribution of free grains, higher demand for MGNREGA work, and free vaccinations necessitated significant government spending. The surge in fertiliser prices also meant higher fertiliser subsidies. However, nearly none of this is required next year (fertiliser prices should normalise going forward). How, then, can the spending be maintained, or, to stretch things a bit, boosted?

The sharp increase in capital expenditure from Rs 5.45 trillion to Rs 7.5 trillion shows the intent of the government is to stay away from distributing freebies (commendable, given the upcoming state elections), and focus instead on productive spending, which may be rolled back if necessary. However, half of this increase is an allocation for interest-free loans to state governments for capital expenditure, and some of the rest is the inclusion of off-budget provisions in last year's budget in the budget numbers this year. There are increases in the allocation for defence (particularly once adjusted for the lower spend on aircraft purchases this year), the Nal se Jal scheme, and for roads and railways, but these are incremental rather than substantial.

Allowing state governments more fiscal space (deficits up to 3.5 per cent of GDP are allowed, with another half a per cent if the state undertakes power sector reforms), and dangling the carrot of more funding if they undertake capital expenditure is the right approach in theory. Much of the necessary investments need to occur at the state level: Like in health, education, urban infrastructure, water supply, sanitation and power distribution. However, the gap between states' intent to spend and their execution has widened substantially during the pandemic, and their total spending is far lower than budgeted, despite increases in non-discretionary expenses like interest costs, salaries and pensions.

The budget also seems to have built significant buffers in tax receipts. Growth in gross taxes has been north of 40 per cent for the first nine months of this fiscal year, and 21 per cent in the last three months, including in December. Yet, assumptions in the revised estimates for this year imply a decline in taxes in the last quarter. On this low base, the assumed growth for next year is small as well. The 11.1 per cent growth assumed for nominal GDP is below consensus, which itself needs substantial upgrades, in our view.

The reluctance to increase permanent expenditure heads for the government is prudent, for one never knows when the narrative may change. However, keeping deficits high without meaningful expenditure means the worst of both worlds: Large headline deficit numbers push interest rates higher for borrowers, whereas the benefits of higher government spending are missing. The delay in clarity on India's inclusion in global bond indices, which needed some clarity on taxation, is also a concern for bond markets. A premature rise in interest costs is as much a monetary as a fiscal issue, particularly given elevated sovereign debt levels. This can delay fiscal consolidation.

This is a new fiscal situation for governments (the Union as well as states) — having more funds than one can spend. But this may not be the last year of such a challenge. If the tax-to-GDP ratio continues to climb, as it appears likely to, fiscal space may continue to expand, even if headline deficit ratios fall as planned over the next four years. While a permanent increase in government spending may be unwise until we are sure this trend will last, a surge in unused sums also runs the risk of some governments getting tempted into wasteful expenditure. During this year, if government cash balances keep rising, and states are unable to scale up spending even after lockdowns are lifted, the government having to reduce its borrowing targets remains a possibility.

The writer is co-head of APAC Strategy and India Strategist for Credit Suisse

SETTING THE STAGE FOR GROWTH

Budget 2022 resolves legacy issues, focuses on the future

AKHILESH MISHRA

THE BUDGET FOR FY 2022-23 has been presented in unique circumstances. Read along with the Economic Survey, it offers a convincing case of its economic management. Legacy issues have been resolved and the stage set to make this India's decade of growth. In an earlier speech, PM Narendra Modi referred to the 2020s as "techade". It may also be the "growthade".

Consider the structural legacy issues inherited from the UPA and how they have been resolved.

First, the chronic NPA problem. Solved. Gross and net NPA ratios are steadily declining. Second, low bank capitalisation was adversely affecting credit, thereby affecting investment. Solved. The capital-to-risk weighted ratio is now over 16.5 per cent from below 13 per cent in 2013-14. Third, the indirect taxation mess was hampering capital efficiency. Solved. GST has now stabilised, with over Rs 1.4 lakh crore collections in January 2022. Fourth, sluggish private sector investment. Solved. There has been record resource mobilisation through IPOs from a low of Rs 1,500 crore in 2013-14 to 1.04 lakh crore in 2021-22 (April-December). Fifth, stalled infrastructure creation. Solved. National highways doubled from 71,772 km in 2011 to 1,40,152 km in 2021. Operationalised airports doubled from 62 in 2016 to 130 in 2021. Sixth, stalled privatisation and disinvestment. Solved. The privatisation of Air India is now complete. Other sectors like space, IT-BPO, drones, coal mining and geospatial mapping have been deregulated.

> The hugely successful ECLGS scheme, which provides credit to the MSME sector, has been extended by another year with an overall outlay of Rs 5 lakh crore, and Rs 50,000 crore is reserved for just the hospitality sector. With over Rs 2.7 lakh crore budgeted for direct benefits transfer to farmers as MSP, the rural economy will continue to be infused with cash. The huge increase in capex and infrastructure spends, especially in rural areas — such as the Rs 48,000 crore for housing and Rs 60,000 crore for household tap water — will create a virtuous cycle of jobs, consumption and growth in the rural sector.

The pandemic created its own problems. Yet, India today is the fastest-growing major economy in the world, with growth pegged at 9 per cent or above by most major financial institutions. Here is how the budget sets the agenda for the "growthade".

First, by empowering the future industry. The taxation of virtual digital assets will bring them into the mainstream, making India a hub for the productive use of this resource. The drone industry, already opened to private enterprise, has been given a huge captive market by integrating it with agriculture. The battery interoperability protocol for electrical vehicles is potentially a game-changer as it resolves the conundrum of long charging times. The introduction of the government's own digital currency, using blockchain, will further boost the digital economy.

