THE UNION BUDGET 1982-83

and

A BUDGET OF MY DREAMS

N. A. PALKHIVALA

FORUM OF FREE ENTERPRISE
PIRAMAL MANSION, 235 DR. D. N. ROAD,
BOMBAY 400 001.

I

THE UNION BUDGET 1982-83

By

Nani A. Palkhivala

This year all omens were propitious for a really nutritive budget, which could have vivified the economy. The rate of inflation has been reduced; and the national economy is crying aloud for growth. In the current year (1981-82) the industrial sector will record a growth of 8%; the gross national product will increase in real terms by 4.5%; while the revised estimates of tax revenues show an increase of Rs. 1086 crores over the budgeted amount.

People harboured great expectations from a Finance Minister of Mr. Pranab Mukherjee's well-known pragmatism and great ability. But the time at his disposal was too short to do for the national economy the magnificent job that he did for the steel industry last year.

There are, no doubt, some good points about the Budget — the increase in the standard deduction which will benefit employees drawing salaries between Rs. 15,000 and Rs. 25,000 per annum; the higher reliefs in respect of insurance premia and provident fund contributions; the excise relief for increased production; the tax exemptions which would attract investment in India by persons of Indian origin settled abroad; and the provision for paying — without deduction of tax at source — dividends, interest on debentures, bonds and deposits, to persons who make a declaration that their income is below the taxable minimum. This last provision is not proposed to be made applicable to non-residents. The greatest irritant to non-residents is to suffer deduction of tax at source without having any means of getting a quick refund. The proposed Section 197A of the Income-tax Act which provides for non-deduction of tax at source should be extended to non-residents. Some economists have estimated the wealth of persons of Indian origin residing abroad to be of the order of Rs. 115,000 crores, i.e. more than three-fourths of India's annual gross national product. Much remains to be done to attract investments in India out of this enormous wealth.

Unfortunately, the Budget leaves untouched the major and urgent economic problems of India. In point of approach and vision, it is the budget of a grocery store, not of a great nation on the march. It totally fails to do justice to a Finance Minister of Mr. Pranab Mukherjee's high calibre or to a country so gifted and intelligent as India.

Water from eye-dropper

To a dehydrated nation, the Budget offers water from an eye-dropper. The burden of corporate taxation remains unchanged. The heavy rates of personal tax remain unchanged, except at two slabs where they have been increased. The lowest rate of income-tax still remains as high as 33%. Even in very prosperous countries it is much lower. In socialist Sweden the lowest rate is 1%; in socialist France 5%; in Canada 6%; in the United States 12%; and in West Germany 22%.

Small reliefs like increasing the income-tax exemption from Rs. 3,000 to Rs. 4,000 in respect of dividends and bank interest, and increasing the exemption for wealth-tax from Rs. 1,50,000 to Rs. 1,65,000 in respect of shares and bank deposits, are wholly inadequate. The income-tax exemption of Rs. 3,000 fixed in 1974 is equivalent today to Rs. 4,850; and the wealth-tax exemption of Rs. 1,50,000 fixed in 1970 is equal to Rs. 4,15,000 today. The ceiling on deduction in respect of insurance premia and provident fund contributions is proposed to be increased from Rs. 30,000 to Rs. 40,000; but Rs. 30,000 of 1978 when that limit was fixed is equivalent to Rs. 46,000 today. Thus in real terms the taxpayer is worse off even after the proposed concessions than he was when the limits were fixed years ago.

The reliefs do not keep pace with inflation. We are experiencing a "fiscal drag". The rupee today is only 1/25th of its value in 1939 and less than 1/6th of its value in 1950. So in cases where in real terms an assessee makes a capital loss, he will still continue to be unfairly assessed to tax on the basis that he has made capital gains, even after the relief proposed in the Budget. We should 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.

No relief for middle-classes

The scheme of Social Security Certificates, in which the maximum of Rs. 5,000 can be invested, yielding Rs. 15,000 at the expiry of 10 years — is highly commendable. These Certificates carry compound interest at the rate of 11.6%, and constitute a scheme of deposit-cum-insurance since in the event of the untimely death of the certificateholder, the full amount of Rs. 15,000 would be immediately payable as if the maturity period of 10 years had expired.

