Budget TRACK

Volume 1, Track 2, January 2004

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Foreword

Budget Track January 2004 issue carries forward the initiative of the inaugural September 2003 issue.

'India Shining' seems to be the buzzword of the government now. Is India really shining? We try to find it out through the different sections: Mid-year economic review 2003, Updates on the economy and the budget, Small Savings and Debt Swap Scheme. We also analyse the January 8 & 9, 2004 tax sops or the "mini budget" announced by the Finance Minister.

The Guest Column by Prof. Jayati Ghosh looks at the incidence of taxes. Plus our new feature is the interview section. This issue carries views from two Members of Parliament on the budget and the economy. We hope to present in every issue, views of people from different walks of life.

We continue our endeavour to simplify budgets and economy, hoping to raise the larger question of accountability and transparency.

We welcome your feedback on this newsletter.

IN THIS ISSUE

"Mini- Budget"–A Pre Poll Strategy?

IS THE GOVERNMENT IN A DESPERATE BID TO GET BACK TO POWER?

The 'Historic Mini-Budget' as the media termed the Union Finance Minister Mr. Jaswant Singh's announcements on 8th & 9th January 2004, is nothing but a signal for early polls. It promises give-aways for different sections of the electoral constituency – be it the urban middle class, farmers, corporates or students, harping on 'India Shining' campaign. The FM spoke on the need for daily management of the economy, rather than a ***one-time mela*** in every 12 months and has forgotten the perennial problems like rising revenue expenditure, low tax-GDP ratio, lower public investments and unemployment etc. He has bypassed convening Parliament by resorting to tax notifications permissible between two budgets.

TAX SOPS: Customs Duty

- Peak Duty cut from 25 % to 20 %, Project Imports duty from 25 % to 20 % in Power, Telecom etc. Components for Electronics Industry cut from 5 – 15 % to 0 – 5 %, with specified items exempt. Power industry equipments duty cut from 25 to 15 %.
- Abolition of 4 % Specified additional duty. Duty on 6 items for remigrating NRIs waived, on 17 items duty reduced by 15 %.
- Duty on cell phones down from 10 to 5 % and slashed on laptops, cooking ranges etc.
- Tax cuts on coal, life saving drugs.
- Inland air tax abolished. Aviation fuel duty cut from 16 to 8 %.

Income Tax: No filing of returns for salaried with up to Rs. 1.5 lakh per annum income.

The Gainers

Urban high-heeled middleclass/rich consumers will enjoy cheaper cell phones, computers, DVDs, medicines, air travel and bring duty free laptops etc. NRIs returning home can bring more tax-free items. Electronics goods industries, airlines, power sector benefits. But will you and me pay lesser for electricity or for consumer goods?

CORPORATE MEASURES

- Overseas investments up to 100 % of the Company's net worth against present $100 Million.
- Corporates can undertake overseas agriculture activities. Is this a probable precursor of allowing the Foreign Capitalists access to the Farm Sector, which will have serious implications on the marginalised.

FOOD SUBSIDY BILL

The Food Corporation of India is being allowed market borrowings, and will annually reduce the food subsidy bill by at least Rs 2,000 crore. A positive move, but management of the buffer stocks and effective distribution – are the only way to reduce the food holding cost (Rs. 10, 000 crore approx 2003-04).

RURAL SECTOR MEASURES

- Rs. 50, 000 crore fund announced under NABARD, to be made operational within 4 weeks and will provide loans with 7.5 % - 8.5 % interest. The FM hopes that this fund will take care of wasteland development, minor irrigation, cooperatives functioning, storage of agro products, processing and modernisation of agriculture. Should this happen, it would be wonderful for the rural sector, but we just had a few doubts – **FM says that NABARD will raise resources from the capital markets and Budgetary resources. Are the modalities of raising resources in place ? What Budgetary resources are going to be diverted to NABARD? As regards Implementation, Time Frame & Coverage – Who is responsible ? What are the guidelines ?**

Budget 2003-04's much publicised 60,000 crore investment in infrastructure is nowhere to be seen – so how can we believe that the entire gamut of infrastructure development or a second green revolution in Agriculture will happen with one magic wand of Rs. 50,000 crore. Are we in the realm of fantasy or deception ?

OTHER MEASURES

- Rural housing – Incentives to be given to lending agencies to give loans for rural housing. Scheme to be operational from April 1, 2004. Will incentives/tax benefits be sufficient for Banks to enter this area, when the banks have not met the stipulated targets for rural credit at all?
- Small and medium industries – SIDBI to set up 10,000 crore Fund.
- Loans for Education cheaper. '*Dada-Dadi*' bond scheme for senior citizens at 6 % interest rate.

IMPACT ON THE ECONOMY

- The mid-term review shows signs of a huge revenue deficit in the current fiscal year. Tax cuts and sops to cost around 12,000 crore and aimed at getting urban votes. The Government's decision of divesting its remaining stake in companies like Maruti, CMC etc to bridge the revenue gap, Is it a case of selling the family silver as if there is no tomorrow? Also, is it not highly inevitable that somewhere down the line, one could face additional cess, service charges etc?
- The Finance Minister announced that the duty cuts would spur the economy to a higher than 8.4 % GDP growth in the 3rd quarter by providing further push to the 'buoyant' economy. The claim that revenue loss will be of temporary nature and will induce economic growth is not based on proper assessment of the economy and is only a populist attempt to appease its constituency pre-elections. Tax cuts are effective immediately and will impact this year's and next year's accounts.
- **But are manufacturers passing the duty cuts to the customer?** Will there be sufficient demand? **Will this fuel employment?** The basic questions continue to haunt.
- The rural sector measures are grandiose, politically motivated at the rural vote bank and with no indication of tangible benefits.
- The middleclass/rich are the biggest gainers. Does the FM think that his pro-urban, pro-middle class measures would translate into benefit for the rural economy? Is India only Shining for the Urban/Rich?

IMPACT ON GOVERNANCE

The whole drama of "mini budget" just shows how the BJP Government has bypassed the Parliament for partisan politics. Tax notifications have been done earlier, with the Constitution allowing this where delay in Parliament approval could be costly. **But what sets it apart this time is the largesse of the exercise in terms of measures and cost to the exchequer of thousands of crore of rupees, something which is the sphere of regular budgets. In short, there has been a violation in the spirit of the governance process enshrined in the Constitution for electoral interests.** Also resorting to this "extra- budgetary" approach has made a mockery of Budget 2003-04 passed by the Parliament. The Government's defied the norms of democracy and governance in its actions. The Government's finances for 2003-04 and the coming year are going to be impacted in a major way, and this in the natural process would have needed Parliamentary approval.

The process and the importance of the Budget have been seriously undermined today.