The time frame for availing the 15 per cent tax rate for new manufacturing units being extended till 2024 and tax incentives for start-ups being extended by a year will give impetus to sectors that have flourished in the last few years and created jobs. With over 25 per cent spending reserved for private-sector R&D and over 68 per cent of the defence procurement budget reserved for domestic industry, the military-industrial complex is finally on its way in India.

Second, empowering the 80 per cent to empower India. The hugely successful ECLGS scheme, which provides credit to the MSME sector, has been extended by another year with an overall outlay of Rs 5 lakh crore, and Rs 50,000 crore is reserved for just the hospitality sector. With over Rs 2.7 lakh crore budgeted for direct benefits transfer to farmers as MSP, the rural economy will continue to be infused with cash. The huge increase in capex and infrastructure spends, especially in rural areas — such as the Rs 48,000 crore for housing and Rs 60,000 crore for household tap water — will create a virtuous cycle of jobs, consumption and growth in the rural sector.

Third, a cycle of investment, which creates jobs that generate higher incomes, inducing greater consumption and driving higher growth, thereby fueling more investment. All the enhanced investment is in productive assets, and they create jobs across the skills value chain: Unskilled to semi-skilled jobs in rural areas through PMGSY and housing (over 80 lakh houses) and tap water connectivity (over Rs 1 lakh crore), semi-skilled jobs through Gati Shakti and national highway construction (25,000 km), skilled jobs in manufacturing sector, highly skilled top-end jobs in startups and high-end tech jobs in the defence manufacturing industry. The PLI schemes will generate over 60 lakh jobs and over Rs 30 lakh crore of new production.

Taken together, the economic management by the PM's team and the budget proposals are well-positioned to make India the growth driver of the world economy in the 2020s. This "growthade" will be the story to watch out for.

The writer is CEO, Bluekraft Digital Foundation and was earlier director (content) MyGov

FEBRUARY 2, 1982, FORTY YEARS AGO

KERALA ASSEMBLY

ON A DAY of high drama in the Kerala Assembly, the Speaker and Deputy Speaker resigned to join the ranks of the opposition and the Janata Legislature Party split to give a one-vote edge to the ruling side. The Assembly, which met in the morning adjourned abruptly, as the speaker, A P Kurian, a motion for whose removal was listed first on the agenda, made the dramatic announcement of his resignation. The Deputy Speaker, Zakaria Saif, who accepted the resignation and took the chair, announced the adjournment of the House and his own intention to resign. Minutes before the Assemby session started, the five-member Janata Legislature Party split formally, with three members — Mr P Bhaskaran, Mr P C Thomas and Mrs Kamalam — walking out to offer their support to the one-month-old Karunakaran ministry, in defiance of the party high command's directive.

LOK DAL TURMOIL

FOUR SENIOR LEADERS of the Lok Dal revolted against their party chief, Charan Singh, for his "unilateral" dissociation with the co-ordination committee set up last month to facilitate the merger of the Lok Dal, the Janata Party and the Congress (S). Biju Patnaik, George Fernandes, Karpoori Thakur and Kumbha Ram Arya, in a joint requisition, asked Charan Singh to convene immediately a meeting of the Dal's parliamentary board to discuss his action.

ISRAELI INTELLIGENCE

A CENTRAL INTELLIGENCE Agency document which fell into the hands of the Iranian authorities when the US embassy was captured reveals some astonishing details of Israel's worldwide intelligence network. It discloses, among other thing,s that some of the Muslim countries professing support for the Arab cause have, in fact, close relations with Israeli intelligence.

THE IDEAS PAGE

WHAT THE OTHERS SAY

"If Tory MPs choose to keep Mr Johnson after this debacle, then they will have shown to have had no regard for standards in public life or integrity in parliament."

— THE GUARDIAN

Voices the budget didn't hear

Budget avoids populism, but encroaches on states' domains. Its problematic politics is evident in low allocations to health, MGNREGA, absence of policy push on employment generation, protection

PALANIVEL THIAGA RAJAN

THE ANNUAL BUDGET is a statement of the government's economic philosophy. It translates into numbers the principles and priorities that guide the government's actions. Most politicians would agree that reduced communication and feedback are the unfortunate but inevitable corollary of increasing responsibility and authority. More so at the Union than at the states, the key is to ensure that the finance department doesn't shape policy with the inputs of only those who can reach the rarified corridors of power, and makes conscious efforts to seek out the voices of the under-privileged who are rarely heard. In that context, I fear that this budget leaves something to be desired.

But let me start with the positives. That the Union finance minister spoke in English (instead of Hindi as in the past) was welcome for many reasons, starting with my own ability to fully understand her speech. It also behooves India's standing in global markets that her speech should be immediately and directly accessible in a widely spoken language. The restraint shown in not descending to irresponsible populism even on the verge of elections in many states is to be highly commended. As is the Union government's holistic approach to many programmes under a single umbrella. The progressive view on several leading-edge technologies, including the promised blue-print for battery-swapping to encourage the adoption of electric vehicles, and the incentives for the creation of green jobs are visionary elements. The continuation or extension of MSME relief programmes shows the government has not lost all touch with the stark problems facing MSMEs even now.

But true to the form of the past few years, the budget was tinged with "one rule for us, another for you" hypocrisy and increasing intrusion into the states' rights. For example, the Union's fiscal deficit is well above 6 per cent and projected to stay there in the coming year. The projected glide path to a 4 per cent fiscal deficit stretches to 2025-2026. Yet the Union sets the state's fiscal deficit limit at 3.5 per cent unconditionally (about half of its own level), and at 4 per cent conditioned on power sector reforms. The continuing expansion of centrally sponsored schemes even while shifting the burden of many programmes to the states, is characteristic of the anti-federal nature which is at this government's core.