The 10-year Capital Investment Bonds carry simple interest at 7% and are totally free from income-tax and wealth-tax without any ceiling. To the original subscriber is offered the added attraction that he can gift them upto Rs. 10 lakhs (in a year or over a period of years) without attracting any gift-tax. Since the interest on the Bonds is not includible in the total income, there would be the further benefit of freedom from the obligation to make Compulsory Deposit. To those who pay income-tax at the maximum rate of 66%, the Bonds offer a gross return of 21% which increases to a rate between 26% and 35% if one takes into account the maximum wealth-tax rate of 5%.

The scheme of Capital Investment Bonds is well conceived and should prove very attractive to honest taxpayers who are in a high tax bracket. If the Bonds are made freely saleable and allowed to be deposited as security for loans, the Government will get far more than Rs. 250 crores which is the budgeted figure for 1982-83. Incidentally, it affords a measure of the magnitude of black market money in India that while the Government budgeted for Rs. 1,000 crores over a period of less than 12 months from Special Bearer Bonds which were intended to mop up black money, they expect to recover only a fourth of that amount from Capital Investment Bonds in which only "white" money can be invested. Further, if inflation continues at the average rate of 10%, Rs. 1,000 invested in Capital Investment Bonds would be equal to only Rs. 380 in real terms at the date of maturity 10 years later. But a nation which has been made a martyr to excessive taxation, will still respond in a big way to the offer of the Bonds just because they are tax-free.

While welcome relief is given to the poor by the Social Security Certificates, and to the rich by the Capital Investment Bonds, the Budget has done nothing for the middle-classes who are really the backbone of the country and who find it difficult to save in these days of vertiginous prices. Small wonder that the rate of savings has gone down in the last four years from 20% to 17%.

Sucking away more funds into the hands of the Government

The Budget is deliberately designed to suck away more and more funds from private hands into the hands of the Government. Capital Investment Bonds and Social Security Certificates will obviously divert funds from the private sector into the government coffers. The increase in income-tax relief in respect of life insurance premiums and provident fund contributions is calculated to have the same result, since life insurance is completely nationalized and provident funds are obliged to invest in government securities yielding an unfairly low rate of return.

In 1980-81 the total investment in the public sector had reached Rs. 18,231 crores and the net profit before tax on this staggering capital investment was only 0.2%; while companies in the private sector, chosen at random by the Reserve Bank of India, showed a net profit before tax of approximately 10%. It is clear beyond doubt that savings fructify in private hands far better than in the hands of the Government. But we still pathetically cling to our out-dated notions of socialism. The sale proceeds of the Capital Investment Bonds are proposed to be invested in public sector enterprises. Since this investment would again be unproductive, the tax-free interest on the Bonds would have to be paid by increasing other fiscal burdens. It is time we heed the message of the famous cartoonist Pogo — "We have found the enemy, and it is We".

Inflationary trends

Inflation during 1981-82 has been at the rate of 10%; and the next year the rate of inflation is not going to be any lower. So far from helping to roll back prices, the Budget will, at a reasonable estimate, increase prices by about 10% again during the next 12 months.

The Budget for the year 1981-82 estimated the deficit at Rs. 1,539 crores; while the revised estimate of deficit is Rs. 1,700 crores, and we shall have to wait till the next year to know the actual figure of deficit. Incidentally, for the financial year 1980-81, the Budget had estimated the deficit at Rs. 1,445 crores; at the end of that year the revised estimate was Rs. 1,975 crores; while the actual deficit is now disclosed to be Rs. 2,577 crores (78% more than the figure originally budgeted).

The Budget estimates the deficit for 1982-83 at Rs. 1,365 crores. It is the fourth consecutive Budget to provide for a deficit on revenue account. In the earlier 20 years the Budget used to show a surplus on revenue account, except during the time of the Bangladesh war.

The heavy deficit, coupled with the new levies, will undoubtedly fuel inflation. The Budget, along with the Mini-Budgets which preceded it, provides for substantial new levies — Rs. 196 crores in excise, Rs. 391 crores in customs, Rs. 581 crores in railway fares and freight, Rs. 100 crores in telephone and other levies, and Rs. 35 crores in post and telegraph tariffs.

Black market and unemployment

The partial decontrol of cement is the one redeeming feature of the Government's economic policy this year. But barring that most welcome and long-awaited reform, there is nothing in the Budget to check the untrammelled and evergrowing parallel economy. At a reasonable estimate, black money will continue to be generated at a rate approaching Rs. 40 crores per day. With excessive taxation and the multiplicity of insensate controls, the termites of black money will go on sapping simultaneously both our economy and our character.

