THE BUDGET

The Cart Has Already Been Placed Before The Horse

The Janata Government's second budget, presented to Parliament on February 28 by Union Finance Minister H.M. Patel, is different from its first one on two counts.

Last year, Patel was mild on the tax-payer, the fresh levies amounting to a mere Rs. 1,250 million. Yet the uncovered budgetary deficit was kept low at Rs 840 million.

Patel has now opted for a heavy dose of additional taxation, amounting to Rs. 5,495 million, which still leaves an uncovered gap of Rs. 10,500 million. In a manner of speaking, this is not too big a deficit.

Last year's budgeted deficit of Rs. 840 million has actually turned out, in the revised estimates, to be Rs. 9,750 million, so the new budget's deficit is just about Rs. 750 million more than last year's.

The trouble last year was that revenue from income and corporate taxes as also excise duties fell short of expectations, and so was external assistance. On the other hand, as a result of populist policies including restoration of the 8.33 per cent bonus, and a subsidy on fertilizers and on export promotion, among others, non-plan expenditure, both on revenue and capital accounts, shot up beyond the budgeted levels, even as Plan expenditure in key sectors such as petroleum, fertilizers, steel and telecommunications fell way below the budget provisions.

The lessons of these shortfalls does not seem to have been learnt. As much as Rs. 4,990 million out of this year's fresh levies of Rs. 5,495 million is accounted for by excise and customs duties. The use of the excise weapon is going to be harsh. Besides raising the general levy on non-specified items from 2 per cent to 5 per cent *ad valorem*, a special duty has been imposed to the extent of 5 per cent of the basic excise duty currently collected on various items. And then, two very critical items, electricity and coal, have been picked up for a levy of 2 paise per kilowatt-hour and Rs. 5 to Rs. 10 per tonne respectively.

This is going to have a cascading effect on industrial costs and consequently on product prices. At a time when the wolf of demand recession is still lingering at the nation's doorstep, the industrial sector will be hard-pressed to maintain its output levels, leave apart generate enough internal resources for plowing back, which is one of the cardinal stipulations of the Janata Party's economic policy. This is where the excise levies will become counter-productive, even from the point of view of Government revenues.

There is another reason why the massive deficit budgeted this year might escalate still higher. Mr. Patel has said that Rs. 4,140 million, or nearly half the revised deficit figure of last year, was directly accounted for by the additional assistance the Center was 'compelled' to give to the States to make up for their deficits. The situation threatens to be worse this year. The storm raised at the recent meeting of the National Development Council over allocation of resources gives a foretaste of the demands that are likely to be pressed by the States in the name of fulfilling the 'larger role' assigned them in the execution of Plan projects.

They have already protested against the Finance Minister's 'advice', given through his budget speech, to take steps to abolish sales tax and octroi, and have called this undue Central interference. If Prohibition is introduced, there will be added damage to State exchequers. Looking as they do expectantly towards the report of the 7 th Finance Commission, due toward the end of 1978, the States may not be satisfied with the Rs. 955 million that will devolve to them out of the additional tax mobilization planned by the Center, nor with the provision of Rs. 27,410 million for assistance for State Plans (against last year's Rs. 20,310 million).

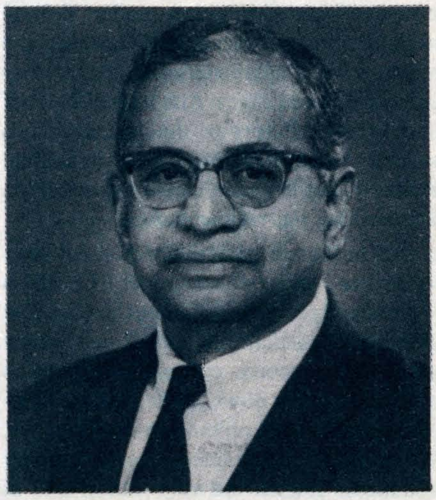
It is all very well that agriculture and rural development will get over 40 per cent of the outlay and that the States' Plan outlay, stepped up by 19 per cent, will be larger than the Central Plan "for the first time in many years." But it is precisely because the pumping of all this money into the rural sector has not prompted the Government to tax the rural rich (which is an imperative, according to the Finance Minister's own Economic Survey) that the narrow tax base is being over-exploited, that too not for a bold enough developmental effort.

The Deputy Chairman of the Planning Commission has said that there are "definite proposals" in the Sixth Plan to tax agriculture. Besides the point as to how this could be the business of a Plan, the cart has already been placed before the horse, as far as the first year of the new Plan is concerned.

M.R.

PROF. C. N. VAKIL

'The Government Is Helping Create A Privileged Class!'



Professor C.N. Vakil, eminent economist, formerly Director, School of Economics and Sociology, University of Bombay, and Director, Central Board, Reserve Bank of India:

"The Janata government was suddenly thrust into power, and there was hardly any coherence between the various constituents of the Party. So decisions were taken very slowly. The Assembly elections in June 1977 again diverted the government's attention; this happened again in February this year. Also, the Janata party's constituents were busy patching up differences amongst themselves, and so economic policies were pushed to the background.