REVENUE PERFORMANCE – APRIL TO SEPTEMBER 2003

RECEIPTS	TRENDS	DETAILS
GROSS TAX REVENUE		**Rs. 1, 16, 010 crore**
Direct Taxes	⇧	22 % up at Rs. 50, 911 crore. Corporate Taxes up 30 %, Income tax up 11 % and refunds up by 14 % from corresponding period of April – Sep 2002
Customs	⇔	Net customs revenue at Rs 23, 123 crore
Excise	⇩	Down 1.7 % from April – September 2002 at Rs. 33, 704 crore
Service Tax	⇧	50 % increase from April- September 2002 at Rs. 2, 895 crore
Non Tax Revenue	⇩	4 % decline at Rs. 28, 491 crore
TOTAL NON DEBT RECEIPTS		**Rs. 1, 36, 087 crore**, 48 % of Budget Estimates 2003-04
Disinvestments	⇩	BE 2003-04 at Rs. 13, 200 crore, but only Rs. 1098 crore till Apr- Sep 2003. **Shortfall of Rs. 12, 102 crore.** With the current impasse on disinvestments, this shortfall would reflect through the year. The government's recent move to allow GAIL and ONGC to sell their holdings seems to be another short-term measure.
Debt Swap Scheme for States	⇧	BE 2003-04 - Rs. 38, 000 crore, out of which Rs. 32, 602 crore till April-September 2003.

Union Government Finances

April – September 2003

So how does the Report Card of the Centre look like? Let us first look at the key indicators. Revenue mobilisation is pictured in table above.

REVENUE COLLECTION (TAX) AND DEVOLUTION APRIL – SEP 2003

Out of the Gross Tax Revenue of Rs. 1,16,010 crore Rs. 21,659 crore were refunds, Rs. 28, 456 crore went to the States, with the net kitty at the Centre at Rs. 65, 057 crore. This is 35 per cent of the Budget Estimates of Rs. 1, 84,169 crore. The 65 per cent Balance has to be collected by March 2004.

EXPENDITURE

➤ ***Total Expenditure till September 2003 is Rs. 2, 17, 101 crore –*** which is 49.5 per cent of the Budget Estimates of Rs. 4, 38, 795 crore.

➤ ***Expenditure of Rs. 32, 604 crore under debt swap scheme*** – We discuss this in detail in our article on 'Small Savings and NSSF'.

➤ ***Demand for Grants:*** These expenditures are higher compared to April- September 2002. What is interesting is the classification of the data – ministries, departments, and others scheme specific. On 39 demands details were given as under –

- **24 demands** – had more than 50 per cent expenditure (list not given)
- **6 demands** – had more than 70 per cent expenditure – Departments of Chemicals and Petrochemicals, Posts, Defence, Telecommunications, Steel and Revenue Department
- **9 demands** – less than 20 per cent utilisation

Why the lack of uniformity in the presentation? We see some disjointed data as given in the table below. Rather if each demand was listed out as in the Demand for Grants volume for all the 103 grants and the estimates spent/allocated till September 2003 was given, then the correlation between the Budget and the expenditure could be drawn.

➤ ***Cash Management:*** A system of cash management has been introduced, on a pilot basis, in 9 ministries, which account for 59 per cent of the total budgeted expenditure of the government for streamlining the expenditure patterns of the ministries/departments. Also it enables the accounting to be done on the actuals and provide more accurate data.

➤ ***Plan Expenditure:*** Rs. 46, 890 crore (Rs. 42, 285 crore April- September 2002) at 38 per cent of Budget Estimate 2003-04.

➤ ***Non-Plan Expenditure:*** Rs. 1, 70, 211 crore (12.1 per cent up from April-September 2002) at 53.6 per cent of BE 2003-04. In comparison to

Union Government Finances

"growth of our economy is more due to the service sector growth while agriculture and manufacturing are sluggish"

(Rs. in crore)

Heads	*Expenditure Apr-Sep 2003*	*Budget Estimates 2003-04*
Petroleum & Natural Gas	*3730*	*8128*
Fertilisers	*1702*	*13844*
Payment to FIs	*2381*	*10751*
Interest Payment	*2854*	*127755*
Transfer to States	*1061*	*40152*
Nuclear Power Scheme	*346*	*3466*
Police	*533*	*10487*
Social Justice	*160*	*1469*
Food & PDS	*4387*	*28739*
Drinking Water	*345*	*2751*

April- September 2002, the following components of **non-plan revenue expenditure have increased** - Major subsidies by Rs. 9, 744 crore, Interest Payments by Rs. 2, 854 crore and Payments to Financial Institutions by Rs. 2, 381 crore.

➤ **Total Subsidies** are at Rs. 26, 594 crore and this comprises of - ***Food*** *– Rs. 16, 006 crore,* ***Fertiliser*** *– Rs. 6, 703 crore and* ***Petroleum*** *– Rs. 3, 703 crore*

The subsidy bill continues to show an increasing trend.

DEFICITS

The data till September 2003 is -

➤ ***Fiscal Deficit*** – Rs. 81, 014 crore, which is 52.7 per cent of the Budget Estimates 2003-04.

➤ ***Revenue Deficit –*** Rs. 65, 427 crore which is 58.3 per cent of the Budget Estimates 2003-04.

The Government's aim through FRBM was a reduction in the revenue deficit, and as it stands at September 2003 the deficit has increased by 9.1 per cent over the 2002 figures, and with a 12 per cent increase in the Non Plan Expenditure, the aim of controlling the galloping deficit seems no where in sight.

In continuation we also look at how media reacted/ reported on the various economic aspects. Media is important, as it is a primary source of information to the citizens. Some interesting and informative media snippets and comments follow...

ECONOMY

Here are some of the important happenings in the country's economic scenario and developments on issues of broader concerns as the media tracked them.

➤ **FM's Statement on FRBM Documents –** From 2004 onwards the finance minister will be laying the budget before Parliament with three more supporting documents to communicate better the government's fiscal policy, with the commitment enshrined in the FRBM legislation. The three new documents are basically (a) fiscal policy strategy, (b) macro economic framework and (c) medium-term fiscal policy, these will also be considered as policy statements. They will give an assessment on how current policies of the government are in tune with the fiscal management principles including the reduction in fiscal and revenue deficit.

The **fiscal policy statement** is set to cover the policies for the ensuing fiscal year on taxation, expenditure, market borrowings and liabilities, pricing of administered goods and services, securities and description of other activities which have budgetary implications. The **macro economic framework** will be focusing on the assessment of future growth prospects including GDP growth, fiscal balance of the Centre and external sector balance of the economy, expected that it would be similar to the economic survey of India. The **mid-term fiscal policy statement** will propose the three-year rolling targets for the prescribed fiscal indicators with specification of underlying assumptions.

➤ **GDP** – CSO's figures show that GDP grew at the rate of 5.7 per cent in the first quarter (April-June) of 2003-04. The increasing trend in the growth of our economy is more due to the service sector growth while agriculture and manufacturing are sluggish. It might look encouraging to see that overall GDP growth has gone up by half a per cent, at the same time it is of concern to see that agricultural and community, social and personal services growth have gone down more than one per cent. Agriculture at the 1.74 per cent growth rate is largely reflective of last year's drought. The growth of community services, which also includes social and personal services, has got a negative growth of 4.28 per cent which is 2 per cent lesser than the figures of the proceeding year for the same period. It is distressing to see the decline in community services, which mainly depends on larger public investments.

