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Contractionary macroeconomics of Budget will not boost growth

Supply-side actions work with a time lag and can't kick-start growth in a demand-constrained economy like India's today



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On 1 February, Finance Minister Nirmala Sitharaman presented her fifth successive budget, the last full budget in the second term of Prime Minister Narendra Modi. Over this period, the nature of the Union Budget has changed. It remains a statement of estimated receipts and payments presented to Parliament as stipulated in Article 112 of the Constitution. However, it is no longer seen as an instrument for the short-term macro-management of the economy. Instead, it has become a political statement of the government's longer-term economic objectives. Yet, it does have macroeconomic implications and consequences.

There is a plethora of plaudits for this budget in the media. Economic orthodoxy is relieved that, despite elections on the horizon, fiscal profligacy and political populism are altogether absent. But a different perspective suggests that both of these could also be a cause for concern.

As a percentage of GDP, the gross fiscal deficit is projected to drop from 6.4% in 2022-23 (revised estimate or RE) to 5.9% in 2023-24 (budget estimate or BE), while the revenue deficit is projected to drop from 4.1% to 2.9%, so that the proportion of government borrowing used to finance consumption expenditure will drop from two-thirds to one-half. These levels should worry fiscal conservatives.

My concern is about the nature of fiscal adjustment. Between 2022-23 (RE) and 2023-24 (BE), the increase in total government expenditure is from ₹41.9 trillion to ₹45 trillion (7.5%), in revenue expenditure is from ₹34.6 trillion to ₹35 trillion (1.2%), and that in capital expenditure is from ₹7.28 trillion to ₹10 trillion (37%). In comparison, nominal GDP is expected to increase by 10.5%. The increase in capital expenditure, particularly on infrastructure, is both necessary and desirable, but it is no substitute for private investment and consumption expenditure, given the reality that public investment is only one-fourth of total investment at 30% of GDP, while private final consumer expenditure is as much as 60% of GDP. Such budget allocations are bound to have a contractionary effect on aggregate demand in the economy.

The problem might be accentuated for three reasons. First, export demand is bound to be sluggish, as the world economy slows down in response to supply-side disruptions caused by the covid pandemic and Ukraine war, and by sharp hikes in interest rates by central banks everywhere to combat inflation. Second, private investment in India is driven more by the household sector than by the corporate sector, where investment has been less than buoyant despite booming profits and could now be crowded out by higher interest rates and government market borrowings to finance its deficit. Third, domestic consumption demand has been



constrained by a slowdown in economic growth that started before the pandemic, and by a squeeze on incomes in rural India, as well as poor households in urban India, in recent years.

The proposition that India will be the fastest growing economy in the world this year, and the next, provides illusory comfort. The reality of the recent past is worrisome. During 2014-15 to 2018-19, Modi's first term as PM, growth in GDP at constant 2011-12 prices was 7.5% per annum. This growth rate dropped sharply to 3.7% in 2019-20 and -6.6% in 2020-21, but rose from its low base to 8.7% in 2021-22. Yet, between 2018-19 and 2021-22, at constant 2011-12 prices, GDP increased by a mere 1.5% (at 0.5% per annum), while GDP per capita increased at about the same pace. Even if it remained unsaid, the government must be conscious of this sharp slowdown, and hopes that its big step-up in capital expenditure—₹2.4 trillion on railways and ₹1.62 trillion on roads—would revive economic growth. This expectation will be belied because the utilization of capital-expenditure allocations on infrastructure moves at a slow pace and eases supply constraints with a time lag, so that it can stimulate growth over the medium-term. In the short-term, only consumption demand can drive growth. Alas, the budget might end up dampening that.

Income per capita is a statistical average that doesn't measure the well-being of the poor. Given the reality that the post-pandemic recovery has been K-shaped, and that income inequality in India is now among the highest in the world, juxtaposed with rising unemployment and high inflation, it likely that in 2021-22 the poor were probably worse off than in 2018-19. The distress is greater in rural India as wages and farmer incomes have stagnated or declined in recent years.

QUICK READ

Hopes of a growth spur formed by higher capital spending may be misplaced as supply-side prods take time to work, while the budget's other outlays being weak might even act as a drag.

Increased allocations for the jobs scheme, PM Kisan and rural development could have lifted demand and that was what India's economy needed even if it would've sounded populist.