The Economic Survey discloses that jobs in the organized sector increased by 6 lakhs between March 1980 and March 1981. But 15 lakh more names are added to the Employment Register every year. For every one man enrolled on the Employment Register, there are at least two more unemployed. The problem of unemployment has assumed alarming proportions and will one day undermine the very fabric of our society by making the law and order problem unmanageable.

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 very poor results of the Family Planning Programme heighten the importance of creating new jobs. But in the Year of Productivity, the Budget refuses to lubricate the engines of production. So far from giving any relief to the corporate sector, the financial support to the Industrial Financial Institutions will be reduced from Rs. 302 crores in the current year to Rs. 82 crores in 1982-83.

Whimsical experimentation and complexity

The Finance Bill continues the old tradition of introducing experimental provisions some of which are truly whimsical and most of which will need amendment in a short time. The Bill will result in the Income-tax Act becoming more complex and intricate than ever before.

The Union of India has formed the disconcerting habit of legislating first and thinking later. A few examples of such whimsical experimentation may suffice.

(i) The Hotel Receipts Tax Act was enacted in 1980 against the strong advice of the Ministry of Tourism which pointed out the obvious truth that it would affect the flow of foreign tourists into India. This year the levy is sought to be discontinued on the precise ground which was urged against its initial enactment.

(ii) All agricultural lands were exempt from wealth-tax till 1969. All became liable to wealth-tax from 1970-71 onwards. All agricultural lands were again granted exemption as from the year 1981-82, except tea, coffee, rubber and cardamom plantations which inexplicably continued to be chargeable to wealth-tax. Now these four categories of plantations are proposed to be exempted from wealth-tax on the very grounds on which exemption from wealth-tax was conferred on other agricultural lands from 1981-82 and which grounds equally applied to these four categories of plantations even at that time. The force of whimsicality can no further go.

(iii) The ceiling of exemption for rent allowance granted to a salaried employee was fixed at Rs. 400 in 1975 (Section 10(13A)). Yet to assessees who do not get a rent allowance, the ceiling of exemption was fixed in 1976 at Rs. 300 in respect of actual rent paid (Section 80-GG). It took six years for the Government to become conscious of the disparity and it is now proposed to increase the deduction for actual rent paid from Rs. 300 to Rs. 400.

(iv) For no discernible reason the rates of personal income-tax are proposed to be increased in this year's Budget on just two slabs — Rs. 60,001 to Rs. 70,000 and Rs. 85,001 to Rs. 1,00,000.

(v) This year's Finance Bill seeks to promote the conservation of natural resources (under Section 35CCB), just as earlier Finance Bills sought to promote rural development (Sections 35CC and 35CCA) — by giving deductions from taxable income. But while as regards rural development a deduction is given whether the assessee incurs the expenditure himself on that public cause or makes the contribution to an approved association or institution, no such deduction is proposed to be given to the assessee who incurs the expenditure himself on conservation of natural resources. His right to the deduction is arbitrarily restricted to cases where he makes a contribution to an approved association or institution.

(vi) With a view to alleviating the critically acute housing shortage, it is proposed that tax would not be charged on capital gains made by assessees who sell their capital assets and invest in the purchase or construction of residential houses. But that relief is proposed to be denied by Section 54F(1) to an assessee who purchases or constructs two or more houses. The assessee will get exemption from tax on capital gains if he constructs a residential house of six storeys — but not if he constructs two houses of three storeys each. This is bureaucratic fancy masquerading as law. (A strict interpretation of the new section would result in denial of exemption altogether; while a liberal interpretation may warrant the grant of exemption in respect of only one of the two or more houses).

(vii) The new Section 80HHB proposes to grant exemption in respect of 25% of the profits made from the execution of a foreign project. But it covers cases where 100% of the profits from the same activities would be entitled to exemption under the existing Section 80-O. Assessees are bound to be saddled with disputes (which will be finally decided only in the next century) as to which of the two sections applies to a given case. The revenue frequently acts on the principle — No exemption without litigation.

(viii) The proposed amendment of Section 80T will give higher relief from tax on capital gains in respect of assets held for a long period of years. But as regards capital gains made on the sale of gold, bullion or jewellery the deduction will be subject to a ceiling of Rs. 50,000, whereas there was no ceiling up to this year. This is exactly how the law supplies motivation for black market transactions.