GDP growth for first quarter (April-June 2003-04)

(In per cent)

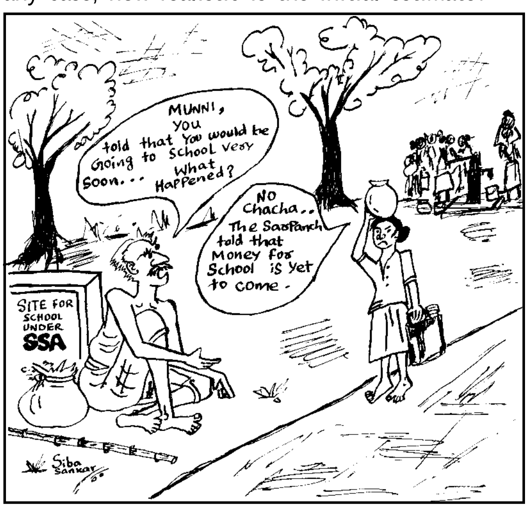
Details	2002-03 April-June June	2003-04 April-June June	Change
Agriculture	**2.68**	**1.74**	-
Industry	**4.66**	**5.80**	+
Mining and quarrying	7.66	3.04	-
Manufacturing	3.83	6.36	+
Electricity, gas, water	4.40	4.78	+
Construction	6.25	5.67	-
Services	***6.86***	***7.61***	+
Trade, hotels, transport*	6.93	9.64	+
Finance, insurance**	6.69	7.08	+
Community services* **	**6.90**	**4.28**	-
GDP at factor cost	**5.26**	**5.75**	+

* Includes communications, ** Includes real estate and business services, *** Includes social and personal services

SOCIAL SECTOR

It is our primary responsibility to keep our eyes wide open to track the issues relating to social sector. As usual we found very minimal attention by the media towards the marginalised sections of the society and we highlight some issues relating to social sector –

➤ **Sarva Shiksha Abhiyan funding** – Though the developed nations had pledged to allocate funds for developing nations to implement the Dakar goals, the money has not been forthcoming. India figures the second list of the countries that stand to receive funds. For India the funds are crucial, with **more then 2.38 crore children out of school** at the start of this year. The HRD ministry is likely facing a major set back in terms of funding for the ambitious SSA programme. The HRD ministry had sought Rs. 32, 000 crore for the programme in the current fiscal, as recommended by task force of the Planning Commission, but only a sum of Rs. 17, 000 crore was allocated in the 2003-04 budget leaving Rs. 15, 000 crore shortage to run the programme. In any case, how realistic is the initial estimate?



The resulting gap in resources has led the HRD ministry to arrange funds through international funding. However the ministry has looked at arranging the remaining Rs. 15, 000 crore from nodal agencies like World Bank, DFID and European Union, without any guarantee being given by the Government for the funds. But the recent proposal from the finance ministry is asking the HRD ministry to adjust the shortage within the allocated Rs. 17, 000 crore. Which the HRD ministry says is inadequate to complete the ambitious programme and has requested immediate intervention of the Prime Minister to ensure that the Rs. 15, 000 crore is over and above the grant of Rs. 17, 000 crore given by the finance ministry. The HRD minister has expressed apprehension in the letter written by him to the PM that due to lack of funding, the SSA, the most important educational programme being run on the PMO's directions, may lose its objectives.

"due to lack of funding, the SSA may lose its objectives"

➤ **India will miss deadline for gender equality in education** – India will not only **miss the Dakar goal of attaining gender parity** – equal enrolment of boys and girls – by 2005, but in all likelihood will also not get there a decade later by when the world is to achieve gender equality in education.

➤ **Health's wealth** – The Universal Health Insurance Scheme, inaugurated recently by the Centre, **will benefit the poor by insuring their healthcare premium of just Re. 1 per day**. This policy is available to groups of 100 or more families covering people in the age bracket of 3 months to 65 years. Under the policy medical reimbursement is provided for hospitalisation expenses up to Rs. 30, 000 to an individual/family.

But the procedural issues and the reach of the bene-fits to the common man still remain a problem area.

➤ **Feeling good and not so good** – Economic growth is meaningless unless accompanied by creation of jobs. This is where the real problem lies. India is a very young nation and changes in demographic pattern show that it will get younger still – the 2001 Census indicated that **40 per cent of the population is in the working age group**. The **biggest failure on the economic front has been the Government's inability to create employment opportunities**. 'Panch Priorities' of the Budget speech stated employment creation as one of its tenets, well this seems to have been forgotten today.

RBI'S MONETARY & CREDIT POLICY (MCP)

The RBI's mid-term review of the Monetary and Credit Policy for 2003-04, the maiden presentation by the present Governor, believes in continuity and made no changes in the bank rate and other guidelines. The absence of change in the MCP conveys the strong message that there is enough liquidity, but the critics say it is a typical and traditional central banking template.

➤ **GDP growth has been revised from 6.5 to 7 per cent for 2003-04 against the six per cent projected in April** last.

➤ The **annual rate of inflation for the current fiscal year likely to be in the range of 4 to 4.5 per cent** compared to the 5 to 5.5 per cent envisaged in April this year.

➤ RBI suggests measures to improve micro-credit delivery. Banks should provide adequate incentives to their braches in financing self-help groups.

➤ The RBI has rightly made emphasis on putting in place a restructured credit delivery mechanism to small businesses, farmers and rural projects.

Union Government Finances

The Mid Year Economic Review 2003 is an indication of the current policy trends and the performance of the Union Government. With the slogan of 'India Shining' and positive feel on the economy being trumpeted, a look at this report becomes important...

- ***More than 7 % GDP Growth expected.*** *Is this a sustainable growth?*
- ***Record 212 million tonnes of food grain production for the year.*** *This is the projected output only and the Rabi estimates will tell whether this can be achieved.*
- ***Deceleration in inflation rate – annual rate expected to be around 4 % for 2003-04.***
- ***Rupee appreciation by 1.9 % till Oct 17, 2003 from April 2003.***
- ***Buoyancy in capital markets in second quarter.***
- ***Buffer stocks reduced to 10 million tonnes in August 2003 from 33 million tonnes (April 2003).*** *This reduction primarily due to exports at low prices.* ***Holding cost at 25 % of food subsidy bill for 2002-03.***
- ***Sugar industry – hit by falling export prices and excess stock – states to get central assistance of Rs. 2, 563 crore.*** *This would increase the subsidy bill.*
- ***14 out of 17 industry groups show modest positive growth in April-Sep 2003, industry at 5.8 % GDP growth up from 5.4 % of April-Sep 2002.*** *Sluggish growth in manufacturing and core industry, only service sector showing healthy growth.*
- ***Electricity tariffs increased by 2 % in Mar-Sep 2003 as a measure of rationalisation consistent with liberalisation.*** *User charges increasing while the service level remains the same.*
- ***External sector – Current account deficit for April-June 2003 at US$ 1.2 billion, exports grew at 12.2 % in first quarter, (but almost 50 % lesser than the corresponding period 2002). Imports increased by 30.8 % due to higher crude bill (BOP figures).***
- ***Infrastructure – Slow rate of growth seen. Growth positive except in roads (2174 km of National Highways made 4 lanes till Sep 2003) and ports.*** *Roads and ports were key focus areas as far as budget 2003-04 was concerned.*
- ***Telecom sector shows rapid growth aided by tariff decline in cellular and WLL.*** *Expansion more in urban and semi urban areas with rural telephony showing no improvement.*
- ***Rural telephony network showing lower rate of growth in connections – 4100 village public telephones installed, 89.3 % less than the 38, 377 connections of 2002.***

Mid Year Economic Review 2003

Delving into the key issues of the report, we see a careful tone – but with lots of high optimism thrown in. Considering the expectation of a turn around in the economy post a good monsoon and the upswing in various sectors, the mid year review is a good time to take stock of the progress from April to November 2003 keeping the Budget 2003-04 in view.

