

## BUDGETING IN A TIME OF CRISIS

Relevant for: Indian Polity | Topic: Parliament - structure, functioning, conduct of business, powers & privileges and issues arising out of these

Finance Minister Nirmala Sitharaman will present the Union Budget on February 1, 2021. File | Photo Credit: [PTI](#)

The Great Depression wrecked the economies of the U.S. and Europe. In the words of Jonathan Alter, when Franklin Roosevelt became the American President in 1933, he was told: “Mr. President, if your programme succeeds you would be the greatest President in American history. If it fails, you will be the worst one”. Roosevelt replied: “If it fails, I will be the last one”.

Today the U.S. is facing its worst economic crisis since the Great Depression. Like Roosevelt, President Joe Biden is launching the American Rescue Plan to revive the economy. [His \\$1.9 trillion plan](#) proposes \$1,400 per-person payments, increased unemployment benefits, assistance to local governments, support for accelerated vaccine rollout, investments to get children back in school, and a minimum wage of \$15 an hour.

In India, Finance Minister Nirmala Sitharaman will present the Union Budget on February 1, 2021. The pandemic has severely affected growth. The government was quick to announce a package of 20 lakh crore. Fiscal deficit could overshoot the target set by the Fiscal Responsibility and Budget Management Act. Spending more is going to be difficult. According to the Centre for Monitoring Indian Economy, unemployment, both rural and urban, is surging, and health and infrastructure budgets are getting stretched. How much can the government afford to spend and in what direction? Can Keynesian economics offer guidelines?

Noble Laureate Paul Krugman has offered advice against too much of caution in dealing with the economic mess. He has laid down the rules for budget-making. The first rule is to not doubt the power of the government to help. Government spending can be hugely beneficial. The Affordable Care Act, for instance, led to a decline in the number of Americans without health insurance, and gave people a sense of security. The second is to not be obsessed with debt. Economists agree that debt is far less a problem than conventional wisdom asserts. Interest rates are low by historical standards. The burden of servicing debt is low. The third rule is to not worry about inflation. We can run a ‘hot economy’ with low unemployment and large budget deficits, without runaway inflation. The fourth is to not count on bipartisan support.

India’s GDP is estimated at 200 lakh crore. The first priority for spending should be health and infrastructure. India has only five beds for 10,000 Indians and ranks 155th on bed availability in the Human Development Report of 2020. Experts opine that the government should increase healthcare spending from 1.5% of the GDP to 2.5%.

The National Infrastructure Pipeline aims to invest 111 lakh crore by 2025 in over 6,800 projects. The proposal to set up a Development Finance Institution is still on the anvil. The Chinese government has entered into building social housing projects. As pointed out by the economists in *India Today*, expenditure on infrastructure can have a large multiplier effect on economic output.

Suggestions have been made for the introduction of an urban employment guarantee scheme on the lines of the Mahatma Gandhi National Rural Employment Guarantee Scheme. This will be far better than direct cash transfers. The stumbling block to budgetary efforts to spend can be the resource crunch. Despite historic lows in fuel prices, the government chose to increase fuel

prices to record levels. The Goods and Services Tax has been a big source of revenue. There is a strong case for reducing GST tariff. Cess or surcharge can be levied on the super-rich. Disinvestment must go on at high speed. The average tariff must come down to 10% from its current level of 14% by 2024, as suggested by Professor Arvind Panagariya. He wrote: "With several key reforms – new labour codes, new farm laws, Insolvency and Bankruptcy Code, low corporate profit tax, single nationwide GST and widespread digitisation – already in place, the addition of privatisation and trade liberalisation would nearly guarantee a double digit growth and millions of additional well-paid jobs for the masses in the post-Covid-19 decades."

Ms. Sitharaman has left significant imprints in the Budgets she has presented. The lowering of corporate tax rates, the introduction of the option to choose the tax rate both for companies and for individuals up to fixed monetary limits, the introduction of the Vivad se Vishwas scheme without sacrificing revenue, and the structured infusion of fiscal stimulus without accelerating inflation all point to a right approach to Budget-making. We can expect a never-before Budget to be presented to meet the crisis created by COVID-19. The super-rich must co-operate without insisting on tax concessions.

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