Surely the time has come for Parliament to enact some new legislation — say, Prevention of Cruelty to Taxpayers Act — which should override all fiscal legislation.

No other country can boast of so cheap bureaucrats and so expensive a government as India. There is no suggestion in the entire Budget of curbing governmental expenditure. On the contrary, the total disbursements of the Central Government will reach the all-time high of Rs. 29,219 crores.

With a Budget like this, pessimism would be realism. The imprisoned splendour of India's great economic potential will continue to remain imprisoned. This year's Budget is merely one more step in the perpetuation of our age-old poverty. It is well calculated to ensure that we do not slip away and upward from our position as the fifteenth poorest nation on earth.

Based on the public lectures under the auspices of the Forum of Free Enterprise in Bombay on 4th March, 1982, the Federation of Karnataka Chambers of Commerce and Industry in Bangalore on 7th March and the Institute of Chartered Accountants of India in New Delhi on 8th March.
N. A. Palkhivala is the President of the Forum of Free Enterprise.

II

A BUDGET OF MY DREAMS*

By

Nani A. Palkhivala

From the middle of January of each year the people willy-nilly get caught in a vortex of anxiety about the contents of the impending Budget which, according to our antediluvian practice, can only be revealed at the end of February. A flurry of guesses (both educated and uneducated) are made; a chance remark of the Finance Minister is dissected and analysed threadbare by the pundits and finally blown up out of all proportion. A torrent of advice flows in and the volatile barometer of the Stock Exchange adds a measure of nervousness to the already fevered atmosphere.

This year — through a network of sources who must necessarily remain unnamed and therefore regrettably unhonoured — I have obtained an advance copy of the speech of the Finance Minister, detailing epoch-making changes in budgetary strategy. The heavy veil of secrecy has, I am glad to say, been successfully pierced by a dedicated team of moles!

Here follow some extracts from the speech, marked by devastating candour:

The moment of truth has arrived. The era of chicanery and disingenuousness, of obfuscation and slogan-mongering, is over. Reality has at last over-

*Courtesy: The Illustrated Weekly of India (February 14, 1982) taken us — shattering our illusions, exposing our outdated ideologies and leaving us with no option but to tread the path of pragmatism, in retreat from populism.

Past Budget speeches contained hopes and aspirations which always remained unfulfilled — just as our Plans were based upon targets which always remained unattained, except the revenue-raising targets. There could be no sadder commentary on the unwisdom of our policies than the fact that, during the entire period of 32 years that we have been a Republic, the *per capita* income of our people has risen by only 55 per cent in real terms, while there was actually a drop of 2.2 per cent in the *per capita* gross national product (GNP) in 1980-81 as compared to 1978-79.

Beyond question, India is a gifted nation and ranks among the most intelligent, skilled and enterprising on earth. And yet, as the statistics compiled by the World Bank show, while India ranks 15th among 185 countries in terms of GNP, it is among the 15 poorest in terms of *per capita* income. In our desire to disclaim modestly our indefeasible title to be considered the world's greatest expert in the art of perpetuating poverty, we come up with a hundred spurious excuses for our economic plight.

The Backdrop

Facts are stubborn things and they have the impertinence to stare you in the face. Let me recall some unpleasant ones which constitute the backdrop of my Budget.

The blunt truth is that our economy has lost its momentum. It is growing at a rate which would be regarded as painfully slow in a community of snails.

The sluggishness of the economy is reflected in the inelasticity of tax revenues. Between 1970-71 and 1974-75, the share of tax revenues in financing the total expenditure of the Central Government increased from 43.2 per cent to 50.7 per cent. But in the subsequent period the share of tax revenues declined almost consistently to reach the level of 42.4 per cent in 1981-82.

The Reserve Bank of India has identified 24,656 units — large, medium and small-scale — as sick. And the list is lengthening. The number of persons seeking employment through 584 Employment Exchanges is rising at an alarming rate. The figure now exceeds 17 million, of whom about 50 per cent are educated. However, the total number of unemployed must be at least three times that number.

While we in the Government have been taking credit for containing inflation, on the basis that the Wholesale Price Index shows an increase of only 7.5 per cent over the wholesale prices prevailing a year ago, I must admit that the common man is really concerned with the All India Consumer Price Index which shows a rise of 13.5 per cent over the same period, while in places like Bombay the average family has to spend 21 per cent more on the food basket.