Some key indicators from the review:

A closer look at the indicators and the policy outlines of the report would seem to suggest a measure of unwarranted self congratulatory tone for several reasons some of which hinted at earlier. It may be useful to look at some of these issues -

➤ **GDP GROWTH INCREASE-** is expected with good monsoons giving a boost to Agricultural sector. There is acceleration happening in service sector. However, the Finance Minister's expectations of a 7+ per cent GDP rate, up from the 4.3 per cent predictions in March, 2003 – may be somewhat unrealistic. The industry has shown slow growth and there is low credit off take and there are no indicators of any dramatic change in these respects.

➤ AGRICULTURE

- ***Food Grain Production*:** The estimates of food grain production are being given as 212 million tonnes, though the advance estimate of the Kharif (monsoon) crop is at 108.45 million tonnes, lesser than the record production of 111.55 tonnes in 2001-02. So unless the Rabi (winter) crop can be the highest ever production, it will not be possible to reach the projected output.

Mid Year Economic Review 2003

- ***Buffer Stocks, holding cost, exports and private participation:*** The buffer stock in the Central pool was 33 million tonnes in April 2003, and declined to 10 million tonnes in August 2003 through exports and distribution. This buffer stock will increase with current year's crops coming in – leading once again to the issue of "holding cost" – which is put at 25 per cent of the 2002-03 food subsidy bill almost ***Rs. 10, 000 crore***, a story which would repeat this year. Though the mid-year report talks of establishing export policy to encourage food grain exports to cut down this cost, but this means aligning prices to the global market, which has a number of implications already evident in the country's farm sector.

The report also talks of second green revolution possible through public-private partnership. Also wants to allow private parties to directly procure for exports to increase competition and efficiency gains. These are major policy changes and unless there are very stringent guidelines, farmers would be losing out in the price wars. With the government progressively declining its investment in irrigation and agriculture, is this the right way out and what would be its effect on the lives of people in the marginalised sections?

- ***Credit facility:*** Public sector banks have reduced lending rates to 9 per cent per annum for loans up to Rs. 50, 000. The NABARD Act (1981) amendment in August 2003 allows for direct financing of District Cooperative Banks. Also the option of giving credit through the Post Offices is being tested in Tamil Nadu. About 7.17 lakh Self Help Group beneficiaries received 200 crore of funding in 2002-03. Steps taken to ease the credit situation will aid the farmers, but the success can only come with extensive coverage, of which there is little sign.

- ***Farm Insurance Program:*** Presently a test project, the Government is indicating this as an alternative to Minimum Support Prices. The budget documents mention a Rs. 300 crore scheme through GIC for a crop risk insurance scheme, but not much seems to have been achieved on the ground.

- ***Rural Connectivity:*** Rs. 1, 579 crore sanctioned for the Pradhan Mantri Gram Sadak Yojana for 2003-04. This scheme launched in December 2000, envisages coverage of all villages with 500+ population and 250+ in case of hill states by the end of Tenth Plan. The available information on the scheme shows that out of the eligible 1, 62, 576 villages, only 20, 299 villages have been connected – a ***mere 12.5 per cent***. The comparable data in terms of kilometres of road made is not available for a better understanding on the quantum of work done under the scheme.

All through, there is no emphasis on the capital expenditure in agriculture – which is critical area. Neither the budget 2003-04 nor the mid year review give any indication of improving agriculture infrastructure. Factors like extensive irrigation, flood control etc. require a lot more attention – which finally means more capital investment.

➤ **INFRASTRUCTURE:** There is reinforcement of grandiose expectations of the budget 2003-04, i.e. the private-public partnership, in the policy directions. **There are no indicators whether Rs. 2, 000 crore of public money has attracted Rs. 10, 000 crore of private money and if so, where are the projects?** The finance ministry now has decided to call this as "viability-gap funding" – which means essentially the government will endeavour to cover the risks in case there is shortfall in the anticipated earnings. This seems a very empty, directionless policy initiative. Can the government today list out the infrastructure investment pattern under this scheme in the first half of 2003-04 fiscal? If the Government has decided that infrastructure development can only take place via this route – let it clearly plan and implement it keeping in mind that under the current policy framework the user charges would have to play a major role in such a pattern of development; however, then the question arises whether the common citizen in India afford to pay for basic necessities.

"government progressively declining its investment in irrigation and agriculture"

The mid year review also claims that there has been growth in most segments excepting Roads and Ports. Well – if we remember right, these are the two areas that were supposed to get the maximum advantage out of the infrastructure funding! We see the gap widening between the policy statements and ground reality – this leads us back to the question - is the government serious about its own policy directions?

The report rationalises the hike in electricity tariffs on the ground of better cost alignment. Wisdom of such a move is questionable for several reasons and it seems ridiculous to expect that the existence of an act can magically cut transmission and distribution losses and streamline the processes.

Telecom is the sector, which is booming thanks to the steep cost declines and affordability of the WLL and cellular services. This is a welcome sign – as today more and more people getting access to telephones in the semi urban and urban areas. But the rural telephony – Village Public Telephony – has in April-Sep 2003 shows an 89.3 per cent drop in number of connections for April-September period compared to same period in 2002. The telecom policy objectives talk more of the licensing and connectivity issues of the WLL and Cellular part; but there is silence in basic telephony reach to rural areas.

The Mid Year Review exudes excessive optimism in some areas – but it remains to be seen whether

Mid Year Economic Review 2003

a mere turnaround in agriculture will be the magic wand to improve GDP – while the well known constrains are left unaddressed.

Not all of the Central Government finances for the period April to September 2003 are presented; the data in simple and clear form is absent, leaving the citizen disinterested in such a report. Curiously the aim of FRBM Act – to reduce Revenue Deficits – does not find mention in the review nor are there any clear indications of the steps that the Government is taking in this regard. The very rosy, comfortable picture being drawn by the Government through this review - is perhaps in keeping with short term objective of political gains – which is reflected in the 'India Shining' campaign.

We definitely want India to shine but not just for the rich and urban sections of the society. Rather the claims for 'India Shining' should also reflect that the needs of the majority of the population, especially those in the rural areas, have been addressed. The true meaning of 'India Shining' will be a reality only when there is equitable distribution of the positive economic growth.

After the mid year economic review it is interesting to look at the government's pronouncements on its achievements with regard to budget implementation.

Budget 2003-04

How does it affect the Citizens?

