Budget 2020-21 : No steps to contain crisis

The Indian economy is facing a crisis. The growth rate has dropped to its lowest in the last 11 years. Consumption has fallen, the more so in rural India and the poor. Millions of young people are bereft of job opportunities. The manufa-cturing sector has not recovered since 2010. Despite the rate cuts by the Reserve Bank of India there is insufficient growth in credit. The banking sector is still facing the problem of bad loans. And many infrastructure projects are in the red. This is the impression one gets when gone through the Economic Survey 2020. Yet the Finance Minister claimed that “fundamentals of the economy are strong and that has ensured macroeconomic stability”!

The PM Modi in his Indepen-dence Day speech said “only when wealth is created will wealth be distributed”. The economic advisor K V Subramanian said what the PM told is the motivation behind the survey. As the logic goes the Economic survey said, “the government, with strong mandate, has the capacity to deliver expeditiously on reforms”. It argued that the areas such as steel and cement, which are privatized, have shown higher growth of 7 % compared to coal, which remains in the hands of government, at 5%. Similarly the road transport sector fared well compared to state-run railways. The total assets of 63 tycoons in India exceeded the budget out lay of Rs.24.5 lakh crore in 2018-19, and they are continue to amass wealth. With this lopsided argument abetted by half truths and hidden data, the Economic survey laid down ground for the second phase of liberalization. This means given free hand to the world market forces.

As a corollary, the Economic survey argued favouring repeal of the fallowing acts: Factories Act; Essential Commodities Act; Food Corporation Act; Sick Textile Mills Act and Land Acquisition Act 2013. The Survey says that these laws not only have failed to achieve its purpose but also became obstacles for investment from foreign countries.

Filtering out the high sounding phrases like aspirational India, caring India, digital revolution and economic development so on, the Finance Minister made clear that the government moves in the direction lay down in the Economic Survey.

Contract Farming as Panacea

The FM claimed that the centrally sponsored programmes for agriculture such as solar pump sets, krishi vikas yojana, fasal bheema yojana and others have raised the income of farmers and doubling their income by 2022 would be achieved. The budget announced 16-point programme for agriculture. The first and foremost is “encouragement to states to undertake reforms in agriculture”.

What are those reforms? The FM explicitly said reforms means “liberalization of farm markets”. That is, implementation of Model Agricultural Land Leasing Act 2006; Model agricultural produce and livestock marketing Act 2017; and Model agricultural produce and livestock contract farming and services act 2018.

The other 15 points reads like a wish list. They are: special measures for 100 water stressed districts; boost to solar pumps; balanced use of fertilizers; Kisan rail for cold-chain storage linkage; Kisan udaan to provide logistic support to farm goods; cluster based approach to exports; integrated farming in rainfed areas; financing negotiable warehouse receipts; NBFCs and cooperatives to get NABARD refinance; funds for elimination of foot and mouth disease; blue economy for marine fisheries; increase in fish production; expansion of women led SHGs; and viability gar funding for setting up of warehouses in village and taluka levels. Most of them have no budgetary allocations. Even if implemented they provide financial support to the traders in agricultural produce not the peasants.

The GDP growth rate is declined, as Economic Survey showed, because of low incomes in rural areas; and both farm and non-farm incomes have depressed. The budget has not recognized this crisis at economy level and in agriculture and rural level. It has not mentioned about the immediate need to raise the income of agriculture based and rural households. It should have increased allocations to MNREGA, PM-KISAN and rural infrastructure to raise their incomes Contrarily, there was a reduction in the allocation to MNREGA from Rs.71,000 crore in 2019-20 to Rs 61,500 crore in 2020-21. The allocation for PM-KISAN is RS 7500 crore which remains largely unspent as the state governments are unable to disburse because of absence of land records. These are short-term and palliative measures. Moreover, the allocations for fertilizer and food subsidies are drastically reduced which eat away the incomes of peasants.

If the incomes of peasants are to be raised, there should be land reforms based on land to the tiller. Nearly half of the peasants tilling the land are not the owners of the land they are tilling. Unless this basic reform is taken up pushing the peasant’s income upwards would be an impossible task.

Instead of this basic task, the government wants the peasants to move away from cultivation leaving the land to the corporate to earn super profits. The model laws mentioned in the budget for implementation are designed to achieve this goal –that is promoting contract/corporate farming by pushing out the peasants by economic levers.

Sweat shop Production

On employment generation the Economic survey suggested export-led growth that too copying the China model. It argued that labour intensive production will boost our imports in sectors like textiles and Network products etc (Network products means computers, mobiles, semi-conductor and other electronic products) Labour intensive means paying the least wages to the workers. The experience of workers in SEZs, readymade garments, sport goods footwear etc clearly showed that these sectors survive only when they exploited the labour power to the utmost. Even a small bump in the economy of the importing country will lead to close downs and retrenchments. These are nothing but sweat shops.

The Economic Survey made a case for setting up these sweat shops by arguing that assembling plants will have to be integrated with Make in India programme so that India can export these products at cheaper rate than China. It claimed that it would create 40 million jobs in five years. This is the solution suggested by the Survey for unemployment problem.

Yet, in the budget speech the government is in a denial mode of unemployment. The FM said “He (youth) no longer the job seeker. He is creator of jobs”. When many household surveys tell us the unemployment rate among the youth is as high as 31% and that among graduates it is higher at 43%, how the FM made such a claim could is any body’s guess.

In the budget speech there is no direct mention of employment generation. There are few proposals where employment is created as a side effect like setting up of hospitals and private public participation mode, grants for select tourism projects etc. The FM told about the importance of manufacture of Network products to boost exports and promised to unveil a scheme to promote it. Moreover, the budgetary allo-cations for jobs and skill development had been reduced from Rs 61 billion in 2018-19 to Rs 57.5 billion in 2019-20. Now it is further reduced to 53.7 billion for 2020-21. During the previous year the government had not spent 20 per cent funds allocated for this purpose.

Dependence on Foreign Capital

On the industrial front, the FM tried to attract foreign investment rather than Indian investment. The US-India Strategic Partnership Forum lauded the budget proposals saying it will attract more foreign investment and applauded the government efforts to align digital policy with global norms. At the same time many spokespersons of Indian industry had said that budget has fallen short of its expectations.

The FM provided several incentives to foreign companies. The one that got much attention is removal of Dividend distribution Tax which benefits foreign companies. Others are: investment avenues have been expanded for nonresident investors in certain categories of government securities on part with domestic investors; limits for entry of Foreign Portfolio investments in corporate bond segment have been raised; The rate of tax deducted at sourse has been reduced to 4% from 5% on interest payable to nonresident investor; in the case of money borrowed in foreign currency from outside India the tax has been reduced. How much impact these incentives would have on the economy can be discussed later. But one thing is certain. These measures only promote investments in financial markets and never come to establishing new industries. The financial drain would further speed up without creating any manufacturing units and jobs.

Another notable announce-ment in favour of foreign companies is the support to build the National Mission on Quantum Technologies and Application. The FM provided Rs.8000 crore for a period of five years. No other project in the fundamental research has received similar scale of government funding and no domestic company has the capacity to fulfill these requirements.

To conclude, the government has made no efforts to arrest what it called as slow down. In agricultural sector it ignored the pathetic condition of peasants and committed to move on the so-called reforms towards contract farming. The 16-point programme is meant only to hoodwink the people as most of the points have no financial allocations in the budget. On the question of unemployment, the budget has not even mentioned it rather its claimed youth are not seeking jobs. It expressed its approval to put up seat shops. It further opened up the financial markets for the entry of foreign companies as a prelude to handover the LIC to them in the coming years.

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