In 1981-82, the average foodgrains production is estimated to rise by about 3 per cent, compared to the output of 130 million tonnes in 1980-81. But at the end of December 1981 the foodgrains stock with the public distribution agencies amounted to 12 million tonnes only, compared to 19.5 million tonnes at the end of 1979. So we imported 2.25 million tonnes of wheat this year at the heavy cost of Rs. 450 crores in foreign exchange.

The latest world statistics disclose that India has the largest acreage for four crops — *viz.* cottonseed, groundnuts (in shell), rapeseed and flaxseed, but has the lowest yield per hectare in all of them. In fact, for rapeseed and flaxseed, the yield per hectare has declined between 1972-73 and 1979-80.

The Infrastructure

The infrastructure continues to be woefully inadequate. In 1981-82, the demand for cement is estimated to be 28 million tonnes, while the industry is expected to produce only 21 million tonnes. We have had to import 2 million tonnes of cement — at three times the price paid to the indigenous producer — from countries which 30 years ago did not have a single cement plant when in India it was already a well-established industry.

We require 137 billion units of electricity, while the total generation programme aims at 122 billion units — a shortfall of 11 per cent. In power generation, we are still utilising less than 46 per cent of the installed capacity.

In industries, the consumption of coal per tonne of production has increased by 3 per cent, because of the poor quality of coal, which is often mixed with soil and stones, but nationalisation has left no alternative source of supply.

The climate for foreign borrowings on Government-to-Government basis or from international financial institutions is none too salubrious. Almost all Governments of advanced countries have become parsimonious and international financial institutions are starved of funds.

My task of enlarging the industrial base is bound to be a great deal hampered by the poor state of industrial relations. Millions of man-days continue to be lost as a result of strikes and lockouts, not to talk of go-slow tactics which are equally pernicious but escape punishment. Several labour leaders continue to operate with *goondaism* as their weapon, but they flourish under the protection and patronage of politicians. If there could be a tax on violence, muscle power and irresponsibility in industrial relations, it would give me one of the fastest-growing sources of revenue.

Openly and triumphantly, corruption stalks the land. The black market is its well-spring. The combination of excessive taxation and insensate controls has constituted the dark curtain which has fallen, fold after fold, across the bright spectacle that our Republic promised to be. The Land of Opportunity became the Land of Opportunism. The country from which great *entrepreneurs* ventured forth and flourished all over the world became the country of racketeers and buccaneers. Our socialism, instead of transferring wealth from the rich to the poor, only passed it on from the honest rich to the dishonest rich.

In this bleak landscape of gathering gloom, I have decided to embark upon a revolutionary strategy which will rejuvenate and revitalise the economy, instead of administering the traditional dose of anaesthesia which has come to be associated in the public mind with the murky end of February.

I shall now deal with the nine essential points on which my Budget proposals are based and which constitute a complete break with the past.

I: Tax Rates Fixed For Three Years

The rates of direct and indirect taxes which I am proposing are not only for one year but for the next three years — that is, for the remaining term of this Parliament. The rates will not be changed till 1985, except for the most compelling reasons arising from unexpected developments. Since the rates of income-tax are not proposed to be changed every year, I have discontinued the practice of prescribing them by the Finance Act and have included them in the Income Tax Act itself. I know that I am depriving myself (or my successor) of the profound psychological satisfaction of being able to keep one-seventh of the human race on tenterhooks on the traditional Budget Day; but I am convinced that, without stability in our fiscal laws, all planned growth is impossible.

I propose to bring a comprehensive Bill before Parliament to reduce the Income Tax Act to about one-fourth of its present size by excising what is useless and simplifying what is useful; and I propose to have the same type of radical surgery performed on the other statutes dealing with direct and indirect taxes. These changes, which will be made expeditiously in the course of the current year, are calculated to put the fiscal laws on a stable basis, obviating any further amendments till 1985. The same discipline will be observed by the rule-making authorities. The nation will hereafter be spared the maddening consequences of the rule-making exercises which up to now have been undertaken by the Central Boards of Direct and Indirect Taxes once every four or six weeks.

II: Government Must Live Within Its Means

The past Budgets used to estimate first the expenditure and then decide upon the ways of raising the resources. This is the first Budget which has started by charting the available resources and then planned for reduced expenditure within the estimated means.

Over the years the Government of India adopted a Micawber style of living, with little control over expenditure and with the touching faith that something will "turn up". Budgets of independent India have vindicated with a vengeance the validity of "the law of growing public expenditure" enunciated by the economist Adolph Wagner as far back as 1863.