India. This would not have been populism, but an economic necessity for the poor and thus a political compulsion for the government. The consumption demand so created could have stimulated growth.

The moral of the story is simple. Supply-side actions work with a time lag and can't kick-start growth in a demand-constrained economy. If the Union Budget sought to revive growth, it might be an elusive quest.

Kamala Harris needs her boss to back her flair for leadership

An ageing Biden should do more to elevate his vice-president's role



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Biden must signal that Kamala Harris has the aptitude for America's top job

President Joe Biden of the United States, aged 80, is among the oldest leaders the country has had. This might not seem quite so relevant after Biden delivered a spirited State of the Union address Tuesday night that accomplished all the White House could reasonably have hoped for. Biden, a Democrat, rattled off meaningful achievements, slathered on some bipartisanship talk with a salute to Republican Senate leader Mitch McConnell and praise for former president George W. Bush, and baited Republican House members into behaving like Republicans, a performance that makes Biden and his Democratic party look like the only game in town for serious people of any age.

Biden was quick on his feet, exploiting his political foes in real time. His performance will deflate questions about his age for months. Maybe weeks. Or perhaps for a few minutes. The respite will necessarily be short. Because, unlike most of the pre-occupations of Make America Great Again land, Biden's age is a legitimate concern. He has had a tremendously successful half term and his White House has performed well. But he is old and getting older; that makes supporters nervous and opponents ambitious.

Biden can't do much about time past or future. But if he is going to run for re-election—and there is no reason to believe he won't—he should do what he can to minimize the unease that his age could induce in the electorate. The best thing he can do is have a vice-president who is perceived as ready and able.

Biden doesn't yet have that. Here are some words from the first paragraphs of a 6 February story in *The New York Times* about Vice-President Kamala Harris: "Struggling." "Frustrated." "Trap." Then comes "struggled" again. The *Times* story was the latest entry in the 'Harris Can't Cut It' genre, a growing body of reportage about her shortcomings on the national stage. A particularly brutal paragraph encapsulates the theme: "But the painful reality for Ms. Harris is that in private conversations over the last few months, dozens of Democrats in the White House, on Capitol Hill and around the nation—including someone who helped put her on the party's 2020 ticket—said she had not risen to the challenge of proving herself as a future leader of the party, much less the country. Even some Democrats whom her own advisers referred reporters to for supportive quotes confided privately that they had lost hope in her."

Kamala Harris's bad press isn't a result of attacks from opponents. It's a result of a lack of confidence among allies. That's partly Harris's fault. The vice presidency may be a rotten job, but history—including Biden's ascension to US presidency—proves it isn't always a no-win job. Every vice-president has to identify a downhill trajectory, commander gravity and make a political vehicle out of an engine-less soap box derby car.

One person who can make that task a lot easier is the president of the US. Harris's main job until now has been sticking around Washington to cast tie-breaking votes in the Senate. It's as mundane as it is essential—the sort of mechanical job that the president could highlight or ignore. Biden has mostly ignored it.

Making Harris the administration's point person on the southern border is an even more thankless task. The border will be under stress—and continue to deliver talking points to demagogues—as long as millions of people view it as a final destination in their flight from misery. You cannot 'fix' that problem without a comprehensive solution that only the US Congress can supply. And even Congress will need coordinated assistance from other nations. Neither America's Congress nor nations producing desperate migrants are poised to ease the stress anytime soon. So the perception of a festering border problem will remain.

Harris, 58, isn't untalented. She rose through the ranks of the Democratic Party of California, hardly a political backwater. She won big statewide races for attorney general and US Senate. In the Senate, she ably gilled former Attorney General William Barr among other slippery witnesses. Her 2020 presidential campaign didn't catch on. That doesn't mean she's out of the running: None of Biden's presidential campaigns took flight until the one that finally did.

It is Biden's job to bolster Harris, elevate her and convince first Democrats, then the wider electorate, that his vice-president is prepared for the top job in the event the actuarial tables scramble the country's political scene. Biden selected Harris in the first place because he needed the qualities that she brought to the ticket. He still does.