Exquisitely creative accounting is another hallmark of this government, as evidenced by the absorption of FCI loans (till-then accrued off the government's books) in FY '20 to indicate increased capital expenditures (as promised but not delivered in actual projects) during the pandemic, or indeed the capture of over Rs 50,000 crore of Air India's liability settlement in this year's Revised Estimates to show increased capital investments as a function of increasing revenues. But the true work of art — even by Wall Street standards — is the transfer of spending on various grants and schemes into the Rs 1 lakh crore interest-free long-term loan to states. This accomplishes the triple-magic of converting grants to loans, revenue spending to capital investment, and showing an eye-watering 35 per cent year-over-year increase in annual capital investments.

My other broad concerns are the usual suspects. The penchant to name everything "Pradhan-Mantri XYZ", instead of "National XYZ", or indeed, just "XYZ". The laser-like focus on naming, framing and marketing irrespective of the delivery is bound to catch up with the country someday. A classic example of outcomes falling way short of announcements is the Saksham Anganwadi Programme, under which 2 lakh anganwadis are targeted for improvement. Yet the response to an RTI request on this programme (budgeted at over Rs 20,000 crore) in December 2021 stated: "This ministry has no information to furnish as Objectives of Saksham Anganwadi and POSHAN 2.0 is not yet finalised."

In some cases, the focus on "political publicity value" is precisely counterproductive. For example, it makes no sense that the countermeasure to overcome two years of the ills arising from "remote learning", should be more remote learning with the catchy slogan of "One Classroom, One TV" and label of "E-Universities"!

The announcement of "One Nation, One Registration" is also puzzling. Registration is a state subject under the Constitution, and most states have inadequate electronic land ownership records even now. Further the rates, concession policies, and validation protocols, all of which are crucial to both states' revenue as well as effective control of criminal fraud, vary greatly across states. In fact, the land classification system itself varies across states. Given these circumstances, this is a case of kite-flying at best, or an extreme case of poor judgement at worst.

Exquisitely creative accounting is another hallmark of this government, as evidenced by the absorption of FCI loans (till-then accrued off the government's books) in FY '20 to indicate increased capital expenditures (as promised but not delivered in actual projects) during the pandemic, or indeed the capture of over Rs 50,000 crore of Air India's liability settlement in this year's Revised Estimates to show increased capital investments as a function of increasing revenues.

The reduction of surcharges for corporates from 12 per cent to 7 per cent is also puzzling considering stock indices are at record highs. Corporates are earning record profits and sitting on huge piles of cash while private investment is still in the doldrums, and the overall ratio of direct to indirect taxation has skewed grossly towards regressive indirect taxation. As is the (merely) marginally higher fiscal allocation for defence in the face of increasing aggression from China (defence only up 5 per cent).

The inherent contradiction between a long-term policy vision founded on "*atmanirbharta*" while expecting to scale up exports in a big way seems a bit contradictory. Will other countries really ramp up purchases of our goods and services while we scale down purchases from them as we become increasingly domestically self-reliant? Time will tell.

But the biggest disappointment is reserved for what did not feature in this budget. No holistic approach (like the other PM–XYZ schemes) for either social sector spending or employment generation and protection (MGNREGA budget allocation is 20 per cent below this year's R.E.), even as we are yet to come out of the second year and third wave of the pandemic — one that has greatly exacerbated inequality and affected most of the bottom two-third of our country.

Perhaps my fears of the inherent risk in budget preparation have been realised, and the right voices did not feature adequately at the right place and time.

The writer is Finance Minister, Tamil Nadu

The missing focus on health

It seems no lessons have been learnt from the pandemic. Budget has little by way of building people's resilience

K SUJATHA RAO

The Covid pandemic has amply demonstrated the health sector's direct and indirect intersectoral impacts and its devastating power in creating disruption. It was, therefore, not surprising to see its imprint on the Economic Survey.

Given the learnings of the pandemic, it was reasonable to expect a "health-centred" budget. That was not to be. The budget's main focus is on increasing capital expenditures for expanding the economic infrastructure under the PM Gati Shakti scheme. TV discussions centred around the GDP, as if a 7.7 per cent or an 8.2 per cent recovery holds any meaning for the millions who have been impoverished by the pandemic-induced income losses, hunger, sickness and trauma.

Inequalities have widened. An estimated Rs 70,000 crore have been spent by the people out-of-pocket in this short time for medical treatment that the government ought to have provided. Spending at a time when earnings were down, pushed millions below the poverty line and hunger has emerged as a major issue placing India low on the malnutrition and hunger index rankings. Children have lost two years of schooling that in real terms will be three, as they have lost what they had learnt when they last went to school.

The budget allocation for the post-Covid year is a princely amount of Rs 83,000 crore, up by 16.4 per cent over last year's Rs 71,268 crore. The budget for the flagship National Health Mission that funds all health initiatives in partnership with the states has been increased by 7.4 per cent from Rs 36,576 crore to Rs 37,000 crore. It is under the NHM that all disease control programmes and reproductive and child health programmes including immunisations -- they pertain to ailments that cost little to treat, but are life and death for the large masses of the poor — are implemented. Covid resulted in an over 30 per cent shortfall of coverage under all these programmes giving rise to fears of drug-resistant HIV and tuberculosis and left lakhs of children unprotected from vaccine-preventable diseases. These programmes required a much bigger boost alongside strategies to ensure they are insulated from another viral outbreak. But do we care?

Instead, the obsession is with digitisation. How does a digitised health record help a patient in ICU? What India's health system requires are strong policies that enhance the availability of doctors and nurses and access to drugs and diagnostics.

