

**The Union Budget 2008 - 09
Its implications on Agriculture,
Stock Market and Indirect-Tax structure**

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FORUM
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THE UNION BUDGET 2008 - 09

I

Loan Waiver, All that and Challenges of Agricultural Rejuvenation.

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"Free Enterprise was born with man and
shall survive as long as man survives".

- **A. D. Shroff**

1899-1965

Founder-President

Forum of Free Enterprise

No other policy initiative of the 2008-09 Budget has invited so much more attention than the proposal of loan waiver for small and marginal farmers. The Finance Minister(FM) seems to have found in this loan waiver proposal the USP - the Unique Selling Proposition of the budget from the perspective of managing the political economy. But, it is undoubtedly going to be Uniquely Stressful Proposal, challenging the very basis of his rationale of treating 2008-09 as the Year of Consolidation. It is going to harm both the fiscal management as well as the financial system of our economy.

What is striking about the bountiful response to this proposal from across the country and across the divergent sections of the society is that the FM has become the recipient of both bouquets and brickbats. It has been almost impossible for any political party to criticize his policy initiative, except calling it as an act of political opportunism.

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Indeed, there has been one-upmanship in claiming its authorship and credit amongst the political leaders of divergent hues. In contrast, in the class of economists and agricultural experts, there seems to be only a small minority which has acclaimed this proposal as economically sound, viable and worthwhile, but the overwhelming majority of them have been vociferously critical and opposed to its very economic rationale and soundness.

Of course, as we shall elaborate later, the budget contains several other policy measures seeking to bring about the much awaited and urgently sought after agricultural rejuvenation. Much of the package of measures for the agricultural sector in this budget is essentially the continuation of efforts of the last two or three years. There is no serious effort to usher in core agricultural reforms, which many of the experts have been pleading for the past many years consistently. There is a commonly held view that the economic reforms undertaken since 1991 have virtually by-passed the agricultural sector, and the current distress and woes of this sector are almost entirely on account of the gross neglect of this sector through all these times.

Decline of the Indian Agriculture

There are various parameters which conclusively bring out the story of progressive decline and fall of Indian agriculture in the national economy over the past several decades. But more importantly, the recent long-term trend growth rate of the agriculture sector is becoming intensely dismal even as we legitimately glorify our achievements of being

the second fastest growing major economy in the world.

§ Measured in terms of National Income Statistics, the share of agriculture sector in India's GDP has dropped precipitously from 31.4% in 1990-91 to 17.5% 2007-08 (Please see the Appendix I). Granting that a secular decline of the agriculture sector in the national economy is an inevitable part of the process of economic development, the rapidity of this fall is worrisome. It truly reflects the stagnant growth trend of the agriculture sector, which, in terms of occupation, still has to support a predominantly large 56% of India's total labour force. This phenomenon vitiates almost the entire rural economic landscape of the country.

§ Measured in terms of Index of Agricultural Production (1993-94=100), the annual average growth rate of the agriculture sector was just about 2% during the last 17 years from 1990-91 to 2007-08. No doubt, allied agricultural activities, namely, horticulture, floriculture, poultry, dairy farming, etc. have gained momentum in the recent years. Even so, for all those at the broad-based bottom end of the pyramid of the rural economy, it is mostly the traditional crops that shape their fortune.

§ Measured in terms of performance of food-grains production, the story is even more depressing. (Please see the Appendix III graphical depiction of the stagnant food grains production). If we aggregate the annual increase and decrease in food-grains production during the last nine years (1998-99 to 2007-08), the net gains work out to meager 9 mn. tonnes. During the same

period, India's population has expanded by 150 mn. Consequently, not only the per capita food grains availability has dropped sharply over the period, but now there are basic issues of managing the food security of the country. Looking at the current global scenario of unprecedented rising prices of key food crops, this aspect of food security must truly invite utmost priority in our strategy of agricultural rejuvenation.