MY VIEW | PEN DRIVE

Joshimath's alert on what posterity might think of us

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The Joshimath tragedy is merely a 'tip of the iceberg' of an unprecedented challenge. This is not just about what's happening to one Indian hill-town that finds itself sinking. It reflects the dire consequences of human encroachment and destruction of natural habitats and the environment. It is an outcome of humans messing with forests, animals, land and entire ecosystems of nature. It's not something that has happened overnight. We were forewarned. The risk of Joshimath's destabilization was first flagged in 1976 (i.e., 47 years ago). More recently, in May 2010, environmentalists and academic researchers had warned of an impending disaster in the hill-town through an article in the Indian scientific journal *Current Science*.

Human mistreatment of the environment has different forms. About a decade ago, the Indian subcontinent's population of vultures witnessed a steep decline. It was traced to the use of indiscriminate and high doses of a painkiller diclofenac sodium for pets and

domestic animals, such as cows, starting in the 1990s. Vultures that fed on the remains of dead animals that were given this medicine died of chemical poisoning. These birds had long been part of the food chain. Though people in some parts of India consider vultures in the sky an inauspicious sign, it was only when their numbers started declining that we realized their value to the ecosystem. We have been left with the skeletal carcasses of dead animals lying around and acting as breeding ground for pathogens, which raises health risks for us and other animals.

In the last eight decades, of nearly 350 new human pathogens and diseases that have emerged, including covid, most pathogens have jumped from plants and animals (in forests) to humans. At the root of these disease outbreaks has been human interference with nature, the very meddling that has resulted in climate change and global warming. Worldwide environmental damage, rising temperatures, large-scale deforestation, unplanned urbanization, the unnecessary use of antibiotics and 'antimicrobial resistance' have emerged as significant threats.

In the past decade, inter-relationships between the health of humans, animals and the environment have been studied and

given us the concept of 'one health', by which we must all come together to save all three: humans, animals and the environment. As part of India's G20 presidency, India has proposed health emergencies, prevention, preparedness and response as a key focus area, with 'one health' and antimicrobial resistance as sub-themes. Yet, activities that harm us on all these fronts continue to expand, on various pretexts, unabated. One reason is that policymakers continue to ignore scientific evidence and rational voices.

In April 2022, a study published in the journal *Nature* concluded that if the world's temperature rises by 2° Celsius between 2020 and 2070, around 15,000 new pathogens which are currently in the wild will come into human contact. Even if a small proportion of them cause illness, it would drastically increase the risk of disease outbreaks and epidemics. Most exposed to this peril would be resi-

dents of Asia and Africa. We simply cannot afford to ignore such scientific warnings.

As for Joshimath in Uttarakhand, had the aforementioned scientific commentary of May 2010 received top-level attention, we might have been able to avert the tragedy that has been unfolding in recent weeks.

Neanderthals are direct ancestors of modern humans, or Homo sapiens. They walked on earth before humans learnt how to write and we have no documented evidence of their lives and times. Much of our understanding of them is drawn from excavations and other forms of anthropological evidence. Until a few decades ago, based on various bits of archaeological evidence, most anthropologists believed that Neanderthals were not social and did not care for each other. However, around the 1980s, a few remains of Neanderthals were found that revealed proof of reunion of bones after injury, which would not have been possible

unless others in their group had taken care of that person. This compelled us to change our view of Neanderthals and their social lives.

There was no written evidence available to guide us on Neanderthals. However, future generation of human beings would have a lot of written and video evidence on the lives and times of our species today. Therefore, should our progeny conclude that Homo sapiens of the 21st century were hypocrites, they might not be far from the truth. After all, we all talk a lot about protecting the environment and public health, but our actions are mostly to the contrary.

We still have an opportunity to correct ourselves. Over the past few decades, in the name of development, very little has been done to address our increasing carbon footprints, destruction of flora and fauna and propulsion of climate change. The tragedy of Joshimath should remind us to always be mindful of development risks. Our policymakers must listen to the sober voices of scientists, researchers and environmentalists, and then act upon scientifically valid advice. It is time governments fulfilled their promises on the environment. If that is not done, we would deserve the negative view that posterity takes of us.

QUICK READ

The Joshimath tragedy is not an isolated event but a signifier of the big challenge facing humanity as we go about wrecking the environment in spite of clear warnings issued by science.

Neanderthals were seen as our brutish and uncaring ancestors till evidence emerged to the contrary and we humans must mend our ways if we want to fare better in the view of posterity.