Measures	Status	Our Comments
Universal Health Insurance Scheme	IRDA Approval and Launch by PM. Target at 100 lakh families this fiscal	How many beneficiaries till September 2003?
LIC Varishta Bima Yojana	Launched by PM in July 2003	How many beneficiaries? What is the reach /coverage?
Restructured Pension Scheme for Government Servants	Announcement of scheme	What is the cost increase to the wage bill?
Cash management in ministries	9 ministries implemented	Much needed move to streamline budget process
Prudent management of external liabilities	Repayment of entire liability under IBRD Currency Pool Loan	Budget estimates for repayment at Rs. 2, 361 crore. Total liability is US$ 29, 690 million under IBRD
Sugar Industry problems	Recommendations implemented – Export subsidy at Rs. 350/tonne and central assistance of Rs. 2, 563 crore	Increase in food subsidy bill
Rural Bank Branches	RBI directives in April 2003	How many banks have opened branches?
Lower interest rate of 9 per cent per annum on agricultural loans up to Rs. 50, 000/-	Implemented	Much needed parity in interest rates for farmers
Corporatisation of stock exchanges, voting rights restriction of shareholders	Referred to Standing Committee	Streamlining the financial markets
PF interest rate slashed by 1 per cent	Implemented	Major policy implementation
Maru Gochar Yojana in Rajasthan	Task force set up	Why highlight just one scheme of Rs. 100 crore?

The Finance Minister presented in September 2003 the "Action Taken With Respect To Budget Announcements 2003-04 And Its Impact On Citizens" and a similar progress on the Budget announcements has been presented in the Mid Year Review of November 2003. If one looks at the items enumerated, one wonders at the priorities and the implementation levels of the budget policies.

We have summarised here few of the major self proclaimed achievements of the Central Government. Our simple concern here is – there has to be accountability in terms of the budget to the citizens as every small decision in the budget affects them.

BUT WHAT ABOUT THE FOLLOWING

➤ Has each child of school going age benefited under the Sarva Shiksha Abhiyan as promised by the Government?

Budget 2003-04
How does it affect the Citizens?

- Has the policies relating to education been translated into reality?
- We pay taxes – direct as well as the hidden indirect taxes. Is the Government providing us the necessary infrastructure like roads and electricity or are we just supporting the huge wage bill of the Government?
- What about basic amenities like drinking water, sanitation and health? What change has the budget brought about in this area?
- Has the budget brought about rise in employment both in rural and urban areas in order to bring down the incidence of poverty on a sustained basis?
- What about infrastructure development?
- How the schemes announced in the budget have facilitated rural development in India?

Unfortunately the answers to these questions are difficult to come by – and its time as citizens we asked these as our right – it's finally the common man who pays the price.

Who pays the taxes?

GUEST COLUMN: Prof. Jayati Ghosh

There is a common myth held by the Indian middle classes: the idea that the rich and the middle class pay all or most of the taxes that are received by the Government. This myth is so widespread and persistent that it is then used to argue that these groups should have most control over how tax revenues are then used by the government.

At one level of course, the idea seems intuitively plausible. After all, taxes are supposed to redistribute income from richer groups to society as a whole. And many people would believe that the richer and middle classes provide the bulk of tax revenue since they are the ones who pay direct taxes (which are proportionate to income).

There are at least three things wrong with this argument. The first is that, despite popular middle class perception, in fact the Indian economy has one of the lowest rates of taxation in the world, in terms of aggregate tax as a proportion of national income. Not only is it already very low in terms of international comparison, but it has also fallen quite substantially since the beginning of the 1990s.

The ratio of Central Government tax receipts to GDP was only 11.3 per cent in 1989-90; by 2000-01 it had fallen to only 9 per cent. Even if taxes levied by the State Governments are included, the total tax-GDP ratio was still only 17 per cent in 1989-90 and fell to 14 per cent by 2000-01. Compare this to tax-GDP ratios of more than 40 per cent in most developed countries, and above 30 per cent in most of Asia. Even in the countries of Sub-Saharan Africa, well known for their continuing fiscal crisis, tax-GDP ratios are typically in excess of those in India.

Not only that, but in fact the bulk of tax revenue in India comes in the form of indirect taxes. Indirect taxes were on average more than 70 per of Central Government tax revenues through the 1990s, and in fact would have been even more but for the decline in customs duties related to import liberalisation over this period.

For the state governments, indirect taxes amount to more than 95 per cent of their total tax collection. Thus, if both State and Central taxes are taken into account, indirect taxes amounted to 82 per cent of total taxes and direct taxes accounted for only 18 per cent.

So it turns out that the dominant part of tax revenues comes from indirect taxes. These actually fall more heavily on lower-income groups. It is sometimes argued that the rich - or the upper-income groups - pay the bulk of the indirect taxes as well, because they spend more on consuming items (by definition, almost). But in fact it is

Who pays the taxes?

likely that poorer people actually pay out a larger share of their *income* in the form of taxes, than the rich, through the indirect tax burden. This is a complete reversal of the common middle class notion.

The pattern of indirect taxation itself can have particular implications in terms of distribution between economic classes. To take an example, in recent years, there has been a "rationalisation" of excise duty rates, which has been widely applauded, in the financial press. This measure merged the three rates of 8, 16 and 24 per cent into one common rate of 16 per cent for all items (barring a very select few).

This sounds quite harmless and even desirable at one level; but what did it imply for distribution of income across groups? Luxury commodities such as cars, air conditioners, durable consumption goods and so on saw the rate of duty fall from 24 per cent to 16 per cent. By contrast, a whole range of items of mass consumption, ranging from soaps and local detergents of common use to certain food items, saw the rate of duty double from 8 to 16 per cent.

"bulk of tax revenue in India comes in the form of indirect taxes"

Indirect taxes are known to be regressive. But this example shows that they can even become an instrument for transferring income from the poor to the rich. In fact this is very much a part and parcel of general fiscal management over the past decade, where the burden of taxation has been borne by a large mass of population that then receives very little benefit in terms of the direction of state expenditure.

Despite, this, the myth persists, and the upper income groups continue to see themselves as those bearing the tax burden for the rest of the economy. In a sense, the unwillingness of these groups to pay taxes - which is largely responsible for the low tax-GDP ratios in the Indian economy even at existing tax rates - reflects a more basic problem with our elites. This is the growing tendency to extract as much as possible from the system, while resisting any attempts to put something back in.

Only when this tendency is firmly resisted, and basic discipline in terms of respecting the rule of law in taxation is enforced, would we have anything approaching the minimal requirements even for an efficient capitalist system, not to mention one, which is oriented towards social justice.

***Dr. Ghosh** is Professor, Centre for Economic Studies and Planning, Jawaharlal Nehru University, New Delhi.*

ITEMS	Total Expenses	Central Excise	Sales#/ Service Taxes
HIDDEN (INDIRECT) TAXES			
FOOD ITEMS			
(a) Processed Food Items (For Example, Wheat Flour)	617.00	40.48	10.12
(b) Food Items Unprocessed (For Example, Vegetables, meat, fish etc.)	502.50	...	20.10
(c) Food Items Manufactured (like Sugar, refined oil etc.)	633.00	101.28	25.32
(d) Prepared Non-branded Food (e.g. packed food from restaurants etc.)	457.00	...	36.56
FUEL / ELECTRICITY	872.00	...	34.88
OTHER RUNNING EXPENSES			
(a) Telephone / Cable TV etc.	635.00	...	50.80
(b) Education (tuition fees, stationeries, etc.)	950.00	40.00	60.00
(c) News Paper	75.00	...	...
(d) Conveyance	750.00	...	60.00
(e) Non Food Items (All Manufactured, e.g., soap, washing powder etc.)	478.5	76.56	19.14
(f) Health/ Medicine	300.00	24.00	12.00
HOUSE RENT	3, 300.00	...	...
OTHER MISCELLANEOUS EXPENSES per month	1, 000.00	160.00	40.00
TOTAL	**10, 570.00**	**442.32**	**368.92**

\# Calculated as per Delhi Government Sales Tax Schedules

How much Hidden Taxes do we pay in a month?