These are some illustrative, dismal, but telling statistics about the performance of Indian agriculture in the wake of ongoing "magnificent" over-all India growth story. The glaring impact of such adverse trends has been visible on the levels of living of the rural population, skewed patterns of income distribution between rural and urban households, growing rural indebtedness, and so on. Consequently, there can be no two opinions that the sustainable development strategy for India must have an extreme focus on ushering in rapid and widespread agricultural revival. But what has not been done for the past many years cannot be delivered by any single budget. The symbolic and populist gestures like loan waiver may, (or even may not!), win votes, but certainly are not going to uplift the fortunes of the farmers on an enduring basis.

In Search of Agricultural Resurgence

Having said this, let us reflect on the overall package of measures unveiled for the agricultural sector by the budget 2008-09. The central objective of this package is to raise the trend growth rate from 2.5% to 4% per year in the

Eleventh Plan (2007-12). There is an underlying assumption that the gross capital formation (GCF) ratio to agricultural GDP will have to rise progressively from the present 12.5% to 16%. But as mentioned earlier, unless there is an improvement in the productivity and efficiency in the capital and credit proposed to be deployed in the agriculture sector, mere enhancement of the GCF ratio is not going to transform the picture of stagnant agricultural growth.

The USP of the package of measures for the agricultural sector lies in the massive loan waiver intended to benefit 40 mn. small, marginal and other farmers, but the other components are summarized below:

- § Sharp stepping up agricultural credit (Rs.280,000 crores up 16.7%)
- § Strengthening of the long-term co-operative credit structure
- § Accelerated irrigation and water resources program
- § Creation of Irrigation and Water Resources.Finance Corporation
- § Various other initiatives – National Horticulture Mission, extension of crop insurance to many crops, special funds for the plantation crops, etc.

Apart from this specific package for agricultural revival, the budget contains a series of separate social sector initiatives for promoting inclusive growth – a substantial part of which could accrue to the rural sector. These include projects and programmes like Bharat Nirman covering

expansion of drinking water supply, all weather roads, rural telephony, rural electrification and rural housing; Sarva Shiksha Abhiyan; Mid-day Meal Scheme; National Rural Health Mission; Rashtriya Swasthya Bima Yojana for the unorganized sector (BPL category); and eight flagship programmes like National Rural Employment Guarantee Scheme (NREGS), Drinking Water Mission and so on.

Indeed, the budget is striving for a substantial scaling up of public expenditure on all the above programmes of agricultural revival and inclusive growth. Admittedly, one has to really struggle to identify and aggregate all such public expenditure under different heads, which according to our estimate would be over Rs.220,000 crores, representing as much as about 28% of the total budgetary expenditure in 2008-09. While prima facie this looks impressive, the issue about the cost-benefit (or what is currently being described as outlay-outcome budget) evaluation of such expenditure is never being addressed adequately. Consequently, every new welfare oriented scheme ends up in offering only a smaller and smaller fraction of the total entitlement to the intended beneficiaries. The latest experience on the inadequacies of the delivery system happens to be with respect to the ambitious NREGS launched a couple of years ago.

Likely Score Card of the Loan Waiver

That takes us to the FM's USP of the budget in the shape of loan waiver to the farmers. The scheme covers marginal farmers (holding upto 1 hectare) and small

farmers (1-2 hectares) who will be entitled for complete waiver of all loans that were overdue on December 31, 2007 and which remained unpaid until February 29, 2008. In respect of other farmers, there will be one time settlement scheme of their overdue loans by way of rebate of 25% against payment of the balance of 75 per cent. This scheme is proposed to be completed by June 30, 2008.

The total value of loan waiver is estimated at Rs.60,000 crores, of which Rs.10,000 crores will go for one time settlement and the huge balance of Rs.50,000 crores will accrue to small and marginal farmers. The scheme is expected to benefit 30 mn small and marginal farmers and about 10 mn other farmers.

Evidently, the immediate post-budget developments have shown that this proposal has not been adequately conceptualized, and its strategic framework is still being fully formulated. It is undergoing a process of evolution every day, and the various components of the scheme are currently being unfolded in bits and pieces. In fact, the RBI and NABARD have now been asked to prepare branch-wise data on overdue accounts by March 20, 2008. There are possibilities of several significant modifications with various kinds of pressures building up from different political quarters of the current ruling coalition Government.

