THE UNION BUDGET 1981-82

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By

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The Union Budget for 1981-82 has to be judged against the backdrop of the anaemic condition of the national economy. The Finance Minister's Budget Speech presents an impressive picture of a revitalized economy by comparing the statistics for 1980-81 with those for 1979-80. But since the immediately preceding year was a year of disastrous set-backs, it would surely be more meaningful to compare the data for 1980-81 with those for 1978-79. **On the basis of such a comparison, our agricultural production increased by only 0.5 per cent, and our industrial production by 2.5 per cent, as compared to the output two years ago. Our gross national product in 1980-81 showed an increase of only 1.7 per cent in real terms over the figure for 1978-79; but since the population increased much faster, the disquieting fact is that our per capita GNP suffered a fall of 2.2 per cent over the last two years.**

The Budget Speech mentions that inflation rose by 13.5 per cent from April 1980 upto the end of January 1981, while it was nearly 20 per cent in the same period of the previous year. This favourable picture is presented by taking the figures of inflation on a *point-to-point* basis. In reality, on the basis of the *average* index, inflation was higher at 18.4 per cent for the ten-month period ending January 1981 compared to 15.6 per cent for the ten-month period ending January 1980. In the past the Economic Survey gave figures on the average index basis. For the first time this year, it has switched over to the point-to-point basis. It is difficult to account for the change except as an exercise in the widely known art of window-dressing. If a limited company resorts to a change of method in its accounts, it would have to draw pointed attention to the change. But presumably, the standards applicable to limited companies do not apply to unlimited governments.

Our foreign exchange position is far from comforting. The total import bill in 1980-81 is likely to be around Rs 11,300 crores, whereas exports are projected to be only Rs 7,100 crores. Even after allowing for the surplus on net invisibles, India will have to finance a balance of payments deficit of about Rs 2,000 crores in 1980-81. From the peak figure of Rs 5,220 crores at the end of March 1979, our foreign exchange reserves had sunk to Rs 4,851 crores by end-January 1981. This figure would have been still lower but for the borrowing of Rs 815 crores from the I.M.F. Today the foreign exchange reserves are just sufficient to finance our current import bill for five months.

Four ingredients are to be found in any recipe for preparing a budget—psychology, politics, economics and strategy. The quality of the budget depends upon the quality of the ingredients and the proportion in which you mix them. This year's Budget is psychologically perfect, politically clever, economically unsound, and strategically a costly failure.

Psychologically perfect

The Finance Minister has wisely earned the gratitude of the middle classes by proposing to increase the exemption limit for income-tax on personal incomes to Rs 15,000, and by restructuring the rate schedule so as to reduce the burden of income-tax on income upto Rs 30,000. Out of 40 lakhs of assessees in the country, about 14 lakhs will go out of the income-tax net, while another 11.5 lakhs will get varying degrees of relief. This is undoubtedly the best part of the Budget. Further, additional excise has not been levied as a revenue-raising measure. Predictably, the psychological impact of the Budget has been most favourable.

Few people are conscious of the fact that the so-called income-tax relief is nothing but an inadequate adjustment against inflation.

(a) The exemption limit of Rs 10,000 was fixed in 1977. It was raised to Rs 12,000 in 1980 and is now to be raised to Rs 15,000. But Rs 10,000 of 1977 is already equivalent to Rs 14,500 today, and will probably be equivalent to more than Rs 15,000 in the first half of the next financial year the income of which is to benefit from the increased exemption limit.

(b) For salaried employees, the maximum standard deduction of Rs 3,500 is proposed to be raised to Rs 5,000. The limit of Rs 3,500 was fixed in 1974, and that amount now equals Rs 5,140.

(c) The exemption limit of Rs 50,000 for estate duty is proposed to be increased to Rs 1,50,000. The exemption of Rs 50,000 was fixed in October 1953 and the equivalent of that amount today is Rs 2,87,000.

In short, even after the proposed revisions, citizens will be worse off than before, because the reliefs do not keep pace with inflation. We are experiencing a "fiscal drag". We do not have the system — which prevails in Denmark, The Netherlands, Canada and Australia — of automatic indexing of exemption limits and other tax reliefs by reference to the rate of inflation.