After going through Prof. Ghosh's article we did an interesting exercise as to find out how much do we pay as taxes without realising. Presented below is the data -

We have taken the example of a Delhite with Rs. 11, 000/- salary per month and try to see what he pays to the government as taxes?

(i) Direct Tax Paid to the Government — Rs. 258.17
(Income tax calculated after deducting all rebates and concessions)

(ii) Hidden (Indirect) Taxes Paid to the Government: — Rs. 811.24
(Total of Col. 3 and Col. 4)

Total tax paid to the government in a month: Rs. 1, 069.41

Of which, hidden taxes constitute around 7.4 % and direct taxes constitute around 2.34 % of the gross salary.

So, we end up paying taxes without realising it!

The government's advertisements say 'Shining India' and 'I have paid my taxes (Direct Taxes), I have changed my India'. Has anything changed the roads, drinking water, infrastructure etc.? Every time we buy something, we pay the invisible taxes, which are much much more than the direct taxes. Why talk of the example used above of the urban middleclass- even a farmer who buys basic items like match boxes or tea ends up paying more than 20 % as taxes hidden in the price.

Isn't it high time that each one of us demanded accountability- where does our money go?

It is important to note how the policy changes brought about by the Central Government are affecting the relatively vulnerable sections of the population, having limited liquidity, who do not wish to invest their savings in the stock markets, and rather want to rely on small savings schemes known for their assured returns.

Small Savings like National Savings Scheme, Public Provident Fund etc. historically have been attracting savings from the lower and middle-income groups looking at tax benefits and safety. We were going through the mid year review 2003 when a small item caught attention – NSSF (National Small Savings Fund) playing a role in the financial management process of exchanging high interest bearing loans with lower interest loans by the States and Centre. Our analysis brought out very interesting facts – which were disturbing as far as the small savings investor was concerned. In order to understand the relation between the NSSF and Debt Swap Scheme, we first look at the terms-

Small Savings and Debt Swap Scheme

DEBT SWAP SCHEME

This scheme utilises the current low-interest rate regime to enable the States prepay (i.e. pay back in advance) past high-interest rate loans taken from the Centre by using fresh low-interest rate, small savings loans (from the National Small Savings Fund) and open market borrowings. The debt swap scheme, facilitated by the Central Government, spans from 2002-03 to 2004-05 fiscal year.

NSSF

- Till 1998-99, the Central Government acts as a financial intermediary in the collection of small savings and sharing of the net small savings collections with State Governments as loans.
- Before 1987, 66 per cent of net small savings collections in a State was given as long-term loans back to the State, these increasing to 75 per cent after 1987.
- These loans formed part of Centre's non-plan capital expenditure and so a part of Centre's gross fiscal deficit (GFD).
- In April 1999, a salient change in the accounting system (as regards the small savings) came by creating the National Small Savings Fund (NSSF) in the Public Accounts of the Central Government. All small savings collections got credited to NSSF and then invested in the special securities of Central and State Governments as per norms decided by the Central Government. The share of the States (in the form of long-term loans) in the net small savings collections in a year was made 80 percent in 2000, while the Centre appropriated the rest as loans. However, from 2002-03 fiscal year, the entire amount of net small savings collections are being given to the States as loans. The stated objectives behind the creation of NSSF were ***de-linking of small savings from the Centre's fiscal deficit concerns, ensuring transparency and viability of the small savings schemes***.

Have these objectives been achieved? What is the status of the small saving investor? Are these investments safe?

Well, the changed accounting treatment of small savings loans to State Governments reduced the Centre's gross fiscal deficit (GFD), although it had no effect on the combined GFD of the Centre and States. ***However, the objective of transparency and viability of the small savings schemes is being sidelined by the Central Government completely.*** We focus our discussion on this aspect and take a closer look at the implementation of the debt swap scheme and the role of NSSF.

HOW DO STATES BENEFIT?

In 2002-03 fiscal, amount owed by the States to the Central Government was Rs. 2, 44, 000 crore, with Rs. 1, 00, 000 crore as loans at 13 per cent per annum or more, higher than the current market rates of interest. Due to huge interest burden on the States, the Centre and the State Governments mutually agreed to introduce the debt swap scheme, from 2002 to 2005, which envisages swapping roughly Rs. 1, 00, 000 crore of their past high-interest loans with fresh small savings loans and market borrowings.

- In 2002-03 fiscal, the States prepaid Central loans of Rs. 13, 766 crore using small savings loans of Rs. 3, 766 crore and open market borrowings worth Rs. 10, 000 crore.
- Similarly, in the first half of the 2003-04 fiscal, the States have swapped another Rs. 32, 602 crore of high-interest rate loans using small

savings loans (Rs. 10, 513 crore) and open market borrowings (Rs. 22, 089 crore).

- Till September 30, 2003, the States have retired Central loans worth Rs. 46, 368 crore (bearing interest rates of 13 per cent per annum or higher) by taking small savings loans worth Rs. 14, 279 crore (interest rate of 9.5 per cent per annum) and open market borrowings worth Rs. 32, 089 crore (interest rates of 6.5 per cent per annum or lower).
- States are expected to save roughly Rs. 98, 000 crore (as per Mid-Year Economic Review) in terms of interest payments and deferred repayments over the residual period of the loans.

HOW DOES THE CENTRE BENEFIT?

- In 2002-03, the Centre's outstanding loans from the NSSF stood at a massive amount of approximately Rs. 1, 90, 000 crore, bearing interest rates higher than the current 6 to 7 per cent rates.
- The States prepayment of Rs. 13, 766 crore in 2002-03 was used by the Centre to redeem a part of the 10.5 per cent per annum interest bearing special securities issued by it to the NSSF (these non-marketable special securities were used to take loans from small savings collections with oustandings at about Rs. 1, 90, 000 crore in 2002-03).
- The NSSF, in turn, re-invested back the redeemed sum of Rs. 13, 766 crore in special securities issued afresh by the Centre, but this time which gave return of 7 per cent per annum.
- In 2003-04 the Centre used the sum of Rs. 32, 602 crore (States prepayment as on September 30, 2003 under the debt swap scheme) for redeeming its 10.5 per cent interest bearing special securities held by NSSF.
- NSSF reinvested the amount of Rs. 32, 602 crore received in securities of equivalent face value, but bearing interest rate of just 6 per cent per annum.