In the meantime, the FM has announced on March 12, the creation of Farmers Debt Relief Fund and made an allocation of Rs.10,000 crores. Subsequently, on March 14, while replying to the budget debate in the Parliament,

the FM announced that (a) by July 2008, banks will receive in cash Rs.25,000 crores; and (b) the balance amount of Rs.35,000 crores will be spread over the next three years – Rs.15,000 crores in 2009-10, Rs.12,000 crores in 2010-11 and Rs.8,000 crores in 2011-12. By phasing out the burden of the scheme, thus, the FM has passed on two-thirds of the responsibility on to the next Government, but of course, sought to claim the entire credit for his present Government!

By stating that this burden works out to just about 0.5% of the GDP, the FM has allayed the fears of critiques of the scheme. Also, he has assured that the Government will tap the resources from tax and non-tax revenues, including from IPOs of PSUs. However, there is reason to doubt his ability to undertake disinvestment of PSUs given the vehement opposition from the Left allies of the Government in this election year.

No one can deny the fact that the relief scheme of such financial dimensions cannot but result in some positive gains on its score card:

- § First, the concerned farmers distressed by the burden of accumulated debt will be greatly relieved. This offers them much needed financial as well as psychological respite.
- § Second, the beneficiary farmers will now be restored their borrowing capacity with the banks and other financial institutions. They can start with a clean slate to pursue their farming operations with some drive

and vigour once again.

- § Third, a large part of such fresh borrowings would hopefully be deployed for productive purposes, which will greatly benefit creating demand for agricultural input supporting industries – equipments, seeds, fertilizers, pesticides, etc.
- § Fourth, some part of such borrowings can be expected to be diverted to consumption by the concerned rural households, which would stimulate the demand for consumer goods industries. But if this leads in releasing the pent up demand for even the basic food items, it may cause additional inflationary pressures.
- § Lastly the beneficiary banks will be able to clean up a large part of their outstanding bad agricultural credit accounts. This is an opportunity for them to improve the rural credit delivery system in the future.

But on the other side of the score card, there are in built overwhelming negatives:

- § First, there is still no clarity on the extent of the eventual fiscal and financial burden of the scheme, as it is still being firmed up.
- § Second, there are fears about the cascading of this scheme as many other deserving cases of loan waiver (including the inclusion of more farmers) are in the pipeline – for example, the handloom weavers.
- § Third, the scheme has the potential of destroying the ethos of building up credit discipline that has been even otherwise missing in the entire system of

agricultural credit.

- § Fourth, the scheme does not tackle the problem of mitigating the massive presence of both organized and unorganized sectors of rural money lenders.
- § Lastly there are some in-built skewed characteristics of the scheme, which is based on the norms of acreage for small and marginal farmers. Farmers in certain areas will gain disproportionately more than farmers in other areas. This is starkly being brought out, for example, with respect to Vidarbha farmers, (owning relatively larger cultivable farms under arid and semi-arid conditions), who are likely to get less relief than farmers in Western Maharashtra who have had far better access to bank credit thanks to their irrigated farms, even though of small and marginal sizes.

Indian Agriculture and its Four Deficits

Even granting the possibility of some overall positive impact of the loan waiver and other package of measures outlined earlier on the outlook for Indian agriculture, the problems of ushering in agricultural rejuvenation are, indeed, enormously challenging. Indian agriculture, as will be evident from the Appendix II excerpted from the latest Economic Survey, has for long been suffering from four critical deficits, namely,

- § **Technology deficit:** impact of green revolution ushered in the latter half of sixties and enhanced and sustained during next two decades has virtually petered out over

the last decade. Thus, the yield potential of new varieties of paddy, rapeseed/mustard, groundnut, wheat, maize etc. has shown zero growth during 1995-96 to 2005-06. There is neither serious concern nor drive towards the next green revolution. There also seem to be no proper and continuous assessment of the outcome of several commodity specific Missions and R & D activities undertaken in a number of agricultural institutions and universities. Further, the issue is also about deployment of technology not only for pre-harvest activities, but also to transform post-harvest operations for preventing wastage of produce and generating increased value additions.