Another announcement by the FM was establishing 23 telehealth centres of excellence for mental health. Why a special mention in the speech when the mental health budgetary allocation was increased only nominally — from Rs 597 crore to Rs 610 crore? Mental health impacts over 6-8 per cent of our population and is a major unaddressed epidemic, estimated to cost the economy $1.03 trillion and accounting for 2,443 disability-adjusted life years per 1 lakh population — equal to cardiovascular diseases and more than stroke or COPD. Addressing this requires the implementation of the Mental Health Act through an infusion of substantial money, ideas and imagination. We have a severe shortage of trained human resources, drugs are expensive and services are scarce and unavailable in most parts of the country.

The budget outlays for public hospitals has increased by 30 per cent — from Rs 7,000 crore to Rs 10,000 crore — though the much-needed investment for strengthening the surveillance system has a nominal 16.4 per cent increase. The flagship Ayushman Bharat health insurance scheme (PMJAY) continues to be grossly underfunded at Rs 6,412 crore — the same as last year. But then it had, quite strangely, spent only Rs 3,199 crore despite the huge medical needs people faced on account of the pandemic. An important takeaway ought to have been greater investment in health research. It has seen a miserable 3.92 per cent increase from Rs 2,663 crore to Rs 3,200 crore. It is out of this inadequate budget that the network of laboratories are expected to be built till such time additional money is mobilised from the World Bank or ADB.

This year, the health budget was required to build the required resilience so that we never go through the disruptions we have witnessed. Sadly, it contained neither a vision nor a direction towards bridging the glaring gaps in the health system. Despite all the evidence and data, year after year, we only lament the poor health budgets that have been stuck at about 1.5 per cent of the GDP.

At the end of World War II, England had a flattened infrastructure, a wrecked economy and a tired people. Yet, the political leadership had the courage to announce a National Health Service — universal free health care to all — on grounds that "Social insurance fully developed may provide income security; it is an attack upon want. But want is only one of the five giants on the road to reconstruction and in some ways the easiest to attack. The others are disease, ignorance, squalor and idleness." Given that India too needs a massive building up of its economy to ensure a minimum quality of life for all its people, we need to envision a transformative change by attacking inequality, disease and ignorance by investing in health, education, nutrition and employment to ensure equal opportunities. Covid gave us that opportunity. It's a pity we missed seizing it.

The writer is former Union Health Secretary

Letting down the bottom half

Budget does little to address inequality, insecurity of poorest households

AMIT BASOLE

THIS YEAR'S UNION Budget, presented to Parliament by Finance Minister Nirmala Sitharaman, is the second budget during the pandemic period. As with last year, the twin challenges this time were offering vital income support to poor and vulnerable households which have suffered greatly during the pandemic, while stimulating broad-based recovery in growth. The two goals are intimately connected. However, even more than last year, this budget does not make direct provisions for the former.

The Economic Survey provides the context for the decisions made in the budget. The survey emphasises rapid economic growth of 9.2 per cent in 2021-22. But given the low base effect of the pandemic year, it is more instructive to compare real GDP in 2019-20 (the pre-pandemic year) to that in 2021-22. This comparison reveals modest growth of 1.26 per cent. This is not nothing. It indicates that the losses of the pandemic were made up for completely and then some, during the past year, at least in aggregate terms. But when we look at the composition of this recovery, some worrying signs emerge. Consumption, which is the largest part of the GDP, is still short of its pre-pandemic value in real terms by 3 per cent. Government spending is up 10 per cent while private investment is up by 2.5 per cent, indicating that public investment has driven the recovery.

As is well known, the GDP numbers do not capture the informal sector adequately. Here we must rely on household surveys. As per nationally representative household data from the CMIE, employment has been back to its pre-Covid levels for several months now, but incomes remain stagnant at around 80 per cent of their pre-pandemic levels. That is, the average household has lost almost a year and a half to depressed incomes. Recall that, as per the Periodic Labour Force Survey data, the average Indian worker earned only around Rs 11,000 a month prior to the pandemic, and a monthly income of Rs 50,000 per month placed a worker in the top 5 per cent of the income distribution. In this context, a persistent income gap over more than a year, signifies almost certain hardship. Indeed, multiple smaller surveys show a large build-up of informal debt and households resorting to pawning jewellery to make ends meet. Food insecurity also persists.

Given this macro and welfare context, the budget ought to have substantially increased total fiscal outlay, in part towards capital expenditure and growth, and in part to an expanded safety net. In fact, the total outlay for next year is 39.4 lakh crore, up from 37.7 lakh crore, the revised estimate for 2021-22. In real terms, assuming inflation of 5 per cent next year, this means that the total spending is approximately the same for the coming year as it was in this year.

We can look at two key big ticket social expenditure items, MGNREGA and PDS, to get a sense of the thinking behind the budget. During the first pandemic year, the total allocation for MGNREGA was Rs 1,11,170 crore. Field reports and surveys indicated that this was inadequate given the large increase in demand for work under the programme from returning migrants as well as distressed rural workers. In the second pandemic year, the budgeted amount was reduced to the pre-pandemic level of Rs 73,000 crore. However, distress and the resulting sustained high demand for work under the programme forced the government to increase the outlay, which finally rests at Rs 98,000 crore for the current financial year. Even this is not adequate, given the prior pending wage payments and the current demand. Hence the budget estimate for the coming year, once again at Rs 73,000 crore, is nowhere close to sufficient. It is likely that more funds will be released over the course of the year as needed.

The amount budgeted for foodgrains delivered via PDS has also been reduced from Rs 2,10,929 as per the revised estimate of 2021-22 to Rs 1,45,920 in the coming year. This too reflects the thinking that the worst effects of the pandemic, reflected in increased hunger, are safely behind us. But this is not the case. And even if households are now earning enough to meet their basic food needs at the pre-pandemic level, provisioning of expanded rations will enable them to devote some resources to other ends, such as paying down debt or increasing consumption on other items. This will improve their living standards as well as contribute to increased aggregate demand.