The combined revenue and capital expenditure of the Central Government has increased enormously from Rs. 1,896 crores in 1960-61 to Rs. 5,673 crores in 1970-71; and further to Rs. 22,808 crores in 1980-81. In a period of two decades the Central Government's expenditure went up 12 times, and as a percentage of GNP from 13 per cent to 18.7 per cent. In 1981-82 the expenditure is estimated to reach Rs. 24,871 crores. Ineluctably, the result has been deficit financing.

For the year 1981-82, I have shown the budgetary deficit to be more or less contained at the level of Rs. 1,539 crores estimated in the last Budget. But I must admit that I have achieved this result by various devices. In July 1981 the prices of petroleum products and urea were raised steeply to generate an aggregate amount of over Rs. 1,600 crores. To this must be added the amount of Rs. 635 crores — which we shall receive in the current year under the loan arrangement with the IMF — which will go to foot a part of the expenditure on oil exploration programmes. But for such new direct and indirect amounts of budgetary support, the amount of the deficit would have been staggering.

In my Budget proposals for 1982-83, there is no deficit either on capital or revenue account. My fundamental thesis is that the Government has no right to live beyond its means — and beyond yours and mine. I have pruned governmental expenditure ruthlessly. One of the small steps in that direction will be reduction of the bloated bureaucracy. There are no fewer than 8.8 million employees of the Central and State Governments who are merely concerned with administration, as against 7.2 million employees in organised industry in the private sector. Economic stagnation is the inevitable consequence of such disproportion between productive and unproductive jobs. There will be a total ban for five years on fresh recruitment in the administration section of the Government, except in the top cadres. This would mean that, if 2 per cent of the Government employees retire in a year, in five years' time the Government staff would be reduced by about 10 per cent — a factor which would be conducive not only to economy but, more importantly, to efficiency of administration.

III: Massive Tax Cuts

Taking human beings as I find them, I recognise that a man will work for himself and his family as he will work for no one else. In its bravest contests with the primordial forces of human nature, the law fights a losing battle. Excessive taxation has sapped the nation's strength, blighted confidence, strangled enterprise and ensured evasion.

I propose to apply the fiscal stimulus and secure fast economic growth through tax cuts. "Incentives are the prizes in the game of life — the goals individuals seek — the carrots." Many countries have found that, with every tax cut, the economy boomed and the exchequer garnered golden grain. While reducing the tax rates, I shall get the revenues to grow by making incomes grow and the gross national product grow. In other words, our tax revenues hereafter will be self-generating. I have taken credit for substantial increases in excise, customs, income-tax and corporate tax.

I propose to increase the exemption limit for income-tax from Rs. 15,000 to Rs. 20,000 and for wealth tax from Rs. 1,50,000 to Rs. 3,00,000. (The wealth tax exemption limit of Rs. 1,00,000, which was fixed in 1964, now approximates to Rs. 4,00,000.) These exemption limits and other important tax reliefs will be automatically indexed by reference to the rate of inflation when it exceeds 10 per cent.

I have reduced the rates of taxes both for individuals and for corporations all along the line. The maximum marginal rate of corporation tax for domestic companies will be 40 per cent; and for individuals it will be 50 per cent. The Sixth Five-Year Plan says: "In a large number of areas, our capabilities are almost 20 years behind those in the advanced nations and also behind those established recently in some developing countries. Reduced taxation will enable companies to generate the resources needed to modernise their plants and make technological improvements to increase production."

While making the massive reduction in tax rates, I have also abolished the piddling deductions and rebates which cluttered up the statute-book. In the financial year 1978-79 (the latest year for which data are available), 41 different types of deductions and rebates were allowable under different sections of the Income Tax Act. However, the aggregate amount of those deductions and rebates was only Rs. 305 crores and the amount of tax relief was a paltry Rs. 65 crores.

Industry contributes 79 per cent of the Central Government's revenue, excluding the direct taxes paid by individuals employed in industry. Thus the resources of the Central Government are crucially dependent upon the health of industry which needs to be promoted by a nutritive budget.

IV : Stealing From The Future

Living on excessive borrowings is really nothing but stealing from the future. In 11 years from 1970-71 to 1981-82, the outstanding public debt (external and internal) of the Government of India expanded from Rs. 14,043 crores to Rs. 46,776 crores. If to this are added the unfunded debts — that is, small savings, provident fund balances, etc — the net liabilities of the Central Government now aggregate to Rs. 67,489 crores. This means a burden of almost Rs. 1,000 on the head of every man, woman and child — in a country in which 40 per cent of the population are never able to save Rs. 500 in all their lives.