Incidentally, the Finance Minister has said that he proposes "to provide that any residential house or part thereof will be valued for estate duty purposes on the same basis as for the purposes of wealth-tax". He goes on to say that "since the Estate Duty Act can be amended only with the concurrence of the State Legislatures", a Bill for giving effect to this proposal would be introduced later. In law it is not necessary to introduce a Bill to amend the Estate Duty Act for this purpose. It would be sufficient to make an Estate Duty Rule (which can be promulgated by the Central Board of Direct Taxes under Section 85 of the Estate Duty Act) without the prior concurrence of the State Legislatures. Every week some death occurs which involves under the existing law the valuation of a family house or residence on the basis of its market value with vacant possession, on the hypothesis that the family members can live on the streets or in a zopadpatti after utilizing the bulk of the sale proceeds of the dwelling place for the payment of estate duty. This injustice is particularly acute in the cities where the prices of land and buildings have sky-rocketed to dizzy heights. The injustice cries aloud for redress and cannot brook any delay. It is worth reminding ourselves that Mr. H. M. Patel, as the Finance Minister, proposed in his Budget Speech of 1978 an increase in the exemption limit for estate duty from Rs 50,000 to Rs 1 lakh and added, "Since in this matter we can move only with the concurrence of the State Legislatures, a Bill for implementing this proposal and certain other proposals in relation to estate duty will be introduced later this year". The "later" day never came.

Politically clever

One cannot but admire the political craftsmanship of the Budget. It is so clever that it anaesthetized the opposition within and outside Parliament.

The reasons for the collapse of political opposition are not far to seek. First, the psychological triumph of the Budget is itself a big plus point in politics. Secondly, the sacred cow of Indian politics—the rich farmer—has been left untouched. Thirdly, with so much claptrap about "socialism" in the air, the aggregate burden of direct taxes on the corporate sector has been left unrelieved; while customs duty has been substantially increased. Fourthly, the optical illusion of a give-away budget has been created, when actually the Budget provides for a net additional taxation of Rs 196 crores, over and above the increases effected before the Budget in the prices of oil, coal and steel, and in railway fares and freight,—which in the aggregate will net Rs 2,200 crores.

Economically unsound

It would need generosity, more than veracity, to characterize the Budget as economically sound.

The Finance Minister himself has said that "the corporate sector has a crucial role to play". Industry contributes 79 per cent of the Central Government's revenue, excluding the direct taxes paid by individuals employed in industry. But there is nothing in the Budget to spur industrial growth.

The insignificant relief is the reduction in corporate surcharge from 7.5 per cent to 2.5 per cent. But even this will make no difference to the total burden on the corporate sector, since our tax structure is such that reduction in surcharge will involve an increase in surtax and, further, surtax will now have to be paid in advance before the commencement of the assessment year.

Public amnesia is the politician's best friend. It is commonly forgotten that corporate surcharge was introduced in December 1971 to pay for the Bangladesh war. Ten years have passed since the end of the war, but the surcharge is unending.

The most unforgivable and the least defensible feature of the Budget is the levy of 15 per cent customs duty on the import of newsprint. It is a tax on public information and public knowledge. Since the radio and television are virtually made to function as public relations departments of the government, the newspaper is the only medium available for the dissemination of news. The cost of paper and printing has already risen abnormally high, and the government has done nothing to make India self-sufficient in newsprint. Having regard to all the circumstances, the introduction of a customs duty on newsprint may well be regarded as an unconstitutional restriction on the fundamental right to freedom of speech and expression which has been judicially construed to include the right to public information.

Strategically a failure

From the viewpoint of the strategy of the war on poverty and unemployment, on inflation, the black market and foreign trade deficit, the Budget must be treated as a failure.

It cannot be too often reiterated that in a poor country like India it is impossible to have social justice without economic growth. The Budget contains no measures to reach the target of 5.2 per cent annual growth rate prescribed in the Sixth Five-Year Plan.