- § **Input deficit:** growth rate of every single key input required for the promotion of productivity of the agriculture sector has decelerated sharply and progressively. Illustratively, growth of gross irrigated area has dropped sharply from 2.5% in the eighties to just 0.5% in during 1996-97 to 2005-06; growth of electricity consumed has fallen from 14.1% in the eighties to 9.4% in the first half of nineties to a negative rate of 0.5% during 1995-96 to 2005-06; and growth of NPK use declined progressively from 8.2% to 2.5% and further to 2.3% during the same period.
- § **Capital formation deficit:** the most commonly known fact is that investment growth in the agriculture sector has been consistently decelerating primarily due to falling growth of public investment. The budget does envision the prospect of raising the gross capital

formation in agriculture from its current rate of 12.5% of agricultural GDP to 16% in the Eleventh Plan. Even if this is achieved, it may not be enough to attain the target growth of 4% per annum. It is evident from the latest Economic Survey that ICOR (the incremental capital output ratio) has already risen to 5:1 in the Tenth Plan as compared to ICOR of 4:1 for the overall economy. In substance, agriculture is becoming a more and more capital intensive activity, and unless the productivity improves or the monsoon becomes more generous in terms of its precipitation, there are no prospects of improving the ICOR for the agriculture sector.

§ **Institutional deficit:** one of the weakest links in the agriculture sector is that after the initial successes of the co-operative model, (albeit not very consistent and widespread across the country), in the first three decades of economic planning, there have been no other bold and innovative initiatives since then. There is a basic resistance and aversion to bring about consolidation of land holdings, and so also, for lease or corporate farming. The model of public private partnership (PPP), which is gaining some encouraging and promising foothold in some of the infrastructure sectors, (be it roads, ports or airports), is yet to move into the core agricultural operations. One believes that the framework of contract farming, being pursued by several corporate players, may be relevant and may foot the bill. But unfortunately, there have so far not been any adequate and concerted efforts of the policy

makers and planners in this sphere.

Concluding Observations:

In substance, rapidly shrinking share of agriculture in the national economy, continuous recent erosion in food security, global phenomenon of unprecedented rising food prices in the wake of stagnation in global food output, deceleration in the growth rate of living standards of rural population, widening rural-urban divide, falling absorption capacity of agriculture to provide gainful employment to the rural work force, and increasing indebtedness of farmers to both organized and unorganized financial institutions are all building up into "crisis" like situation, posing enormous challenges to policy makers and all the stakeholders.

The consequent chronic agricultural distress, which is eloquently reflected in the four key 'deficits, cannot be resolved by mere short-term palliatives of loan waiver and all that package of agricultural revival unveiled by the FM. There is an urgency of another green revolution driven by a strategic comprehensive agricultural policy dealing with these deficits on a sustainable basis. Agriculture must cease to be a dismal occupation, and must become a vibrant profession for millions and millions of farmers. The concerns of the agriculture sector must occupy important part of the national agenda of all the stakeholders be they planners, policy makers, political parties, business and industry or of Chambers of Commerce and Industry. Surely, the sustainability of India's growth story is at stake!

Appendix - I

Fallina share of Agriculture Sector in Indian Economy

| | GDP at Factor Cost (1999-00 Prices) (Rs. Crores) | Of which Agriculture Sector GDP (Rs. Crores) | Share of Agriculture Sector (%) |
|-------------|--|--|---------------------------------------|
| 1990-91 | 1083,572 | 339,893 | 31.4 |
| 2000-01 | 1864,773 | 445,594 | 23.9 |
| 2007-08 (E) | 3114,452 | 543,984 | 17.5 |
| CAGR (%) | | | |
| 1990-2008 | 6.4 | 2.8 | |