In six years from 1970-71 to 1976-77, the internal debt expanded by Rs. 7,056 crores, but in the next five years between 1976-77 and 1981-82 it rose enormously by Rs. 19,938 crores. The fundamental reason is the widening gap between the growth of expenditure and the growth in tax and non-tax revenues. Thus, between 1970-71 and 1976-77, tax (net) and non-tax revenues increased by Rs. 5,397 crores, but Government expenditure increased by Rs. 8,155 crores. In the subsequent phase from 1976-77 to 1981-82, tax and non-tax revenues rose by only Rs. 5,588 crores, while Government expenditure expanded by as much as Rs. 11,043 crores.

I view with the most serious concern the alarming growth in internal public debt at ridiculously low rates of interest for the following reasons:

(a) The Government of India borrows at rates of interest far below the long-term market rates. In other words, the Government procures funds at a rate of interest which is subsidised by the common man. Hence the Government's outlay on commercial and manufacturing projects does not give a realistic measure of the true cost-benefit ratio of the projects.

(b) The commercial banks are compelled to subscribe to a sizable portion of the Government securities, which reduces the banking system's profitability and results in a low rate of interest to the depositors and savings account-holders.

(c) The Life Insurance Corporation, provident funds and public charities are also obliged to invest in Government paper, which means that the policy-holders, salaried employees and charities are deprived of a fair legitimate return on their investments.

(d) The Reserve Bank of India has to subscribe to a huge chunk of Government securities. This is nothing but disguised deficit financing and is the principal factor in the endemic inflation from which we have suffered so long.

(e) The rising burden of internal public debt also means a sharply enhanced burden of interest payments. The aggregate amount of interest paid on the Government's internal debt rose from Rs. 443 crores in 1970-71 to Rs. 2,875 crores in 1981-82. The assets created out of the borrowed monies do not generate sufficient surpluses in the form of dividends and profits for the Government to pay the interest charges.

I have decided to contain within the severest limits any increase in the level of borrowings, internal or external. Surely, there must be a limit to the extent to which we are prepared to mortgage the future of this country; and I am not sure that we have not already exceeded the outside limit. Further, I have provided for a 2 per cent increase in the existing rates of interest on all Government securities, which will enure for the benefit of all salaried employees, bank depositors, policy-holders and others.

V: The Ultimate Resource

The human resource is the ultimate resource of a nation. I make no apology for my determination to promote and encourage private initiative which is pejoratively called "capitalism" with a view to damning it. In formulating my Budget proposals, I have tried to ensure that far more savings will be left in the private sector and with individuals than before. For every rupee earned by a shareholder in organised private sector industry, 8 rupees of tax revenues are generated for our Central and State Governments.

I cannot shut my eyes to the elementary fact that the performance of the public sector suffers grievously by comparison with the private sector, though not due to any fault of the men in charge of the public sector units. 65 per cent of our industrial fixed assets are in the public sector, but they give only 22 per cent of the total industrial output. If the public sector were to yield what the non-Government companies do, the Central Government revenues would increase by at least Rs. 1,000 crores per year.

VI : Abolition Of Sales Tax And Octroi

The elementary truth, most often forgotten, is that a nation's progress depends mainly on the extent to which the people's time and energy are released for productive purposes, instead of being frittered away in coping with legal inanities. The full potential of the people must be unleashed to create national wealth. Few levies have been so much responsible for criminal waste of human time and energy as sales tax and octroi.

The more numerous the points at which taxes are collected, the greater the scope for corruption and evasion, resulting in diminution of public revenues.

The lucky circumstance that the same party is in power at the Centre and in the overwhelming majority of the States has enabled us to coordinate with the State Governments in evolving a scheme under which sales tax and octroi will be abolished altogether and, instead, an additional excise duty to be levied by the Centre will serve to raise the resources which will be distributed among the State Governments and the local authorities.

VII : Human Development

Investment in human development is more productive than investment in physical assets and, moreover, it leads to a faster rate of national growth. We have paid too little attention to human development in the past, particularly in the fields of education, medical and public health, nutrition and family planning. In these areas, I have provided for very substantial outlays. We shall have a monitoring system to make sure that the amounts are not merely allocated and spent, but that they are fruitfully and productively disbursed. The task of administering these funds will not be in the hands of politicians or ill-paid civil servants, but will be entrusted to private organisations with a proven unblemished record of public service. No more will a 100 million man-days be lost every year in merely fetching drinking water.

