Reviving Economy through Monitory Policies- A Comparative Study of Pandemic Situations in India During 1991 & 2021 With Reference to Union Budgets

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'REVIVING ECONOMY THROUGH MONETARY POLICIES: A COMPARATIVE STUDY OF PANDEMIC SITUATIONS IN INDIA DURING 1991 & 2021 WITH REFERENCE TO UNION BUDGETS OF THE RESPECTIVE PERIODS'*

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Abstract

Finance Minister of Government of India presented the Union Budget on 1st February 2020 for the financial year 2020-21. Soon after 54 days, Prime Minister Mr. Narendra Modi declared a nationwide 'Lockdown' due to COVID-19 pandemic. As an effect of this, Indian economy started experience a turbulent phase. Again on 1st February 2021, budget was presented for the financial year 2021-22. A systematic 'Un-Lockdown' has already started by the government to revive the economy. During past one year, everyone has experienced that whatever provisions were made in the budget for the year 2020-21, were collapsed and mismatched with the actual expenses due to ongoing pandemic. So everyone was more curious about the government's plans for the coming year than last year. Speaking before the budget, the Prime Minister had said, "This budget will be the next part of the policies that the government has announced from time to time during the COVID-19 period."

Now let us have a look at the Cholera outbreaks and pandemic happened over past 200 years. A total of 8 Cholera pandemic occurred over a period of past 2 centuries, originated in India. During 1991 to 1994, a wave initiated in South America and the identified cause was the discharge of ballast water by a Chinese ship. Beginning in Peru, there were 1.04 million identified cases and almost 10,000 cases of deaths were registered. The virus that caused this disaster was an O1, El Tor strain, with a slight differences from the 7th Cholera pandemic strain. The 8th Cholera pandemic occurred in India & Asia starting in the year 1992 with a new strain, a Non-O1, Non-Agglutinable Vibrio (NAG), which was named 'O139 Bengal'. It was first identified in the state Tamil Nadu of India.

Looking at above 2 situations occurred in the history of India which severely affected the entire economy of India, various groups have criticized the Budgets presented (Now in the year 2020-21 & 2021-22 and then in the year 1991-92) in the Parliament. This paper is the study and an attempt by the researchers to compare the situation of 1991 & the Budget at that time with the current situation and the current budget.

Keywords: *Budget, Economy, Pandemic, COVID-19, Cholera, Strain.*

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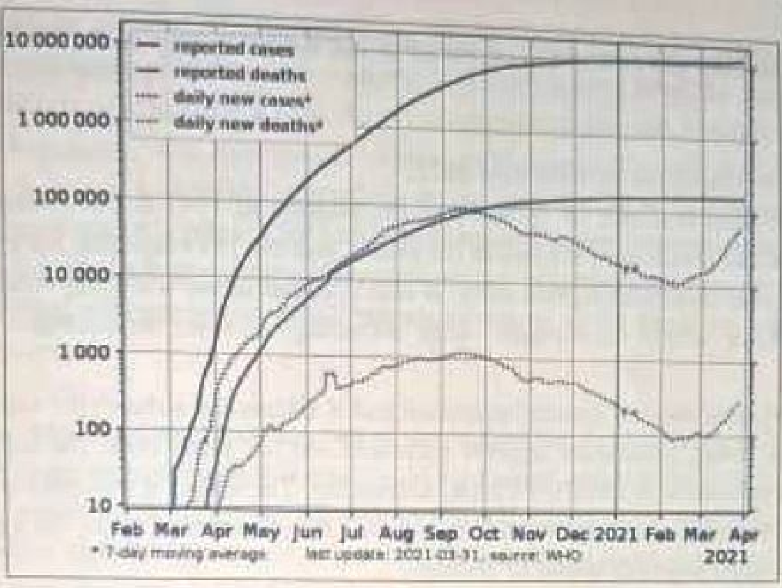
Introduction:

Cholera outbreaks in India

Pandemic	Years	Origin	Other regions affected	Pathogen
First	1817-1823	India	South-east Asia, Middle East and East Africa	*Vibrio cholerae* serogroup O1 biotype classical
Second	1829-1851	India	South-east Asia, Middle East Europe, America and Africa	*Vibrio cholerae* serogroup O1 biotype classical
Third	1852-1859	India	South-east Asia, Middle East Europe, America and Africa	*Vibrio cholerae* serogroup O1 biotype classical
Fourth	1863-1879	India	South-east Asia, Middle East Europe, America and Africa	*Vibrio cholerae* serogroup O1 biotype classical
Fifth	1881-1896	India	South-east Asia, Middle East Europe, America and Africa	*V. cholerae* O1, classic
Sixth	1899 -1923	India	South-east Asia, Middle East Europe, America and Africa	*V. cholerae* O1, classic
Seventh	1961 to present	Sulawesi (Celebes), Indonesia	South-east Asia, Middle East Europe, South America and Africa	*V. cholerae* O1, El Tor
Eighth	1992 to present	Madras, India	South-east Asia	*V. cholerae* O139

*(Source: **https://www.healio.com/news/infectious-disease/20171115/cholera-a-disease-with-unending-epidemics** & Researchgate.net)*

COVID-19 (Corona) outbreaks in India



(Source: https://en.wikipedia.org/wiki/COVID-19_pandemic_in_India#/media/File:COVID-19-India-log.svg)

To understand what happened with the Indian Economy with reference to the Budgets, first we need to understand two concepts:

1) Balance of trade and Balance of payment, &

2) Fiscal deficit.

The ***Balance of trade*** is the balance of imports and exports of goods. If imports are high and exports are low, there is a deficit in the balance of trade, and if the opposite is the case, there is a surplus. The ***Balance of payments*** is the balance of inflows and outflows of foreign currency. Despite the deficit in the balance of trade, the balance in the balance of payments can be recovered by using foreign currency that has arrived for various reasons. ***For example,*** if Indians living abroad sent a large amount of foreign exchange to their homeland in the year of the deficit in the balance of trade, the balance of payments will be recovered in that year despite the deficit in the balance of trade.

Let's see what the ***Fiscal deficit*** is. If the government spends more than it earns, it is called 'fiscal deficit'. The government has three options to fill this gap: **i)** Imposing taxes or raising the rates of existing taxes, **ii)** Debt Removal, **iii)** Printing excess currency. If the tax route is used, the people and the industry will be annoyed with the loss of money. Debt consolidation slows down the growth of availability of credit to industries & rising government debt affects the country's economic standing, making foreign loans more expensive for the government. If the last currency is used for printing, then the excess money starts circulating in the market and the price of the goods and services goes up. This means that even though the government of many countries is using the path of fiscal deficit nowadays, in terms of economic discipline, the government is expected to use this path only in the situation of recession.

Comparison of the Economic Situations of 1991 and 2021:

Now that these concepts have been realized, let us compare the budgets of 1991 & 2021. The early 1980s were marked by the Iranian revolution, the rise in oil prices, and the 1979 drought. As a result, both India's imports and its value increased significantly. It also resulted in the widening balance of trade deficit. Even the foreign aid - due to the drought - were not enough to cover the shortfall.

But in the mid-1980s, political instability in Assam intensified and if affects and reduces the supply of petroleum from Assam. As a result, petroleum imports increased. At the same time, the influx of foreign currency from Indian nationals in the Gulf started decreasing. Therefore, it was necessary to use the government's foreign exchange reserves to address the deficit in balance of trade. As a result, the government's foreign exchange reserves began to decline.

While these problems are increasing, on the other hand, the 7th Finance Commission has increased the share of state governments in the amount of taxes without changing the responsibilities of the central government. As a result this, the income of the central government was reduced. The government had adopted a policy of subsidizing fertilizers on a large scale to help farmers after the drought. For all these reasons, the central government's fiscal deficit had widened. At that time, the minimum personal income tax rate in India was 20% and the maximum was 50%. Therefore, it was impossible to cover the fiscal deficit by raising taxes. So the government used short-term loans to cover the deficit. But at the same time, the political and social climate in India has started experiencing the turbulences. This creates a negative impact in International affairs and the International rating agencies downgraded India. This made it difficult for India to raise loans. Even the loans they were getting, were also getting at higher interest rates. Which further widened the fiscal deficit.

