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A DISAPPOINTING BUDGET

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The Economic Survey issued prior to the budget proposals is an admission of the helplessness of the Central Government to meet the challenges of our time. The Survey starts with an admission that the year 1974-75 was one "of unprecedented economic strain in the history of independent India". The national income for constant prices is expected to register one per cent increase during 1974-75, while the population increases at the average rate of 2.2 per cent per annum. The production of foodgrains, which reached an all-time high record of 108 million tonnes in 1970-71, is estimated to stagnate at the last year's level of 104 million tonnes, though the population has increased by 7 per cent since 1970-71. Industrial production registered a ridiculously low rate of 0.5 per cent growth in 1973-74 and it is estimated to achieve a 3.5 per cent growth at the end of the current financial year, as against 8 to 10 per cent growth envisaged in the Plan.

To add fuel to the fire, the wholesale prices sprinted from 230 points in September 1973 to 328 points in September 1974, registering an increase of 31 per cent. The working class consumer price index shot up in sympathy from 248 points in September 1973 to 334 points in September 1974, marking an increase of about 35 per cent in the year. It is, therefore, an under-statement to say that the year was one of unprecedented economic strain. It was, in fact, one of "unbearable" economic strain. The balance of trade also presents a very gloomy picture. Though our exports registered an expansion of 26 per cent, there was a still sharper increase of 56 per cent in our imports, leaving a trade deficit of Rs 437.7 crores. The trade deficit during the first eight months of 1974-75 (April to November) shows a deficit of Rs 425 crores. Our external obligations by way of debt services during the budget year will be of the order of Rs 602 crores of which Rs 401 crores will be towards amortization and Rs 201 crores towards interest payment. Obviously, our dependence on external aid to meet the balance of payment deficits has become greater.

It has become customary for Finance Ministers in recent times to admit the crisis threatening the country but shy away from meeting the challenge with bold and energetic action. They indulge in a few generalizations and some hopeful observations here and there before the presentation of the budget in order to keep up the buoyancy of the market, but hardly ever fulfil the expectations by actual performance.

The National budget is not an accounting procedure balancing receipts and expenditure. It is one of the instruments for the correction of economic imbalances, for the acceleration of the tempo of economic activities, for an equitable distribution of the wealth produced and for the promotion of the welfare of the people. In a parliamentary democracy, people look forward to the budget not with the terror that we in India have been led to develop by the sledge-hammer blows year after year and even twice a year as in the last, but with hope and eager expectations that some ameliorative measures for economic development, social progress and well-being may emanate from it. It is from this criterion that the budget should be evaluated.

The Finance Minister conceded

that the budget is an important tool for reaching our cherished social and economic growth and went on to say that the budget proposals embodied certain specific steps to provide a stimulus to the economy. For achieving the objective, the Finance Minister ruled out reflation of demand and relaxations of fiscal and credit curbs in the context of the pressure on prices and favoured some adjustments in the current policy through "more selective stimuli". One searches in vain for any stimulus, selective or otherwise, for the revival of the economy in this budget. The credit squeeze has given industry the unpalatable necessity of paying unrealistic rates of interest to its depositors. By treating only 85 per cent of the interest paid on deposits as allowable expenditure for tax purposes, the Government has only increased the cost of credit to these institutions. Nor is this measure a disincentive to acceptance of deposits by the companies in the absence of alternative sources of credit even at rates higher than those offered to the depositors. Legitimate money, which finds investment in the economy, adds to the current savings and need not be frowned upon. One cannot be too sure that the rejected deposits will flow into the banking system. It may be diverted to current consumption also. The measure seems to be motivated by a desire to divert deposits to the banks which are fast losing the race for deposits to the industrial units. If so, one may expect further regulations limiting deposits in non-banking companies to the detriment of mobilization of private savings and credit availability to the industrial units.

The so-called package of measures, namely, the extension of tax holiday, exemption of intercorporate dividends of new companies in the high priority sector and the exemption from wealth tax of equity shares in priority industries, though welcome to the extent they go, will not bring about a dynamic investment climate which the Finance Minister was harping about. Nor will the relaxation, that the dividend declared in excess of the existing limit may be distributed after the expiry of two years, enthuse very much the market. The package of concession is indeed very poor and there is very little in the package to revive the stagnant economy or to enthuse fresh investment and to increase production.

The object of stimulating savings will be furthered by the income-tax concession now offered in respect of investment in qualifying savings such as Provident Fund, cumulative time-deposits, etc. Income-tax deduction in respect of 100 per cent of the first Rs 4,000 and 50 per cent of the next Rs 6,000 of the qualifying savings will afford relief to the middle-classes and stimulate savings to that extent. The relief in respect of higher education of the children of individuals whose income does not exceed Rs 12,000 may benefit mostly the salaried employees. Similarly, the exemption of retrenchment compensation up to Rs 20,000 from tax levy will be of great help to the unfortunate persons who may lose their jobs in the prime of their life. There is no doubt that a large volume of middle-class taxpayers will be grateful to the Finance Minister for these reliefs.

In the levy of indirect taxes, the Finance Minister has really wielded the cudgel and hit hard, causing serious damage to both industry and the people. The Finance Minister's statement, that the commodities chosen for levy figure in the list of the more affluent sections of society and will not affect the vulnerable sections of the community, is a stale annual repetition. It cannot be pretended that the excise duties on tea, sugar, cement, bidi, tobacco, etc., do not affect the weaker sections. Nor can it be argued that certain articles of comfort should be made prohibitive and beyond the reach of none but the rich and the super-affluent. At a time when the market shows resistance to high prices, when demand is falling and stocks are accumulating, when production is curtailed because of the inability of industry to accumulate either raw materials or finished goods, a heavy excise duty, coming in the wake of a very heavy one last year, is likely to lead to curtailment of production, lay-off and retrenchment of workers. It is wrong to imagine that the excise duties can be increased *ad infinitum* without studying the impact of these duties on the consumption pattern, on the diversion of trade and the capacity of the goods to bear. With our excise duties now estimated at Rs 3,500 crores, it will be worthwhile and appropriate to undertake a study of the impact of excise duties on production and consumption.

The Finance Minister has introduced a new excise duty of one per cent *ad valorem* on all goods produced for sale or for commercial purposes. Such a levy partakes of the character of turn-over tax, though technically called an excise duty. We are afraid that the "new concept" is an erosion into the States' already limited resources and may prove to be the thin end of the wedge for the levy of a tax analogous to the turn-over tax. The proposal to increase the Central sales taxes from 3 to 4 per cent is a revenue measure which will benefit the States. The net result of the total levy of Rs 288 crores, of which Rs 239 crores will go to the Centre and Rs 49 crores to the States during the budget year, will add to the price hike which the Finance Minister is heroically fighting against.

Reviewing the budget proposals as a whole, it has caused disappointment, especially because expectations of a relaxation of the various shackles that were stifling the growth of the economy were belied. The concessions given to investment in high priority industries, though well-intentioned, are not sufficiently strong to enthuse a stagnant market. We are afraid that the economy is doomed to a sluggish existence for some more time to time.