Roads are the arteries of the nation — they constitute the road to economic growth. Today as many as 4,07,297 out of 5,75,936 villages — that is, about 7 out of 10 villages — remain unconnected by all-weather roads, while 3,14,470 (55 per cent) of all our villages do not have any road link at all.

I am unable to see how any state which has any pretensions to practise true socialism can possibly refute the claim of industry that its social responsibilities require it to look after the education, health and general welfare of the people of the locality in which the industry flourishes. I propose to amend Section 37 of the Income Tax Act to provide that any expenditure incurred by an assessee on construction or repair of roads or on other items of public welfare would be fully deductible for tax purposes. I believe that human development would be impossible unless private citizens are associated with this great cause and are given fiscal incentives to promote it.

VIII : Incentives For Exports

The trade deficit in 1981-82 will exceed Rs. 5,000 crores (it was Rs. 5,728 crores in 1980-81), principally because of our export performance which is so poor. Our exports in 1980 totalled \$7.9 billion, as compared to \$17.5 billion exports of South Korea (which has 1/33rd of our area and 1/17th of our population), \$19.4 billion exports of the tiny city of Singapore (which has about one-quarter of Bombay's population) and \$19 billion exports of the city of Hong

Kong. India had 1.05 per cent of the world export market in 1960-61, which share has been reduced in the current year to 0.4 per cent. At the end of March 1980, our reserves (excluding gold and special drawing rights) were Rs. 5,164 crores. They have now declined to Rs 3,400 crores — an amount barely enough to cover 3 months' imports.

No solution is afforded by merely taking foreign exchange loans to tide over the crisis and passing on the burden of repayment with interest to the future. The real choice before us is either to push up our exports vigorously or be a defaulter in a few years in respect of our foreign exchange obligations. By various changes in the law, I have provided for streamlined procedures which will remove altogether the element of fiscal levies which makes our goods uncompetitive in the world market. This, coupled with very liberal new incentives and a stable export-import policy, should enable us to have a favourable balance of trade in two years.

IX: Partnership Between The Government And The People

I believe that the Union Budget should not be an annual scourge but should partake more of the nature of the presentation of annual accounts of a partnership between the Government and the people. It is impossible to expect from the people good faith and acceptance of their moral duty to pay taxes, unless the Government first proves itself to be fair, considerate and reasonable. I have tried to take the first step towards transforming our apathetic democracy into an anticipatory and participatory democracy.

I am aware of the legal possibility of Parliament retracing its steps in the future and undoing what this Budget attempts to do. The people must make sure that the forces of ignorance and obscurantism are never allowed to put the clock back again. It is necessary to undertake now and in right earnest the task of teaching our lawmakers economic rationalism in place of economic theology, and of educating them in the techniques of the creation of wealth. To this end, I have proposed an amendment to the Income Tax Act to provide that any expenditure incurred by an assessee in undertaking the aforesaid urgent and imperative task of educating the law-makers will be fully deductible in computing income under any head.

Gone are the years of the locusts. I am happy to stake my entire political future on this Budget which blazes a new trail. Of its immensely beneficial effects on the nation's economy by the end of the three years — that is, 1985 — I am as confident as I am of the fact that Halley's comet will reappear in that year.

425

Have you joined the Forum?

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 and leaflets, meetings, essay competitions, and other means as befit a democratic society.

Membership is open to all who agree with the Manifesto of the Forum. Annual membership fee is Rs. 15/- (entrance fee, Rs. 10/-) and Associate Membership fee, Rs. 7/- only (entrance fee, Rs. 5/-). Graduate course students can get our booklets and leaflets by becoming Student Associates on payment of Rs. 3/- only. (No entrance fee).

Write for further particulars (state whether Membership or Student Associateship) to the Secretary, Forum of Free Enterprise, 235, Dr. Dadabhai Naoroji Road, Post Box No. 48-A, Bombay-400 001.

Published by M. R. PAI for the Forum of Free Enterprise
235, Dr. Dadabhai Naoroji Road, Bombay-400 001,
and printed at TATA PRESS Ltd., 414, Veer Savarkar Marg,
Prabhadevi, Bombay 400 025.

20/March/1982.