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PROGRESSIVE VS. POPULIST

Dark clouds as we head into Union Budget

The economy is under pressure, and social justice and governance structures are crying out for attention

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The fourth and last full-fledged Union Budget of the Narendra Modi government's second term, scheduled to be presented to Parliament today, comes amid some dark clouds on the global scene. Globally, growth is down, inflation is up, geopolitical tensions are on the rise, the Russia-Ukraine conflict is unending, and the outlook is not exactly sunny.

Luc Frieden, president of Eurochambres—"the eyes, ears, and voice of the business community at EU level"—was quoted by Reuters as saying last week: "In the short term, we are in a difficult economic situation." And according to the IMF, more than a third of the global economy contracted in 2022 and is expected to further contract in 2023. This indicates the problems with spillovers that will exact a toll on India.

But India itself is having a difficult time. We are headed into a round of national elections, which will bring new pressures to make promises and sanction expenditures to secure the vote—the perils of a so-called election-year budget. Many analysts say this is a temptation that the government should and will resist—it has a vote-on-account to offer goodies next year, closer to the 2024 elections. A *Bloomberg* survey of economists showed that a majority expect the budget to steer clear of populist measures and focus on strengthening manufacturing and creating jobs.

The economy is under pressure and has not fully recovered from the shocks of Covid-19. As we all know, the fiscal deficit increased to 9.2% of GDP in 2020–21, more than doubling what it was in 2019–20. It was pegged at 6.4% in 2022–23 (Budget Estimates), a decent pull back from the abyss, but the track announced by the government last year of keeping the fiscal deficit level below 4.5% by 2025–26 may not be easy to reach given the conditions.

Today, private investment isn't picking up, inflation (particularly the core inflation that excludes volatile food and fuel prices) is persistent, excise and customs receipts are projected to be down, and disinvestment will be as challenging as ever, if not more so. The government has therefore limited fiscal space for bold action.

One of the challenges for the government is creating job opportunities for the youth, with ugly unemployment numbers coming out as a consistent feature of the economy and raising fears of a demographic disaster. Expect some push in this direction.

The move to build Chinese-style mega plants, as appears to be the plan given the recent agreements between Foxconn and Vedanta, tells us that India will bring jobs via large factories where the only skill is India's labour competing on price. It is not in dispute that the Chinese factories are built on exploitative models so bad that workers there have committed suicide and the factories have had to put up nets to stop others from jumping to their deaths.

Can this be the answer to India's job crisis? The counterargument that this is only the beginning of a semiconductor push in India is fair but misses the point that the dynamics of low-end assembly are very different from an economy known for design, manufacture, and solutions up the value chain.

Moreover, this is a centralised way of growing jobs in concentrated packs rather than a thriving decentralised economy where MSMEs in their lakhs and large-scale businesses in their thousands are firing away on multiple fronts to create an energy that drives sustainable growth and brings a widespread jobs market for all kinds of skills and specialties.

Agriculture, which has supported growth and still employs a vast majority of Indians, needs renewed attention. After the farm laws failed, there is now a need for a new push for development, productivity, marketing, and the creation of new linkages between agriculture and industry. How can the government offer new solutions to excite farmers without bringing back the anxieties that it created with the farm laws? This is one big question that the Union Budget 2023-24 must answer.

On the eve of the budget, we listen to economists who try to tie in the numbers. But numbers are only a slave to the thinking that delivers them. For growth numbers, we need some clarity on what is required, the first of which is a sharp focus on delivering inclusive growth. Concomitant with that is good governance so that numbers do not become the dust in our eyes, preventing us from seeing the reality behind them. And it must come with a social cohesiveness that will allow these tender shoots to grow into massive oak trees.

The message of reports like the one put out by Hindenburg Research on the Adani Group does not inspire confidence in the governance structures of India. The question it will raise for global investors is not merely about one large group but about the integrity of the system as a whole. India has an interest in fixing this. Without that, the Indian system will encourage opportunistic players to make money by betting on Indian positions, but real long-term investors will shy away.

It is possible to argue that this is not an issue for the budget, but everything that has issues of governance at its core is an issue for the budget. Poor governance will mean poor policy, poor spending, bad outcomes, weak regulatory frameworks, and India's descent into an economy with poor levels of confidence and investor trust. No budget, however good, can work in this atmosphere.

Further, growth is about a sharp focus on issues of growth. As Montek Singh Ahluwalia once noted in the context of GDP growth way back in 2012: "Growth is not a God-given right... it will require effort."

That effort has to be economic but also work on levers of social justice, communal harmony, respect for democratic institutions, and good governance structures. This only tells us that numbers are important, but more important is the vision with which these numbers are projected and sought to be achieved.

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(Syndicate: The Billion Press)