Therefore, the debt swap scheme allowed the States as well as the Centre to retire high cost loans and this double swapping process will result in savings of over Rs. 1, 200 crore in interest payments in 2003-04 fiscal for the Centre alone. By the end of 2004-05, the Centre will replace around Rs. 1, 00, 000 crore worth of its past high-cost special securities issued to the NSSF with fresh securities bearing much lower interest rates, with savings of Rs. 4, 000 crore to Rs. 4, 500 crore per annum in interest payments from 2005-06 onwards.

WHAT ARE THE OTHER IMPLICATIONS FOR THE STATES VIS-À-VIS THE SCHEME?

- Prior to this scheme, States used to get 75 to 80 per cent of the net small savings collections in a year as loans, with the Centre appropriating the rest.
- From 2002-03 fiscal, the entire amount of net small savings collections are being given to the States as loans against special State Government securities.
- These loans are crucial for the current cash-flow situation and investments made by the States.
- With the Centre making it mandatory for the States to utilise part of their small savings loans for retiring the high-cost Central loans, may worsen their current cash-flow position.
- During the scheme formulation, States were keen to access additional market borrowings for retiring a significant proportion of the high-cost Central loans without using small savings resources. But the opinion of the Centre and the Reserve Bank of India was that such enhanced market borrowings would tighten liquidity conditions in the economy.
- The normal allocation of market borrowings for all the States for 2003-04 was roughly Rs. 18, 000 crore, while the Centre's was roughly Rs. 1, 66, 000 crore. It remains to be seen, the proportion and modality of how the Rs. 54, 000 crore of high-cost Central loans are proposed for swapping till 2005, from market borrowings and the small savings loans.
- The differential rates of interest in the special securities of the State (at 9.5 per cent) and Centre (6 per cent) issued in lieu of NSSF loans are another ambiguity in the current debt swaps.

WHAT IS THE FATE OF NSSF?

Loss of interest income:

The implication of the double swapping done by the Centre, States and NSSF, is that this Fund is losing out on interest income by replacing its existing stocks of special securities with fresh stocks of securities issued by the Central and State Governments at much lower interest rates than before. The Centre's gain in terms of savings in debt servicing vis-à-vis the small savings loans, **is clearly a loss for the NSSF**. It would be losing Rs. 1, 200 crore in 2003-04 fiscal, and the annual loss is going to increase to an estimated Rs. 4, 500 crore from 2005-06 onwards. This will worsen the financial health of NSSF significantly in the coming years from the current situation below -

Deficit of NSSF in the Recent Years

(In Rs. Crore)

Details	2001-02 (Actual)	2002-03 (Revised)	2003-04 (Budget Estimates)
Total Income of NSSF	30, 395.47	35, 126.67	40, 607.67
Total Expenditure of NSSF	27, 984.44	36, 777.88	44, 228.11
Deficit of NSSF	-2, 413.03 (A surplus)	1, 651.21	3,620.44

Source: Govt. of India, Receipts Budget 2003-04

Small Savings and Debt Swap Scheme

"is the centre concerned about small savings investors?"

Small Savings and Debt Swap Scheme

Increased risk for investors
The rising deficit of NSSF will further magnify due to the double debt swapping process, as NSSF's only income source is from interest received from special Government securities. This in turn affects small savings investors harshly. The Central Government is minimising its debt servicing burden but at the cost of NSSF and its investors. In short – is the Centre at all concerned for small savings investors?

Repayment periods
The overhang resulting from the mismatches between the periods of repayment by the States and to the investors will add to NSSF woes.

Centre's 'rationalisation' – at what cost?
However, Centre's 'rationalisation' (i.e. lowering) of interest rates on small savings loans is being pursued since 1999, keeping pace with the falling rates of inflation. Those directing India's economic policy see the high level of fiscal deficit as the biggest problem before Indian economy. And, unable to mobilise additional taxes or cut expenditure to reduce the deficit, the government is keen on reducing the interest burden in its budget by squeezing middle class savers. The question is why pursue such 'rationalisation' at the cost of the common man who puts in his hard earned money into the small savings schemes? Also, the low interest rate regime, which the government and the RBI are putting in place, seems to be meant for increasing liquidity in the stock markets. In encouraging small investors towards other savings avenues like mutual funds and shares, the possible risks and losses from such investments are being ignored.

Small Savings as a source of deficit financing
In recent years, small savings is a major source of finance for both State and Central Governments, with its financing of combined gross fiscal deficit (GFD) of Central and State Governments rising from 17 per cent in 1990-91 to 20 per cent in 2000-01. With public preferences and relative attractiveness of small savings collections determining the investments, the current developments vis-à-vis the NSSF may lead to a sharp decline in the small savings collections in future and hinder this form of resource mobilisation.

At the end it seems that the Government is not bothered about the millions of people who invested in the small savings when it resorted to reducing the interest that NSSF earned on the securities. Why should you or I lose out on the interest income and safety we are supposed to get on our investments because the Government cannot manage its finances? Perhaps the Government now should carry the statutory warnings on the NSSF investments – " subject to risks".

Interviews:

Shri Madhusudan Mistry

Mistry ji is a pioneer in the field of budget work. He is associated with Disha, Ahmedabad, which has been doing work in the area of budgets for the last 10 years – with special emphasis on Gujarat. In a candid interview, Mistry ji shared his views on various aspects of the Indian Economy. We present excerpts from the interview–

Q: What is your view on the 7 % GDP Growth estimated for 2003-04?

A: The data shows that the growth is in the Service Sector. The growth in the manufacturing and agriculture sectors is below the levels seen in the service sector. I am concerned that this trend will not reflect a sustained growth year on year. There is necessity for creating a mechanism where the income distribution is based on equity and social justice. When there is growth in manufacturing and agriculture, at least there is a better distribution of income. In case of the Service sector, the money tends to be concentrated in the urban areas, widening gap between one section of the society and another. This does not point to a healthy growth though the service sector creates employment, but only for those who have a certain kind of skill. Such skills are acquired by the sections of the society who have the necessary financial resources to do so. The economic gap widens, but it does not mean that the poor do not benefit at all. For e.g., increase in the income may be Rs. 1, 000 in my case, which may allow me use some service at a Rs. 100, thereby benefiting a person, but the gap between 1, 000 and 100 remains. Again the effect can be felt mostly in the urban areas.

When we look at the agriculture sector, irrigation potential has not increased and also the capital expenditure has stagnated. In this background, how can there be a sustained growth in agriculture?

Just a year's increase in GDP growth rate to 7 per cent is not sufficient, we need to have a continued, sustained growth rate at 7-8 per cent for a long period – only then can we say that there is an up trend in the economy.

Q: One area of concern in the budget is the Revenue Receipts–it has not increased sufficiently. What do you think is the impact of this?

A: Revenue Receipts have declined from the 7th to the 8th Plan and then onwards in the 9th Plan period. In 1999-2000 revenue receipts was at 15.45 per cent of the GDP. In 2000-01 it was 14.74 per cent and declined to 13.89 per cent in 2001-02.