Thus, while the imbalance between the balance of trade and the balance of payments has led to a reversal of the foreign exchange reserves, the fiscal deficit in the budget has widened. The Gulf War broke out and the prices of petroleum drastically increased and borrowing were cut off. The level of foreign exchange with the government was so low that it was only possible to pay the import bill for two weeks. There was a fear that the Indian government would lose the repayment of its international debt and then it was time to abandon the post-independence policies of the Indian economy.

Handling Situation in Economic Crisis:

In times of crisis or emergency, major strategic decisions can be made quickly. The role of the whole society is "to do anything, but save us". This is the situation where completely new decisions, policies and practices can be implemented immediately by the government. Accordingly in 1991, the government implemented a new industrial policy and the budget which is presented by the government at that time changed an era in the Indian economy. Government took out long-term loans from the World Bank by mortgaging gold from the country. It doesn't matter what the mortgage is, but it is more important that how you repay that loan. As per old economic policies it was not possible to repay these loans, so new policies were announced. License method was revoked. Restrictions on imports were significantly reduced. As a result, restrictions on the import of new technologies and machinery were lifted to prevent a possible setback for Indian industries. Foreign investment in Indian companies was allowed and a policy of divesting government sector organizations was implemented. It was assured that the Indian software sector would remain attractive to the world by extending tax breaks and extending its tenure.

Prior to 1991, tax rates were an important part of the budget for the Indian middle class. Therefore, the importance of many provisions in this epoch-making budget was not realized by the middle class. The middle class minds were driven by the people who criticized these new policies. This was the reason that the Indian Middle class would not realize the benefits of these new structures and policies. Soon later this, various foreign-made vehicles have become available in India and the loan to buy these vehicles also made easy. Difficulties in getting home loans for houses have been removed, the service sector has taken off. In the middle class Indian families, the starting monthly income of a son / daughter of the family has become more than the monthly income of their father at his retirement. New sectors like – entertainment, travel & tourism, aviation etc. has evolved.

As compare to the budget of 1991, looking at the first budget post COVID-19 situation (Union Budget 2021), it is clearly observe that the pre-budget investment policy is now well established. The price of domestic petrol-diesel is linked to the international market. Still while the central government is filling its reserves by levying extra taxes instead of passing on the benefits of falling global oil prices to consumers, the vocal middle class is ignoring it surprisingly. Although the CAA and the NRC have caused chaos in Assam, its nature is not as violent as it was in the 1980s. Government warehouses have record production and adequate stocks of food grains. A tax system like GST is expected to bring transparency and coherence in tax collection. Due to declining imports during Corona pandemic, India is stable on the basis of balance of trade and balance of payment. Demand for foreign exchange has fallen sharply as people have stopped going abroad and imports have fallen considerably. As a result, foreign exchange reserves have peaked.

With so much at stake, however, the banking sector is plagued by the potential risk of NPAs and lending scams. GST's plane is still lingering on the runway. Countries around the world have begun imposing restrictions on imports to save their economies. Like the Gulf War of 1990s, the Corona crisis has hit the world and India. Many industries have sunk, many people have lost their jobs. While the Indian government has spent a lot of money on healthcare during ongoing pandemic, it has not had an impact on its import bill. But the fiscal deficit nearly tripled as the government reduced its tax collection during the Corona pandemic period.

This means that the current situation is different from the situation in 1991. At that time there was a deficit in the balance of trade, a fiscal deficit in the budget and was a shortage of foreign exchange. In contrast, the balance of trade deficit is no longer significant during ongoing situation. Foreign exchange rates are high. Only the fiscal deficit is the same as it was in 1991.

Conclusion:

Despite the fiscal deficit, the government has taken the path of public works to revive the damaged economy during ongoing pandemic situation. Now to cover the fiscal deficit, the government has pursued a policy of disinvestment and monetization of government assets. How long will it take to implement these decisions? Will it achieve the set goals? What will be the effect on the jobs of Indian common man? What will be the impact on costs & will the standard of living of a common man of India be improve? Today's speaking middle class is as ignorant about these questions as it was during 1991 crisis. As expected by a common Indian that, "Give money to the poor instead of public works to revive the damaged economy, so that the demand will increase immediately and the economy will get back on track soon". It will always be an another detailed and thorough topic of discussion whether these expectations will really work...!

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