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THE BUDGET

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A NOTHER budget season has come and gone. As usual, an atmosphere of anxious expectancy had been built up over the last few months that the people must be prepared for further heavy levies on them because of the burgeoning government expenditure and the massive investments proposed for the Sixth Plan. The budget, when finally unwrapped, has thrown a few crumbs to select groups; the new imposts are negligible compared to the threats posed earlier; the public, already conditioned, was prepared to welcome the budget with a sigh of relief. And the Finance Minister is basking in the encomium of praise showered on him.

The annual budget has been gradually losing its significance as the prime forecaster of Government's economic and fiscal policies for the year and has degenerated into a carefully orchestrated ritual. The whole exercise is a cruel hoax and a sad commentary on the public capacity to be bamboozled. A brief resumé of Government action on the economic front in the few weeks immediately preceding the budget is significant in this context. First, there was a substantial hike in the price of oil products; then there was the rise in the price of steel and coal; the Railway budget, presented a few days earlier increased rail tariffs for the third year in succession; then, bearer bonds were introduced by an Ordinance and their sales have started. Apart from these measures, which had an inevitable amount of publicity, an official policy is being quietly implemented to starve ration/fair price shops of supplies. The housewife makes repeated trips to the shop seeking supplies, promised against her card, of wheat, rice, sugar, kerosene etc., comes back empty-handed as the shop says it has received no supplies, and is forced to make purchase of her essential daily needs at the high open market prices.

The Finance Minister has claimed as the highlight of his budget that he has lessened the burden on the middle classes and the budget is savings-oriented. He has claimed that the reduction in income tax at an income level of Rs. 15,000 p.a. will be Rs. 990 in a year and that he has provided tax exemption or tax reduction in one year to 25 lakhs out of 40 lakhs assesses. This is literally true. In fact, assesses who get relief may be more than 25 lakhs, if changes in standard deduction are included, but is factually misleading. It is undeniable that it is Govern-

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ment's budget policy for which the Finance Minister is the monitor that is responsible for the price hikes mentioned earlier. Since the end of 1976, when Indira Gandhi and her minions in the States embarked on a reckless spending spree in a desparate bid to woo the electorate, which was fast slipping out of their control, huge annual deficits have become a regular feature of successive budgets; deficits of the magnitude of Rs. 1,000-2,000 crores have come to be regarded as normal, irrespective of the political complexion of the Finance Minister or Government. A little calculation is sufficient to show that the individuals, whom the Finance Minister claims to have saved, will, because of these other factors, actually be mulcted out of a far greater sum during the course of the year.

The hoax does not end here. Even the other statements made in the course of the budget have lost credibility. The estimates for 1980-81 places the overall deficit at Rs. 1,445 crores after, inter alia, making certain assumptions regarding the contributions of public sector undertakings to Central Revenues and regarding Central assistance to States, which were clearly not justified by the available information. Besides, the estimates assumed certain price levels, which were scarcely realistic, having regard to the size of the deficit for 1979-80 and the projected deficit for 1980-81. Predictably, the assumptions went awry and the deficit for 1980-81 has increased. The Finance Minister now assesses the deficit at Rs. 1975 crores, but his very calculations suggest that the deficit may top the Rs. 2,000 crore mark! He has assumed bearer bonds to fetch Rs. 200 crores by the 31st March, which is not borne out by the rate of sale of those bonds till now. For the year 1981-82, the Minister has estimated the deficit at Rs. 1,810 crores, which he expects to reduce to 1,539 crores by his taxation proposals. He has taken credit for Rs. 800 crores from sale of bearer bonds and Rs. 1,379 crores from external assistance. The former may well be realised if the Supreme Court verdict on the bonds is favourable; the latter is doubtful in view of economic situation in donor countries. Keeping in mind the inevitable padding of estimates which has now become an accepted feature of every budget excercise, I suspect the deficit next year will well exceed the Rs. 2,000 crore mark. The States refuse to be left far behind in this game. State budgets already presented contain large uncovered deficits; and one State has been honest enough to demand that the Centre shall meet this deficit. Deficits of such magnitude contain enough seeds to destroy the assumptions on which the estimates are based and reduce the estimates to shambles.