If you look at the indirect taxes, it has declined from 16.29 per cent of GDP in the 7th Plan to 11.66 per cent in the 9th Plan and the direct taxes from 15.89 per cent to 7.59 per cent of GDP in the same period. The tax collection should have increased along with the growth in percentage terms of the GDP. However a combination of factors – Tax Evasion, Ineffective Collection Mechanism and large scale Tax Benefits have led to the decrease. The assumption that the tax benefits would result in higher taxes after a certain period has proved otherwise. Today we are in a situation where borrowing of money becomes a necessity – both in the case of Union as well as States budgets. So it becomes necessary to look at the possibility of increasing the collection through a direct mechanism. Since the forthcoming year is the election year, the chance of increase in rates is unlikely – leading to one more year of lower receipts.

Q. What are your views on the Government implementing the Fiscal Responsibility and Budget Management Act?

A. The purpose of the Act is to bring in discipline in the finances and the expenditures. It seeks to control the deficits well within the budgeted figures. It is too early to comment on the status. But the mid year review gives data that the government has anyway been releasing for the last few years - only that the Government has this year presented it as part of the requirements of the Act.

Q. What do you think should be the main focus in the area of Budget Work?

A. Every statement made in the budget impacts the citizen in some way or other. The questions to be addressed are – What is the impact? How does it affect the citizen? So it becomes necessary to view the budget from this viewpoint and not only in terms of numbers and percentages. To bring in accountability it becomes very important to make the citizens understand the budget and its implications. Right now everybody pays indirect tax on purchase of item ranging from soaps to fuel – but since it is included in the final price we pay without realising that the taxes so collected from us help to run the Government. So unless the citizens question the Government on the use of their money – there will be no change in the budget making and financial management process. This is an area where the Civil Society organisations can contribute – but the focus should be on connecting the various issues faced by the common man to the budget.

Three points become crucial when we talk of citizens and the budget –

- Mainstream Press and Media to take the first steps and highlight budget and its effect on the citizens
- Analysis to be presented in the local language
- Budgets need to be simplified and explain the effects using examples rather than technical jargons.

Mistry ji *is Member of Parliament, Lok Sabha.*

Interview : Shri Madhusudan Mistry

"just a year's increase in GDP growth rate to 7 per cent is not sufficient"

Shri Nilotpal Basu

Shri Basu has been a Member of Parliament for almost a decade now. His participation in Parliamentary deliberations has been most engaging and of a very high quality. Shri Basu has been member of various Parliamentary committees. He shared his views on India's economic scenario in this interview.

Q. What is your opinion about the official optimism of 7 percent plus GDP growth rate? Is it sustainable?

A. There might be a little acceleration in GDP growth, but it is not indicative of any long-term recovery in the economy and these growth predictions are based on the good monsoons this year. But the public investment in the economy needed to take advantage of such monsoon is absent. Again, the result of *khariff* crop is not very encouraging - the *khariff* production estimated for this year (108.45 million tonnes) is more than the last year's production (90.48 MT), but still less than the 111.53 MT of 2001-02. The industrial production has increased only marginally over the corresponding period in previous year. The growth of manufacturing sector has been uneven with important sub-sectors like electricity, mining, basic goods and capital goods registering a decline. The growth in credit off-take has been sluggish despite a decline in the interest rates.

Though the government is talking about a decline in the food grain stocks, this was mainly due to export of 12.5 million tonnes at a much lesser price. There has been no attempt to enhance domestic demand for food items. The growth rate of GDP in the first quarter of this financial year

Interview :
Shri Nilotpal Basu

is lesser (1.7 %) than the corresponding period in previous year (2.7 %). We don't find in these figures any basis for claiming such high GDP growth and also, it is not sustainable.

Q. What should be the effective measures for resource mobilisation as far as Centre and States are concerned?

A. Regarding resource mobilisation, the relative allocation of powers and resources between the Centre and States are mismatched. The States are responsible for collection of more than 60 percent of the tax revenues, but can directly levy only around 43 percent of taxes. When we trace the beginning of the current fiscal crisis in India, the Centre is responsible as the States' fiscal problems worsened with implementation of the Fifth Pay Commission recommendations. Since then States have been pleading to the Centre on interest burdens and lack of resources, but Centre has not addressed this issue. As a result, the 'Plan' is taking the hit. Two distinct features, which characterise the Indian economy, are *Inadequate public investment* and *Demand compression,* with the latter an outcome of the former. Adequate employment generation can lead to demand enhancement in the economy and this is possible only through increased public investment. Only if these bottlenecks are overcome and there is sufficient domestic demand, the Centre and States can address the question of resource crunch.

"Private investment cannot substitute public investment, as in India's case it is not creating any value addition"

In India, the tax-GDP ratio is abysmally low. The Government's main thrust should, therefore, be on enhancing this ratio. Private investment cannot substitute public investment, as in India's case it is not creating any value addition in the current situation. Let us take the example of 'Golden Quadrilateral' project. The contractors who took over the project merely subcontracted the task to petty contractors, with no resulting inflow of substantial private investment. At one hand the government is retreating with an expectation that the private sector will move in, but this is not happening. The deepening of the process of expansion through a sustained 'multiplier effect' is not taking place. The 'feel good factor' is virtually unachieved as the profit made by the private sector which took over hitherto government sectors is not due to increased investment but from cost-cutting only, and with implications of aggravating the unemployment and demand compression situations.

Q. What do you think about the FRBM Act enacted in the parliament during the monsoon session?

A. Nobody has a case that there should not be any reforms in the government processes. But the question is, what are the objectives of these reforms? How will it enhance the performance of the economy in a way to benefit the majority of the people? The act of the government is like putting the cart before the horse. As regards the fiscal management, I cannot have a high rating for the BJP government as none of the fundamental problems that hamstring the economy has been addressed, especially in the area of fiscal consolidation.

Q. How can more employment opportunities be generated in the Indian Economy?

A. More public investment is the only answer. In our country around 60 percent of our population is still dependant on less remunerative agriculture, which is dependent on nature. The government should put more money into irrigation so that high dependence on monsoons and rain fed agriculture gets over. Agro-industries should develop to absorb excess capacity in agriculture.

The government is clamouring for a growth in the service sector. However, growth in the service sector is not sustainable long-term in absence of commensurate growth in the manufacturing and agricultural sectors. In developed countries, the expanded role of service sector came following a level of maturity in the manufacturing sector. Even in the service sector the growth is uneven and the benefits are not reaching the common people to the extent possible in ideal situations. For example, in the telecom sector, huge expansion in urban communication is not complemented similar expansion in the rural sector. While in many urban households have afforded mobile telephone facilities; the rural areas are out of reach. This leads to accentuation of regional inequality, as proper investment is not channelled in crucial sub sectors.

As regards the financial sector, it is a fact that banks are making profit - but this is coming from treasury operations only, rather than usual banking operations like lending and collecting deposits. Credit policy should be designed so that it generates a viable earning opportunity for the common people. For this, some exposure of risk should be there in favour of the small investors. The government should in fact have ensured right dose of credit at the right time. Because, when people are unable to access credit in required amounts at required times, their problems get aggravated. The non-performing assets (NPAs) of the banks are increasing, with the defaulters mainly the big business houses and large private investment players. The idea behind Self-Help Groups should be expanded. Unfortunately, the actual contribution of such innovative schemes is meagre and it needs substantial support from the government in order to create a sustainable alternative for employment generation.

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