Before concluding, a small point worth noting, given the continuing debate on the state of economic statistics in the country, is that last year's budget allocated Rs 28 crore for the National Programme for Improving Quality of Statistics in India. But the revised estimates show that nothing was spent on this programme and its allocation for the coming year has been reduced to a token Rs 0.01 crore.

In sum, the Union Budget scores reasonably well on the continued emphasis on alleviating supply-side problems via infrastructure investment and improving ease of doing business. But it scores poorly on spending that will compensate the bottom half of Indian households for the enormous sacrifices made during the past two years. To the extent that this means continued low levels of aggregate demand, it also risks a return to slow economic growth once the base effect of 2020-21 has disappeared.

The writer heads the Centre for Sustainable Employment at Azim Premji University

LETTERS TO THE EDITOR

COSMETIC EXCERCISE

THIS REFERS TO the editorial 'Ramp up support' (IE, February 1). The customary economic survey report presented every year by the Union Finance Minister hogs the limelight for a day and is over-shadowed by the budget next day. The annual budget is equally a cosmetic exercise, devoid of any sanctity and accountability. For one, GST on goods, especially fuel prices, is revised time and again keeping common man perpetually on tenterhooks. Even after the budget ,the various financial packages and programmes are rolled out around the year which are politically motivated and reek of crony capitalism. Secondly, the government is never held accountable for not meeting the targets spelt out in preceding fiscal year. Failed disinvestment is a textbook case. Therefore painting a rosy picture year after year does not cut much ice when ground reality is at variance. More and more people are being pushed into poverty, people are struggling to make both ends meet and are left to fend for themselves.

Deepak Singhal, *Noida*

TELL THE TRUTH

THIS REFERS TO the editorial, 'Court and Pegasus' (IE, February 1). The NYT's claim that Pegasus was a larger backroom deal makes the issue even more serious. If the findings are true, the Indian government not only jeopardised citizens' privacy but also violated the core principles of the Constitution. Shockingly, this subversion of democracy was done with public money. One eagerly awaits the results of the probe into the matter by the Supreme Court panel. National security is no excuse for spying on citizens.

S S Paul, *Nadia*

THIS REFERS TO the editorial 'Court & Pegasus' (IE, February 01). The government must come out clean on this issue, especially, when such software is capable of planting incriminating material in the devices of the targeted persons without their knowledge. Such forged evidence is then likely to be misused against the targeted persons as has allegedly happened in the cases of Surendra Gadling and Rona Wilson reported by The Washington Post in July 2021. This software is potentially capable of subverting the fundamental rights of the citizens by way of denial of privacy and justice. The Supreme Court panel must act fast before the irreversible damage is done to the constitutional safeguards provided to the citizens.

Pritam Singh, *Jaipur*

WELCOME SURVEY

THIS REFERS TO the article, 'The room to grow' (IE, February 1).This year the survey has made a welcome recognition of the need for flexible policies that encourage economic flexibility through innovation, entrepreneurship and risk-taking on one hand, and simultaneously invest in resilient infrastructure, social safety-nets and macro-economic buffers on the other.

It is heartening to see that India did not waste its scarce fiscal resources in trying to pump up discretionary consumption and instead focussed on ushering process reforms to position the government as a facilitator of economic activity.

Shreyans Jain, Delhi

C R Sasikumar

‘Through public spend, there will be crowding in of pvt investments’

Finance Minister Nirmala Sitharaman said a virtuous cycle can happen only with the government leading the way. Excerpts from her post-Budget interview with *DD News*

Illustration: Shyam Kumar

How would you characterise the Budget?

That time when I made that statement (“once-in-a-hundred-year Budget”) that this Budget is being prepared at a time that once in a 100 years pandemic has hit us and we are preparing this Budget. But it so turned out that everyone started saying that it is a “once-in-a-hundred-year Budget”. No no, (this) Budget was being prepared in a once-in-a-100-year situation. But never mind, that stuck with me in a way.

But this Budget is a Budget for continuity, it certainly is a Budget for sustaining the stimulus, which is being given. We want to honestly undertake the public investment in asset creation, public infrastructure expenditure and only through this we feel, there will be a crowding in of private investments. So the virtuous cycle can happen only by the government leading the way and we have unhesitatingly come forward. Otherwise, within one year, capital expenditure going up from Rs 5.5 lakh crore to Rs 7.5 lakh crore in not small and ... within this Rs 7.5 lakh crore, we have given Rs 1 lakh crore to the states as a 50-year interest free grant and that’s not going to be cutting down on their borrowing.

Earlier, India did not use to have the resources. But now, back-of-the-envelope calculations suggest that at least Rs 20 trillion of resources are available. Which means you need about Rs 60 trillion worth of projects. So we do not have at this stage, the shovel-ready projects, do you think that will pose a constraint on this growth?

No, I don’t think. Since after the introduction of the National Infrastructure Pipeline, which was end ’19 and early ’20, we had been adding a lot of projects as well to that list and many states have come with very well-designed projects with which we are able to move forward. Over and above what is in that, there is also a keenness now among states to compete for renewable energy related projects. We find a lot of states coming up with very doable projects, and also when sovereign funds from abroad come to India, they are looking for projects, which are scalable. They want projects of that size, they don’t want to invest in ten projects, rather invest in two. We’ve also given them a lot of fiscal benefits and the emphasis that PLI has brought in, ... the business has understood that it is for incentivising production at a scale. So every unit that is getting added, is getting added to a particular level. Many states have shown keenness even on that, and therefore I see the approach to large projects, which has an impact, multiplier effect, impact on immediate job creation.

Does the Budget recognise cryptos as an asset class but not as a currency?