There are only two ways of dealing with the problem of unemployment — to increase the number of jobs or to decrease the number of job-seekers. The Budget has made no significant provision to achieve either. It is a measure of the effect of the suffocating controls on the enterprise of citizens that only half a million new jobs have been created in the organized private sector since 1971. Throughout the country only four million new jobs were created during the five years of the Fifth Plan. According to an official estimate, 90 million jobs will be required to be created in the next ten years — an average of 9 million a year. This can never be accomplished by merely making small adjustments to the existing tax laws. The Budget gives no indication that the government is even remotely conscious of the desirability of altering its course.

We would rather be ruined than change,
We would rather die in our dread
Than climb the cross of the moment
And let our illusions die.

Inflation is not likely to be lower than 15 per cent in the next financial year. It is beyond hope that this Budget will make the economy grow wings and soar to new heights, or will revitalize growth, renew public confidence, and rekindle the people's creativity and initiative.

Since wealth-tax on all assessees and income-tax on assessees with income above Rs 30,000 remain unchanged, tax evasion is not likely to be reduced by this year's Budget. The black market will continue to blacken our national character. The true begetter of the black market is the government which nurtures it by heavy taxation, mindless controls on production and nonsensical price controls. For instance, while the controlled price of cement compels the honest units to work at a loss — the average price allowed to the producer being only Rs 205 per tonne — the government has imported two million tonnes of cement in the current year at a price of more than Rs 800 per tonne or more than 300 per cent higher than the price allowed to the indigenous manufacturer.

Having regard to India's dwindling foreign exchange reserves, there is an imperative need to boost our exports. India, which has the third largest force of scientists and engineers (the first being the United States and the second the Soviet Union) and ranks fourth in agricultural production and tenth in industrial production, has a bare 0.5 per cent of the world's export trade.

The Sixth Plan aims at 9 to 10 per cent annual increase in exports. The Tandon Committee recommended 11 per cent annual rise, and pointed out that even if this is achieved over a period of ten years, India will still have only 1 per cent of the world's export market at the end of the decade.

We complain about the increase in the price of oil but forget that India has resources sufficient to earn the foreign exchange required for importing oil. For instance, by exporting 12 tonnes of wheat we would earn sufficient foreign exchange to import 10

tonnes of oil. (The international price of wheat ranges from US $ 200 to 220 per tonne, while that of oil is US $ 245 to 280 per tonne.)

Six basic flaws

There are six basic flaws in our economic administration which are all reflected in the Budget.

First, the Budget fails to recognize that infrastructural inadequacy is the most serious problem facing the economy today, and should be dealt with on principles of "crisis management". What is proposed to be done is too little; and already it is very late. Coal, electricity, oil, steel, cement, roads, railways and ports—all of them suffer from woeful inadequacy. Today the annual coal production is 115 million tonnes, and electricity generation is 29,000 megawatts—substantially less than what we need. By the turn of the century we shall need 400 million tonnes of coal and 1,08,000 megawatts of electricity.

Secondly, we have yet to realize that fast growth of government and fast growth of the economy are totally incompatible with each other.

So long as India continues to be over-governed, it will continue to be under-developed. While the Economic Survey refers to the necessity of "an all-out effort at eliminating wasteful expenditure both under non-plan and plan heads", in the Budget Speech and in the Budget proposals there is not a word about the need to restrain the monster of incremental governmental expenditure.

The administration is excessive in quantity and deficient in quality. It would be far better to have a total ban on fresh recruitment in the administration section of the Central and State Governments, and pay the officials a decent wage. In 1956 Professor Nicholas Kaldor in his Report on Indian Tax Reforms had observed, "I feel that there is too much of false and misguided economy in India". These words are truer today than ever before. With the exemption limit at Rs 15,000, the overwhelming majority of Income-tax Officers will themselves not be income-tax payers!

We have the absurd situation of public money being spent to increase the menacing role of the public administration and to multiply the government-imposed barriers to investment, employment and production. It is most significant that the two areas where the growth has been the fastest have been agriculture and road transport, and these are the areas where governmental interference has been the least.