(E) = Estimate

Appendix - II

Trend Growth Rate in Area, Input Use, Credit and Capital Stock in Agriculture (1980-81 to 2003-04)

| Period | (per cent/year) | | |
|---|-----------------------|-----------------------|-----------------------|
| | 1980-81 to 1990-91 | 1990-91 to 1996-97 | 1996-97 to 2005-06 |
| 1 Technology* | 3.3 | 2.8 | 0.0 |
| 2 Total cropped area | 0.4 | 0.4 | 0.1 |
| 3 Gross Irrigated area | 2.3 | 2.6 | 0.5# |
| 4 Electricity consumed in agriculture | 14.1 | 9.4 | -0.5@ |
| 5 NPK use | 8.2 | 2.5 | 2.3 |
| 6 Total net fixed capital stock | 2.0 | 2.1 | 1.3# |
| 7 Public sector net fixed capital stock | 3.9 | 1.9 | 1.4# |
| 8 Credit supply | 3.7 | 7.5 | 14.4# |
| 9 Cropping intensity | 0.5 | 0.4 | 0.1 |

* Yield potential of new varieties of paddy, rapeseed/mustard, groundnut, wheat, maize

Up to 2003-04 @ Up to 2004-05 Source: Economic Survey 2007-08

II

IMPLICATIONS ON STOCK MARKET

Kanu H. Doshi *

*"Markets can remain irrational longer than one
can remain solvent"*

-P John Maynard Keynes

Fall of BSE SENSEX:

The surest yardstick to judge the impact of the Budget on Capital Market is to see the movement of Sensitive Index of 30 scrips of Bombay Stock Exchange, popularly known as SENSEX, on 29th February 2008 itself. At 10 am it opened at 17,824, at 12.32 pm after the Finance Minister (FM) was halfway through his speech, it was 17,672 and went down to 17,258 @ 2.30 pm and closed at 17,579 at 3.30 p.m. Thereafter, it has moved down further from 15,975 on 7th March to 14,833 on 18th March, when this write up went to the press.

In fairness to Mr. Chidambaram, it would not be correct to attribute the fall of Indian stock markets entirely to his Budget because several international events have cumulatively converged for this free fall of share prices across the board.. Share brokers' and investors' angry

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reaction to the proposal to hike the short-term capital gains tax on listed equity shares from 10% to 15% coupled with commodity brokers' and traders' shock at his move to introduce a Commodities Transaction Tax (CTT) on all transactions on Commodity exchanges on the lines of the existing Securities Transaction Tax (STT) on the stock market transactions and absence of corporate tax relief from surcharges and continuation of Fringe Benefit tax and massive unprecedented debt waiver to farmers all contributed to the negative sentiment to bring down the stock markets in the days following the Budget.

It must be conceded that there are some positives like raising the basic income tax exemption limits, reshuffling the slabs so that highest slab of 30% tax will apply to income over Rs. 5 lacs including some initiatives in the Budget that will have a far reaching favourable impact on the healthy growth of financial and capital markets in India. The need for development of the bond, currency and derivatives markets was suggested by the expert panel on Mumbai as an International Financial Centre. That report has highlighted few areas of reforms particularly in the Bond markets; e.g. i) Efficient sovereign bond market with an arbitrage-free rupee yield curve; ii) Wider range of derivatives on Rupee interest rates; iii) Liquid spot market for rupee-denominated corporate bonds; iv) Credit derivatives; v) Liquid currency market; and vi) Full range of currency derivatives.

Recent Capital raisings:

Companies have raised about Rs 25,000 crore in 2006

and Rs 45,000 crore in 2007 from the equity market through IPOs at high valuations. In the process companies have valued themselves at unrealistic high price levels as evident from subsequent falls. It is interesting to notice that very little has been raised through debt instruments largely because of absence of liquidity through recognized well regulated exchange, incidence of high stamp duty on debt paper and tax deduction at source on interest. This aversion to debt capital is too glaring in times of low interest rates and interest being tax deductible expenditure unlike equity dividends which can come only from post tax profits and levy of 15% dividend distribution tax.