"When there were many complaints about the lack of direction in the economy, the government came out with two conciliatory moves—in November 1977, it announced the Janata Economic Policy, which was more a Party document, and still has not been adopted by the government itself. Later, the Industries Policy Statement was tabled in Parliament, rendering it a government document. But these are only statements, you see.

"The Prime Minister and other government leaders want to control prices and lower prices. They have said that deficit financing will be avoided. Minister for Civil Supplies Mohan Dharia talks of a large, comprehensive public distribution system (when everyone knows how third-class our rationing system is!). Dharia wants his system to deal with many articles of essential consumption. But where is the money to set up such a vast network? Where is the organizational skill? Where will the government find the staff to man such a system? We all know that rationing is necessary only if there is a famine. Talking about this sort of governmental control of distribution under normal conditions is ridiculous. Whenever the government has undertaken trade, there has been total chaos. And isn't this sort of talk contradictory to the Janata Party's professed ideals? They talk of individual liberty, but large-scale public distribution is nothing but regimentation!

"The Janata government has not been able to bring down prices. Credit is stringently controlled by the Reserve Bank of India, and there are many vexing monetary controls. The prices haven't gone down, because the inflationary pressure on the economy is heavy. I am quite disappointed. The government talked a lot but did very little. Now, as soon as the crop season is over, inflationary pressure will assert itself again, and this will be aggravated by the heavy taxation and excise duties imposed by Patel in his latest budget. The only bright spot may be that rice and wheat are more easily available today, because of the abolition of the zone system. But in edible oil and sugar, the prices keep going up. This creates a plus-minus negating effect on the average man's budget.

"The government, quite simply, ought to have taken some imaginative steps during its first year in power to demonstrate that it meant what it said in its manifesto. I agree that it is difficult to remedy everything in one year. But I am sure the government could have done *something* striking as a gesture of its determination. For instance, the Janata government last year appointed the Bhoothalingam Committee to rationalize disparities between incomes, to draw up what is called an 'Incomes Policy'. The government wants to bring down the disparity in incomes between the highest-paid and the lowest-paid employees to a ration of 1:20 and ultimately to the ideal level of 1:10. Right now, it is somewhere close to 1:100! But the government could easily have issued an Ordinance freezing all prices, wages, dividends, and other forms of income. Price levels would then have automatically come down. Instead of that, they issued the Bonus Ordinance, making bonus compulsorily payable whether profit is made or not. Labor immediately took up the cry and this created a chain reaction among all organized workers. Even government employees took advantage of this soft attitude.

"I blame the Janata government squarely for all this mess in industrial relations. It is no use trying to ascribe labor unrest to the Emergency, not one year after coming to power. And remember, only organized labor gets settlements, not unorganized labor which is in a majority in India. This means that the government is helping create a privileged class! Once again, a contradiction, a going against promises of reducing class disparities.

"Neither has the government circulated its Economic Policy Statement. There is a massive gap in public understanding of the government's policies. The Budget that Patel presented in Parliament last month is very inflationary. If you add to the budgetary deficit of Rs. 10,500 million the budgetary deficits of most States, the situation looks alarming. As for the Draft Plan discussed by the National Development Council, I couldn't get a copy like in the past.

"The question now is, will all the States cooperate with the Center in the 'removal of poverty'? The states ruled by different parties are bound to be very critical. Therefore, the Janata economic policy is not evident except in very small gestures.

"Then there is the matter of a bias in favor of small-sector industries. The existing capacities of large companies could have been frozen, and smaller units could have taken care of fresh demand. Yet, Industries Minister George Fernandes orders Hindustan Lever and Wimco to cease production of soaps and safety matches altogether in three years! Small units may not be able or ready to deal with the demand that will arise should these units phase out production by 1981. Isn't this madness? If demand keeps increasing, if rural purchasing power increases, there will be a scarcity in three years' time. This means that prices will shoot upward. If one resorts to *reductio ad absurdum*, tomorrow the government might ask all textile mills to stop production of mill cloth so that Indians can wear only *khadi* and handloom cloth! Is that possible?

"What does this mean? Here is a 'non-violent' government going in for 'economic violence'! It is forcing the people to do things against their will! There is tension among the public. Investors are scared of starting anything. The government wants investment, but behaves like this.

"Everything therefore is contradictory, regimentative, contrary to the Janata Party's ideals of democracy and liberty of the individual. George Fernandes may be a labor organizer, but that doesn't mean he knows how to run industry!

"The saddest thing is that the government has appointed no economic committee to advise on policy statements. Only Nehru used to consult the country's economic experts before he went in for policy statements. Even if there are so-called economic advisers, they are encouraged to tell untruths—they have to keep their jobs, and the Ministers happy."

Chaitanya Kalbag

PROF. D.T. LAKDAWALA

'Price Stability Has been Achieved'

Prof. D.T. Lakdawala, Deputy Chairman of the Planning Commission:

"Frankly, I would like to postpone my judgment on the performance of the government on the economic front till full data is available. Politically, the government has done fairly well in the past one year, in the sense that democratic values have been restored. But then this is not my field where I can express a judgment.