For the public sector, budgets provide year after year for more and more financial input, without the requisite management input. Today the capital employed in the public sector is Rs 16,354 crores on which the pre-tax profit is the paltry amount of Rs 227 crores or less than 1.5 per cent.

Thirdly, in this ancient and unhurried civilization we seem to have no sense of time and no sense of urgency. The Budget will make the direct tax laws even more complex than they ever were before. We keep on having more and more laws, and less and less justice, wholly oblivious of the fact that litigation arising from the new Budget proposals and the other new laws will be finally decided only in the next century.

We are content to fill the unforgiving year with sixty seconds' worth of distance run. Last year the

Budget proposed to start the Export-Import Bank, but nothing has been done yet. Energy is the most important and most complex problem facing the country, but no less than 800 Reports on the subject are gathering dust on the shelves of the appropriate Ministry. Meanwhile, files keep on moving horizontally and vertically.

Fourthly, there is no understanding of the necessity for stability in fiscal laws. Industries are made to shift, all too frequently, from the list of high priority industries to that of low priority industries — and vice versa — without forewarning or public discussion. The Budget proposes that intercorporate dividends received from a company which manufactures electronic components, computers or peripherals should be wholly exempt from income-tax in the hands of the corporate shareholder. Who can plan ahead and start a new subsidiary on the basis of this exemption, when past experience shows that such exemptions are withdrawn overnight, without the slightest qualms of governmental conscience?

Since April 1980 no less than 88 changes have been made in the Export Policy, and 54 changes in the Import Policy. The welter of maddening and nerve-racking changes in the law is mainly responsible for our pathetic share of the world's export market.

Fifthly, in this vast country comprising more than one-seventh of the human race, any effort is doomed to failure when it is characterized by a small heart and a narrow outlook.

The Budget seeks to promote exports by proposing a five-year tax holiday. But this holiday is restricted to the Free Trade Zones of Santa Cruz and Kandla, although the combined exports of these two Zones are less than 0.5 per cent of our total exports. Even this five-year tax holiday is hedged with such paisa-pinching conditions (denial of carry-forward of depreciation, allowances, losses etc.) that a capital-intensive unit outside the Free Trade Zone may find its tax burden lighter over a period of years than a similar unit on which the five-year tax holiday is benevolently conferred. The least that the Finance Minister can do is to give an option to the new units in the Free Trade Zones to forgo the five-year tax holiday and get instead the allowances in normal course. (In the Finance Bill, 1981, such option is given only to old units established during the four years preceding the accounting year relevant to the assessment year 1981-82.)

It is proposed to give deduction for medical treatment of handicapped dependants. The Budget proposes to give a deduction of Rs 4,800 per annum, provided the handicapped person has been hospitalized for at least six months in the year. Even this paltry deduction is not admissible to the handicapped person himself who may be driven to pay the medical expenses out of his own moneys. It is available only to the person on whom the handicapped person is dependent. Further, if the handicapped person is dependent on both his parents each of whom may have separate income, the deduction would not be available to either of the two parents. Would it not be better to avoid cluttering up the statute book with such derisory, minuscule reliefs, particularly in the International Year for Disabled Persons?

A shrivelled heart and a blinkered vision characterize the proposed encouragement of alternative sources of energy. Does the Government seriously hope to promote the use of solar, biomass and wind equipment merely by increasing the rate of depreciation in the first year from 10 to 30 per cent? Incidentally, 5 million biomass units are already in operation in China. We lag far, far behind.

The Budget has been too niggardly in its proposals regarding human development. Economies in other areas would leave adequate resources for greater allocation to human development. A sum of only Rs 155 crores is earmarked for family planning. There is a desperate need to spend ten times this amount in a vigorous, imaginative drive to contain the population explosion, although no one suggests that we should go back to the days of the Emergency when family planning was sought to be implemented by treating human beings as if they were dumb cattle.

A sum of Rs 110 crores is earmarked for safe drinking water. If it is well spent, it is expected to benefit 36,000 villages. It is an unmitigated disgrace that 31 years after Independence, only 97,000 villages out of 5,76,000 have safe drinking water.