With an estimated \$500 billion spend on infrastructure in India over the next five years, there is an acute need for a vibrant bond market and this Budget marks the beginning in the direction of facilitating setting up of such a platform by proposing to exempt from tax deduction at source on interest from all listed debt instruments and reducing the stamp duty on debt paper drastically.

International events trigger further fall:

After witnessing runaway rise and rise of equity markets through the whole of 2007 and January 2008, disturbing international monetary events of March largely emanating from USA and surging oil prices from OPEC have further rattled the stock markets across the world triggering a major fall. Issues like the US dollar's fall; whether US is really in the grip of a recession; what is the likely GDP growth of China are topics of heated discussion in every boardroom across the globe disturbing the market sentiment.

In a globalised economic order, Indian capital markets cannot remain immune from sustained volatility and global cues in the absence of any favourable domestic news. FII flows and market sentiment continue to be crucial factors to determine the move ahead in the short term. FII liquidity has substantially dried up and hence volatile and stormy markets for next few months may be with us till the good monsoon reverses the trend. Cynics believe that the full effect of global meltdown or the losses due to subprime crisis in USA are not fully factored in by the global stock markets and hence any more adverse news on the international front will only have a further negative impact on emerging markets like India. Redemption pressure from FIIs leading to further sales in India to fund their subprime losses in capital markets elsewhere is yet another factor for Indian stock markets to permit healthy early recovery.

Now the good news:

Critics of all shades all over are unanimous that India's economic fundamentals are quite sound if not rock solid. The Budget will boost the consumption spree through lower taxes and higher cash with the tax payers. Demographic dividend from the young has already started flowing into the economy helped by lower prices due to excise cuts and lower interest rates. Domestic savings and investment rate of around 35% will have a silent but positive impact across the board. Sustained GDP growth of about 9% year on year past over five years has built up a decent resilience in the economy as evident from oil price even at \$110 not causing major crisis. Automobile sales have not dried up, roads across the metros still witness bumper to

bumper traffic, eating joints are full all the time by all the people, shopping malls' cash registers are ringing overtime. Vibrancy of the metros is only to be seen to be believed in what is happening in Incredible India!

Reserve Bank of India's liquidity pool of \$100 billion to fund credit requirements of economic growth is a singularly positive signal. By the same token, interest rates could also come down to contain inflation more so with elections 'round the corner. From a political perspective, there is a strong belief that despite this being an election year, few marginal changes would not derail the major economic reform process nor negatively impact the capital markets in the medium and long term.

The FM is likely to release shortly huge liquidity through salary revisions for public sector employees. The last time when pay revision occurred in 1997, there was a positive impact on GDP and on stock markets because of flow of liquidity. Quantum this time will be substantial. Several mutual funds have drawn up schemes to mop up the pile of cash going to the beneficiaries of the pay revision. At the other end are also shopping malls and auto companies ready to tap that liquidity. Either way, it is beneficial to the economy.

Road ahead for Retail Investor:

Risk-reward tradeoff at present stock prices is in the investors' favour. In the foreseeable future, price appreciation in stock market investments will come largely from earnings growth and not from price-earning reratings of companies. Because of the global meltdown and 'uncertainties, share prices of sound companies have fallen

by 50% compared to their prices in the first week of January 2008 when Sensex peaked at 21,250.

This is therefore an excellent opportunity for retail investors to build a quality portfolio of equity shares because at these low prices of almost all blue chips returns from these levels over the next two to three years could be attractive. India story continues to be strong by all accounts. Unfavourable global developments have adversely and temporarily hit the market sentiment. Indian markets are affected due to event risks rather than fundamental issues. Markets are down due to crisis of confidence and not due to shortage of investible funds with the investors.