I am not yet doing any of that ... I want you to give me the opportunity to explain it. There is a process of consultation, which is going on, about crypto ... Before the consultation is completed, I won’t be able to do anything on regulating them or formalising a framework for regulation for them, this is one side of the story. Second is, everything that is crypto cannot be a currency. What is a currency? A currency is something which is issued by as a fiat. It is issued by the authorities concerned, by the government or the central bank. If they show something, even if it is digital, only then can it be currency. What happens in the world of crypto, otherwise, is they are creating very many different types of assets, using the digital technology and also using the distributed ledger technology. All of them are not necessarily currency. Currency is that which comes from a central bank, which has the authority to issue currency. So what we have now made a provision for, is for the Reserve Bank of India to issue a digital currency. And that obviously will be riveted in, or based on certain value of gold, or money or government assets or something of that kind. So it will be asset-backed. It will be sovereign-backed in a way, so that is what is currency. The rest ... we don’t know yet how we are going to regulate them, because consultation is going on. However, because there is a lot of buying and selling and transacting, resulting in some kind of a profit and it is a sovereign right to tax such transactions and profit making, I have come up with a proposal for a taxation on them and that is to an extent of 30 per cent for profits earned out of such transactions and also a TDS. So that I know who is buying and selling. In the sense, what is the transactions about, money trail, whether it is a) money or b) money ... whatever. So, the taxation is on those activities, which are not currency, currency is with the Reserve Bank, but these are some kind of assets being bought and sold, various types of it, I am taxing them.

You have assumed a growth of 11.1 per cent in the next fiscal. What is the logic of this?

It’s not underpromising, it’s being realistic, one. And secondly, when last year’s Budget was brought in, we hadn’t seen Omicron, we hadn’t seen the second wave, at that time, before the second wave, I had given the, Budget. Now second wave has come, hopefully it has gone, now Omicron is on, but even more you have the US Fed, you also have the international crude oil prices going up, metals have become very expensive. So, we will have to keep all this in mind. We are not getting into details of which is considered a challenge, which is considered a headwind, which is not, but at the same time, I think Prime Minister has been very clear that we will have to work out to make the Budget a lot more...a speaking document, it should say what it has, there’s no point in saying things beyond a certain...and that’s what we have followed.

The middle-class have been hurting for the last two years and the anticipation among them is always linked to some tax-break. So, I heard you, you said that I did not raise taxes for the last two years. So, what is your message for the middle-classes?

I fully recognise, every section of the society has suffered, middle-class has definitely suffered but when we talk about middle-class I understand, you understand, all of us understand and each of us also perceive that there is an element of middle-class in us also and therefore we understand the element of suffering. But yet we also belong to some other group, for instance if you or your brother or your son would start a startup and he gets benefits, isn’t that middle-class? If his children are going abroad and if I give them all the facility to transfer money for their education abroad and give them also a passport, which is going to be futuristic and ensure that when they come back they can have a skilling programme and I also make sure that high-class universities are set up in India, isn’t that not addressing the middle-class? And similarly, would we want to think that the farmers are not middle-class? Would they not get benefits, will we think that the MSME running person is not middle-class, so middle-class is a large spectrum, which has that middle-income as being the common factor, but are spread across the board, in one or the other way the government is dealing with it. Affordable housing, is that not for middle-class?

TRANSCRIBED BY MEHR GILL

> PRIME MINISTER HAS BEEN VERY CLEAR THAT WE WILL HAVE TO WORK OUT TO MAKE THE BUDGET A LOT MORE...A SPEAKING DOCUMENT, IT SHOULD SAY WHAT IT HAS, THERE’S NO POINT IN SAYING THINGS BEYOND A CERTAIN...AND THAT’S WHAT WE HAVE FOLLOWED

> THERE IS A PROCESS OF CONSULTATION, WHICH IS GOING ON, ABOUT CRYPTO ... BEFORE THE CONSULTATION IS COMPLETED, I WON’T BE ABLE TO DO ANYTHING ON REGULATING THEM OR FORMALISING A FRAMEWORK FOR REGULATION FOR THEM, THIS IS ONE SIDE OF THE STORY

FROM UJJWALA, NAL JAL TO INTERNET ECONOMY

People-friendly, creates new opportunities for jobs and growth: PM

ENS ECONOMIC BUREAU
NEW DELHI, FEBRUARY 1

THE UNION BUDGET was “people-friendly, progressive” and full of possibilities for infrastructure, investment, growth and jobs, Prime Minister Narendra Modi said on Tuesday.

Modi said, in a televised statement, that an important aspect of the Budget was the welfare of the poor.

“The Budget aims to ensure pucca house, toilet, tap water and gas connection for every poor household. At the same time, the focus is on modern Internet connectivity also,” the Prime Minister said.

The Budget this year has come with new confidence of development amidst the once-in-a-century calamity, Modi said, adding that it will create new opportunities for the common people along with providing strength to the economy.

The Prime Minister said the Budget is “full of opportunities for more infrastructure, more investment, more growth, and more jobs”.

“This will further open the green job sector. This Budget not only solves contemporary problems but also ensures a bright future for the youth.”

Modi said the Parvatmala scheme will create a modern system of transportation in hilly areas such as Himachal Pradesh, Uttarakhand, Jammu and Kashmir and the Northeast.

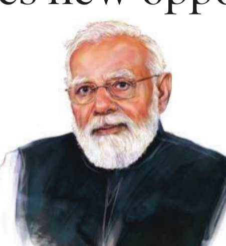


Illustration: Suvajit Dey

“The quest for modernity and technology in every sphere of life through steps such as drones for farmers, Vande Bharat trains, digital currency, 5 G services, national digital health ecosystem will hugely benefit our youth, middle class, poor, Dalit and backward classes,” he said.

Along with the cleaning of the Ganga, which is the centre of faith of millions of Indians, the government will encourage natural farming on the banks of the river in the five states of Uttarakhand, Uttar Pradesh, Bihar, Jharkhand and West Bengal, the prime minister said.