Sixthly, during the last few years it is not merely money which has been eroded in India. Far more devastating has been the erosion of values and moral standards.

The Special Bearer Bonds Scheme virtually amounts to institutionalizing the black market. It is tragic that under the regime of Mr. Venkataraman who is a first-rate man of unimpeachable integrity, the Budget should derive a substantial part of its sustenance from Bearer Bonds. It is officially stated that the black money mopped up by the issue of Bearer Bonds is what has made tax reliefs possible at the lower slabs. The amount of income-tax relief given is Rs 115 crores, while the Bearer Bonds collection till 31st March 1981 is estimated to be Rs 200 crores. The next year's deficit is estimated to be Rs 1,539 crores but only after taking credit for Rs 800 crores from the issue of Bearer Bonds after 1st April 1981. In other words, the deficit for the next year would increase by more than 50 per cent if the Bearer Bonds are held by the Supreme Court to be unconstitutional or are otherwise not taken up.

The danger facing the country when the Union budget is based on Bearer Bonds economics, needs no underlining. Black market and corruption are patently dangerous, but the official and public acceptance of black market and corruption is positively lethal.

The administration of law collapses when the moral standards of criminals, policemen and politicians are indistinguishable from one another. While recognizing the existence of the untrammelled and evergrowing parallel economy, neither the Budget nor any other measure proposes to eradicate the causes which have led to the alarming spread of the cancer in the Indian body politic.

One More Year Wasted

An eminent historian recently wrote an essay entitled "An Enquiry Into the Persistent Unwisdom of Government", where he tried to probe the reasons why man has made such a deplorable failure of government, more than of any other human activity. Current history affords no better illustration of this dismal truth than India.

India, like the Middle East countries 40 years ago, is sitting in poverty over untold wealth. The wealth of the Middle East countries is depletable oil; while ours is the ever renewable resource of intelligence and skills, initiative and enterprise, of our teeming millions. We harness the power in coal and oil, in fall and stream, but the greatest of powers — the immeasurable reservoir of the people's faith and response, energy and endeavour — is left to channel off where it will. This imponderable human force continues to remain beyond the ken of our budgets and our plans.

Providence has granted Mrs. Gandhi a marvellous, exceptional opportunity to build a strong India by taking a U-turn in fiscal and other economic policies — an opportunity as rare as rain in Iquique. She has massive public support. She has an overwhelming majority in Parliament. The party is solidly, in fact supinely, behind her. More than three-fourths of the States are ruled by Congress-I ministries who are more docile towards the High Command than the Native States were in the days of Paramountcy of the British Crown.

Oh, the years we waste, and the tears we waste! The economy is poised for phenomenal growth. What a fantastic chance has been missed to present a Union budget (accompanied by appropriate changes in other fields of economic administration) which could have transformed the nation. The Finance Minister could have torn the infernal shroud of secrecy which enveloped and smothered budgets in the past. Realizing that democracy flourishes best on the principle of open government, he could have allowed a free public debate on his proposals before introducing the Finance Bill in the legislature, as is done in a number of enlightened democracies. The Budget could have been so much richer by drawing upon the knowledge and experience of citizens outside the government.

We could have reduced the rates of taxation, resulting in fair laws and the people's acceptance of their moral duty to pay, without any loss to the national exchequer.

We could have abolished octroi—a levy which was always inane but must be regarded in modern times as insane. We could have released hundreds of millions of intelligent man-hours for constructive work by levying additional excise in lieu of sales tax, without reducing the finances of the States.

But apparently we are destined to have one more year of the locusts. Where there is no vision, the old adage may stand.

(Based upon the public talk in Bombay on 5th March 1981, the M. Ct. M. Chidambaram Chettyar Memorial Lecture in Madras on 13th March 1981, the talk under the auspices of the Federation of Karnataka Chambers of Commerce & Industry in Bangalore on 14th March 1981, and the articles which appeared in the Times of India and the Hindustan Times)

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