The Finance Minister's estimates regarding physical achievements equally tax our credulity. He has claimed an increase in power generation, in the production of coal and in the movement of freight by railways. It is not difficult to select and present data in support of a particular thesis, but the state of the country's economy, with its impact on the day to day life of the people, demands a more serious approach. The Railway Budget, presented a few days earlier, showed that the Railways

had regularly failed to achieve their targets in respect of freight movement. And the actual quantum of freight handled in 1980-81 was of the same magnitude as in 1979-80. Presumably, coal movement to power stations has somewhat improved; if so, it can only be at the cost of movement of coal and other freight to Industry. That is, shortages continue but have been shifted to sectors less in the public eye. Power cuts, which had been eased about six months ago, are with us again, and the prospects for the coming months till the advent of the next monsoon, continue to be bleak. The Finance Minister has mentioned that production of foodgrains and sugar has increased; foodgrain production is claimed to be a new record. Where are the stocks gone? As mentioned earlier, wheat or sugar is rarely available in shops maintained under the public distribution system—the shops being regularly deprived of supplies by the State Civil Supplies Department. The Finance Minister's claim to have provided more funds to Plan projects is no doubt true; but it would have been more honest if the Minister had simultaneously attempted a balance sheet between the increased provisions and the escalation since the framing of the previous year's budget estimates, in the cost of those Plan projects.

The tax reliefs announced by the Finance Minister are undoubtedly welcome. A tax with a high incidence of the cost of collection and of administrative effort and inconvenience has little merit. Levy of tax on low income slabs suffer from this disadvantage and has rightly been disbanded. Relief in respect of Estate duty was long overdue. A predecessor of the Finance Minister had announced a similar relief, but it seems to have got lost in constitutional requirements. It is to be hoped that the present proposals will be pursued vigorously and brought into effect soon. The reliefs to industry may be taken more as a token of goodwill than of any material consequence in the present environment. The latest attempt to harness black money through bearer bonds is rather curious. Let us leave out the ethical issues involved; as also the confession of Government's inability to control the parallel economy; the stalwarts of the black market have been rewarded at the cost of the honest taxpayer by Government on at least three earlier occasions. But whether the new scheme will divert black money from undesirable activities into the public exchequer is problematical. These bonds are in essence high denominational currency with the added advantage of a small appreciation in value but with the substantial added advantage of a safe haven from tax sleuths and tax demands. Black money, which is already employed actively in the parallel economy, will not find these bonds attractive. But black money, which is lying dormant in cash or in jewellery etc., is likely to find an outlet in these bonds. And even white money may seek these bonds to escape gift or wealth taxes or estate duty. The ingenuity for which the Indian operator is distinguished may soon bring into existence bearer bond Banks and a flourishing bearer bond market to bail out at a price for short periods black market operators in critical danger of the Law. And, as monies can be borrowed from commercial banks against

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the security of these bonds, the new bond market may be financed to a substantial extent by bank credit and provide resources to the parallel economy. The scheme too seems particularly tailored to meet the needs of those who want to keep large unaccounted funds without risk — e.g. political parties or political leaders for their 'war' chests!

Lest it seem that I am unduly harsh on the Finance Minister, let me add that I consider that he has done a commendable job. But he has to function in an environment, which imposes its own limitations. Even in anticipation of the budget, business lobbies raise a howl for relief. That they must be proceeding at the same time perhaps far greater amounts in making purchases on the black market for personal or business requirements, in greasing the wheels of administration and in jockeying with party bosses is ~~sad~~ ~~osa~~. The point is that most of the persons who complain of damage any new impost (or impost at existing rates) will cause still find it worthwhile to incur an outlay on other imposts which are outside the pressure of the law. But these pressure lobbies exist and it is not easy for a Minister to ignore these lobbies. In any event, the flourishing parallel economy, which successive Governments have failed to control, is clear evidence that tax levels have reached a stage where they have become counter-productive. Other sections of the public demand a reduction in public expenditure. I suggest that any meaningful decrease in the level of public expenditure is outside the realm of any Finance Minister in the present set-up. It is doubtful, whether even the Prime Minister, with all the support she undoubtedly commands, can contain, let alone curtail, the present level of outlays. Large uncovered deficits are inevitable with consequent inflationary pressure on the economy, which make a mockery of the Budget and Plan exercises. (Sad commentary on the "present set-up" and the present Prime Minister—Ed.)

(To be continued)

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