“This is a significant step for the welfare of the farmers and will also help in making the Ganga chemical-free.”

He said the provisions in the Union Budget also aim to make agriculture lucrative and full of new opportunities.

“Measures such as a special fund for encouraging new agriculture startups and package for food processing industry will help in increasing income of farmers. More than Rs 2.25 lakh crore are being transferred in the accounts of farmers through MSP purchase,” he said.

Modi said along with a record increase in the credit guarantee, many schemes have been announced in the Budget.

“India’s MSME sector will be greatly benefited by the reservation of 68 percent of the Defence Capital Budget for the domestic industry. Rs 7.5 lakh crore worth of public investment will give a new push to the economy and create new opportunities for small and other industries,” he said.

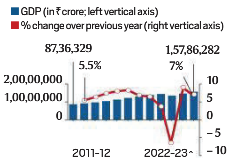
Later, in a series of tweets, he said, “Today’s #Aatmanirbhar BharatKaBudget brings with it new energy and strength to our development trajectory, especially at a time when we are courageously fighting a once-in-a-lifetime global pandemic. This Budget brings more infra, more investment, more growth and more jobs.”

He said people from all walks of life have welcomed the ‘Aatmanirbhar Bharat Ka Budget’ and the youth of India see this Budget as one that will give wings to their ambitions.

The emphasis on futuristic technologies in all spheres is noteworthy and will benefit a cross section of our citizens, the prime minister said. Modi said this year’s Budget caters to the development needs of people in remote areas, hill states and those states on the banks of the Ganga. This is in line with our focus on all-round and inclusive development, he added.

There are many provisions in this Budget aimed at transforming the agriculture sector including ensuring credit, record MSP, boosting food processing and encouraging start-ups in the sector, Modi said. **WITH PTI**

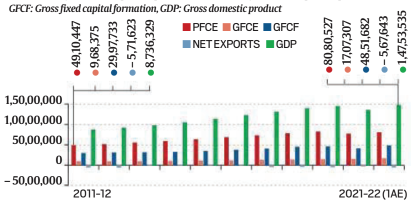
GDP



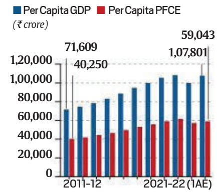
2018-19: Third RE; 2019-20: Second RE; 2020-21: First RE; 2021-22: First Advance Estimates; 2022-23: Assuming 4% inflation and 7% real growth

ENGINES OF GROWTH (IN Rs CRORE)

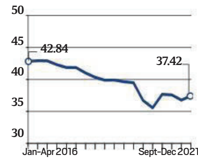
PFCE: Private final consumption expenditure , GFCE: Govt final consumption expenditure, GFCF: Gross fixed capital formation, GDP: Gross domestic product



AVERAGE INCOME AND EXPENDITURE LEVELS

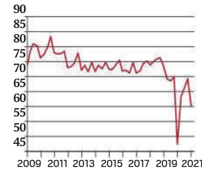


EMPLOYMENT RATE FALLING SINCE 2016



ER: Employed as a % of working age population
Source: CMIE, Express Research

MANUFACTURING CAPACITY UTILISATION (%)



Source: Oxford Economics/CEIC

SIMPLY PUT QUESTION & ANSWER

Five questions: the Budget big picture

Finance Minister Nirmala Sitharaman has bet on significantly ramping up capital expenditure to start a virtuous cycle of growth. The strategy has obvious benefits in normal times — but India's economy is still Covid-scarred, demand is weak, and capital assets have a long gestation period

UDIT MISRA
NEW DELHI, FEBRUARY 1

Illustration: Suvajit Dey

AS FINANCE Minister Nirmala Sitharaman rose to present the Union Budget for 2022-23 on Tuesday, she was faced with several competing demands. On the one hand, the government's fiscal deficit (or total borrowings from the market) was a concern. On the other, there were demands for continued support to the weaker sections of the economy.

If she spent more to provide direct financial support to various sections of society, the fiscal deficit, which was already more than twice the prudential norms, would worsen. If she tried to sharply curtail expenditure, it might hurt vast sections of the economy that are already struggling in the wake of Covid-induced disruptions.

In the end, she chose a strategy that substantially ramps up capital expenditure or capex (that is, expenditure towards making new productive assets) while largely holding back revenue expenditure (that is, expenditure to meet day-to-day expenses).

While prioritising expenditure for building capital assets is a macro-economically sound strategy in normal times, it remains to be seen whether this will work for India as it comes out of the Covid-induced setback with significant scars.

What were the challenges facing the economy?

India's GDP growth rate had been decelerating since 2017-18 with unemployment touching a four-decade high. Data released on January 31 showed GDP growth in 2019-20 was just 3.7%. It was at that point that the Covid-19 pandemic hit.

Between a sharp contraction and an equally sharp recovery, the next two financial years (FY21 and FY22) essentially amounted to the loss of two full years of incomes and jobs. Also, the recovery in aggregate GDP hides the pain in large sections of the economy. Most surveys and data point to a K-shaped recovery, which has meant that economically weaker sections still have significant scars.

As the second chart above shows, while overall GDP has recovered, the most important component of GDP — private final consumption expenditure (PFCE), or the money that people spend in their individual capacity — which accounts for 56% of all GDP, is below the pre-Covid pandemic level.

The picture appears worse when one looks at per capita levels of GDP and PFCE *(chart 3)*. The average PFCE (or expenditure) is below 2018 levels. Also, these are still arithmetic mean figures. They suggest that a large section of the population is below even this average level. People are spending less because employment levels have seen a secular decline since 2016 *(chart 4)*; Covid only made matters worse.