Retail investors tend to take short-term view and expect instant appreciation. Investment gurus have repeatedly stressed that Equity, as an asset class, needs to be considered only for long-term deployment. Ironical but so universally true is the observation that equity is the only class of investment that investors buy when the prices are high and sell when the prices fall. May be, investors could cautiously watch from the sideline for a while and enter selectively and slowly in smaller lots. Lists of the rich and famous all over the world past several decades are packed with persons who made it only through equity shares. Ask the latest topper, Mr. Warren Buffett. He calls it "the magic of market capitalization".

Long Term Trends for Indian markets are bullish:

Recent Mckinsey Global Institute (MGI) research highlights several trends that look set to continue during the years ahead, long after the present market turbulence has ended.

These are:

- (i) Continued growth and deepening of global capital markets as investors pour more money into equities, debt securities, bank deposits and other assets around the globe.
- (ii) Soaring growth of financial markets in the emerging economies and the growing ties between financial markets in developed countries and developing countries.
- (iii) Shift of financial weight in Asia from Japan towards fast-growing emerging markets.
- (iv) Growing financial clout of the eurozone countries and the significance and rise of US dollar and of the euro against other currencies.
- (v) Increased role of oil-rich Middle Eastern countries as suppliers of also capital to the world, along with the rise of new financial hubs in the region complementing those in London and Asia.

In sum, the sun will continue to rise in the East and shine brightly on India for years to come!

THE BUDGET & INDIRECT TAXATION

Dadi B. Engineer*

It has often been said that a Budget is a blue print for the progress of a nation. How does Mr. Chidambaram's seventh Budget measure up to this criterion? Unfortunately, it is a populist, "please all" Budget. It does appear that the Budget is an attempt of the present coalition Government to distract attention from its performance in the last four years and to offer sops to a wide range of people, particularly in view of the forthcoming elections in some of the States and the Central elections. I think it would be appropriate to nickname the present Budget "as a Budget of Schemes and Sops." The piece *de* resistance of the Budget is the Rupees sixty thousand crores write-off of loans to the farmers, which will be talked about for a long time to come. As Dr. Lawrence Peter (the author of the famous "Peter Principle") said "the primary requisite of a new tax law is to exempt enough voters to win the next election."

The statistics all seemed to be in Mr. Chidambaram's favour this year. "A lucky Finance Minister" (as Mr.

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Chidambaram called himself) had as the backdrop of the Budget, a GDP of approximately 8.7% the investment rate climbed to a historic height of 38.5% of the GDP and the savings rate approached another historic height of 37% of the GDP. There was buoyancy in the revenue collections, direct taxes which were always lagging behind indirect taxes, took first place and showed a growth of 42% while the corporate tax collections showed a 39% growth. However, as both Prime Minister and the Finance Minister (FM) said before the Budget, one will have to be very careful about "the demon of inflation".

Adverting to customs duties, the peak rate of 10% has remained unaltered. The FM attributes to the appreciation of the rupee against the dollar by 9.8% since April 2007 as a factor to be considered against reducing the peak rate of Customs duty. Be that as it may, we have a self-imposed commitment to progressively reduce by 2010 the import duty to the Asean rate of approximately 4.5%. I do not think we will be able to meet this target unless there is a hefty reduction in Customs duties next year (which does not seem likely).

There are some other reductions in customs duties in the Budget for certain sectors, with a view to give an impetus to these sectors. Project imports, life saving drugs, cattle and poultry feeds, goods for the IT/electronic sector and sports goods have all received favourable treatment.

As regards Central Excise, the general CENVAT rate has been reduced from 16% to 14%. This is to give an impetus

to manufacturers. This is, also, in view of the proposal to implement the GST Act (The Goods and Service Tax Act) by 2010. There is not much mention about the GST Act in the Budget speech, save and except that the FM has announced that the Central Sales Tax (C.S.T.) has been reduced by a further 1% (to bring about a convergence of rates of taxes for the purposes of the proposed GST Act) and that the roadmap for the GST is making progress.

The FM has given concessions and announced reductions in Excise duties in cases where he felt that the industrial growth was sagging or that the goods are important for growth and employment. The pharma sector, small cars, buses and their chassis and two and three wheelers have all received favourable treatment, so have goods of mass consumption like tea and coffee mixes etc.