Weak PFCE meant that the other big engine of GDP growth — investments or Gross Fixed Capital Formation — would remain weak. That is because weak demand has led to low capacity utilisations *(chart 5)* and that takes away any incentive from private businesses to invest in new capacities, create new jobs and income streams for people.

The only other engine was the money government spends. But too much spending here was ruled out because the fiscal deficit was already twice the prudential norms.

The question before the Finance Minister was: What would be the trigger for growth in the coming year?

So what was the Budget's strategy she chose?

The standout feature of Budget 2022-23 is that the government has chosen to significantly ramp up capital expenditure while largely restricting revenue expenditure. This capex push will get reflected in the "investments" component of the GDP. The chief advantage of capital expenditure is that it gives much higher returns to the overall GDP.

According to different studies, one rupee spent towards capital expenditure can give returns between Rs 2.5 and Rs 4.8 (over periods ranging from 1-7 years), while money spent on the revenue account, such as giving direct cash transfers to the poor, tend to give returns between Rs 0.54-Rs 0.98 (that is, less than a rupee).

Capital expenditure provides better returns not just by creating new jobs but also by creating new productive assets that boost future productivity.

Here's how the government hopes this capex push will play out and lead India's economic recovery: New roads, ports etc., will not only create new jobs but will also reinvigorate several other industries through forward and backward linkages. For instance, apart from new labourers, a new bridge will need cement, iron and steel, etc. It will increase the demand for engineers and other technical and managerial professionals.

When done on a large scale, such expenditure will leave people with more income and that, in turn, will boost the aggregate demand — the PFCE component. That fresh demand will further incentivise the private sector to boost investments of their own and, in fact, take the lead on future investments.

Thus, according to the Budget's strategy, a capex push by the government can dig India out of the current slump and create a virtuous cycle of growth. In time, as tax revenues from new economic activity increase and as private sector investments become self-sustaining, the government will retreat from its leading role in investments, thus bringing down its borrowing requirements.

How is this strategy different from what has been done by countries such as the US?

Countries such as the US unleashed a massive fiscal response to the Covid crisis. That involved a lot of money flowing out of government coffers to people's accounts. In India, most of the help was either in the form of free foodgrain, the rural employment guarantee scheme, and credit guarantees (not actual money flowing to small and distressed firms; just guarantees on the loans they may take). As such, there is no comparison between the direct financial help that developed countries provided (even in percentage terms), and what India provided.

It is for this reason that most estimates suggest a sharp increase in poverty and inequality in India post-Covid. In contrast, the US was among the countries that have seen a genuine 'V-shaped' recovery, getting back to the pre-pandemic growth path, not just the level.

But countries such as the US too have ended up facing a problem: inflation. When lots of money flowed into people's hands, the aggregate demand recovered far too quickly even as supply disruptions persisted, thus creating historic levels of inflation.

CAPEX PUSH IN BUDGET WILL BE REFLECTED IN 'INVESTMENTS' COMPONENT OF GDP. CAPITAL EXPENDITURE GIVES HIGHER RETURNS BY CREATING BOTH JOBS, NEW PRODUCTIVE ASSETS

It is another matter that even with depressed demand, India too has seen fairly high inflation over the last two years.

Similar to the capex push in India, in the US, President Joe Biden has been pushing for an ambitious $1.9 trillion plan called Build Back Better, aimed at growing the US economy "from the bottom up and the middle out".

Will the capex push in the Budget succeed?

Few would argue against the merits of higher capital expenditure by the government because of the obvious benefits, especially at a time when all other engines of growth are struggling. Moreover, there are several points that suggest such an investment cycle will sustain.

In a recent research note analysts at Nomura observed: "At face value, a number of preconditions appear to be in place. The government has announced various reforms, including the national infrastructure pipeline (NIP), the production linked incentive scheme, lower corporate taxes and privatisation. Corporates have deleveraged their balance sheet during the pandemic. The corporate debt-equity ratio has fallen broadly across industries from 0.79 in FY19 and 0.82 in FY20 to 0.63 in FY21."

Add to that the creation of a bad bank, which will enable the banking system to be ready to give loans when the private sector demands them.

But there are reasons why this may not succeed. That's because these are not normal times. There are deep scars in the economy, especially in the informal sector (which accounts for 90% of all jobs), and aggregate demand is still quite weak. Capacity utilisation levels are far below the point where companies may contemplate ramping up investments.

Economists such as Ravi Srivastava of the Institute for Human Development and Radhicka Kapoor of ICRIER believe that success of this strategy would depend on the way these projects are implemented. Both economists pointed out that such capital assets have long gestation periods, and the expected benefits to the common people may take time to accrue.

To the extent that these projects are of a local nature — rural roads instead of a big highway — they may be more effective in providing relief to the weaker sections of the economy. "Given the extent of pain in the economy, this Budget needed to stand on two legs. Capex is fine but the government also needed to provide more direct relief here and now," Srivastava said.

This was the ninth Budget under PM Narendra Modi. Is there a pattern emerging?

Over the past eight years, the Modi government has employed very different economic strategies, without suggesting a settled ideological anchor. Before 2017, he berated farm loan waivers, but just before the UP elections took the lead in promising them. Similar U-turns were seen with regard to programmes such as MGNREGA, doing away with the land acquisition Act, or the recent repealing of the farm laws. In the run-up to the 2019 elections, direct cash transfers were made to farmers under PM-KISAN — politics of dole of the kind he had long criticised.

Likewise, in last year's Budget, privatisation and disinvestment were the biggest themes — but this year they are completely missing.

And, if the Prime Minister believed in a government investment-led growth strategy, it is not clear why this was not done in 2019-20 itself instead of giving a Rs 1.5 lakh crore worth corporate tax cut to firms, who simply pocketed the money — either to pay off their debts or improve their bottom lines.