As expected, the FM has been unkind to cigarettes. Perhaps he has the same philosophy as Napoleon, who said: "Vices are great patriots" and that the Frenchman's love of brandy brought in each year millions of francs to his exchequer. Napoleon also asked which virtue could contribute so handsomely to the revenue.

The FM said that non-filter cigarettes (which are more toxic than filter cigarettes) were enjoying a more favourable tax regime. He therefore placed filter and non-filter cigarettes on a par and then taxed them at a higher rate! The FM has also increased the basic customs duty on cigar and cherottes from 30% to 60% (which is a full 100% increase).

Before the Budget there was considerable conjecture where there would be a service tax levy "across the board" with a reasonable exemption for small service providers. Nothing of the sort happened. The FM has retained the present rate of service tax of 12% (plus education cess etc.) He has increased the threshold for exemption from an annual turnover of Rupees 8 lakhs to Rupees 10 lakhs and added four new services.

The fine print in the Budget papers reveals a new scheme for "Service Tax Return Preparers", who will assist assesses to prepare and furnish their return for service tax. The scheme will be published in the official Gazette. The nagging question remains: "Who will pay for this luxury?"

The other scheme sought to be introduced is a small scheme of a limited duration called the "Service Tax Disputes Resolution Scheme, 2008" which will have a limited life from 1st July 2008 upto 30th September 2008 and will apply only to service tax arrears not exceeding Rs. 25000 and which were pending as on the 1st March 2008. Assesseees having such arrears of service tax would have to file a declaration before the designated authority after 1st July 2008 but before 30th September 2008. Such authority will determine the amount of service tax payable. The scheme would result in some relief to the assesseees.

As stated before, the Budget abounds in "Social Welfare Schemes". One of the flagship schemes of the Central Government is the National Rural Employment Guarantee

Scheme. The Government's own report on this scheme which was released in December 2007 would indicate that the scheme was a great success, with over 20 million beneficiaries, and 640 million persondays of employment created. However, the Controller and Auditor General had other ideas about this scheme. An audit conducted in 513 Gram Panchayats in 68 districts across 26 states resulted in mind-boggling statistics. The audit revealed that only 3.2% of the registered house-holds could benefit from the scheme by securing only 100 days employment in a year between February 2006 and March 2007, It also seems that siphoning of monies through fraudulent means took place. FIRs (First Information Reports) have now been filed against some of those accused of corruption.

There are no words to describe the despicable conduct of those who would deprive the poor citizens of our country from the benefits under such schemes. The plight of the poor farmer is well reflected in the following lines (which would also apply to the millions of our country living below the poverty line):-

"His speech is of mortgaged bedding.
On his vine he borrows yet,
At his heart is his daughter's wedding.
In his eye foreknowledge of debt.
He eats and hath indigestion,
He toils and he may not stop;
His life is a long-drawn question
Between a crop and a crop."

Mr. Chidambaram has authored a book called " A View from the Outside - Why Good Economics Works For Everyone". He was questioned by a journalist about the title of the book and was asked how good economics would work for all sections of society. He replied to the effect that the structure of our society could be compared to a pyramid - those at the top are affluent; then would come the middle class and lastly the base of the pyramid which would comprise of the poor sections of society. The FM said that the benefits of good economics could take quite some time before they percolate from the top to those who are at the base of the pyramid. My nagging question for Mr. Chidambaram is about the people at the base of the pyramid who bear the crushing impact of inflation, spiraling prices (particularly for the necessities of life) and who live well below the poverty line: "When will the turn of those poor people come for enjoying the benefits of "good economics"?!!

"People must come to accept private enterprise not as a necessary evil, but as an affirmative good".

- Eugene Black

FORUM

of Free Enterprise

The Forum of Free Enterprise is a non-political and non-partisan organisation started in 1956, to educate public opinion in India on free enterprise and its close relationship with the democratic way of life. The Forum seeks to stimulate public thinking on vital economic problems of the day through booklets, meetings, and other means as befit a democratic society.

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