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A sad omission

The budget should have taken some bold initiatives to give relief to the common man, says **Uttam Gupta**

IN the Union budget for 1997-98, the government proclaims to have vigorously pursued the objective of high growth with social justice. For the growth part, it has relied on reduction in the effective rate of corporate tax from existing 43 per cent (inclusive of surcharge) to 35 per cent on the one hand, and significant lowering of the personal income tax on the other. There are additional sops like dilution of MAT and abolition of tax on dividends.

The expectation is that these measures will help the companies and the income-earners increase their savings which, in turn, will contribute to increasing investment and growth. In the process, the government expects a big bonus for itself by way of higher tax revenue. The collection from corporate and income tax is expected to be Rs 5,707 crore higher than the revised estimate (RE) for 1996-97.

On the indirect tax front, despite lowering of the maximum rate of duty from 50 per cent to 40 per cent and reduction of specific rates on a wide range of items and reduction/rationalisation of excise duty, it is expecting an increase in collection from customs by Rs 8415 crore and from excise duty Rs 6010 crore. The overall estimated increase in gross tax revenue is from Rs 21,328 crore to Rs 1,53,647 crore. After providing for the states' share of Rs 40,254 crore, the net tax revenue to the Centre is Rs 1,13,393 crores — Rs 16,181 crore higher than the RE for 1996-97.

Will the savings and investment get the anticipated boost? Can the high growth of seven per cent plus be sustained? Will the government get the additional tax revenue? To get answers to these questions, there is need to look at the budget through the window of the overall macro-economy.

Majority of the income-earners earn below Rs 40,000 per annum. They spend bulk of the income on essentials like food, clothing, health, education and shelter. People below the poverty line (now estimated at 36 per cent) cannot even fully pay for their dietary needs. Because of spiralling prices in the 90s, leading to increasing expenditure on these items, their purchasing power is threatened. Even as the price rise continues unabated, they will be further squeezed.

Outlay in the budget for social services, rural development and employment schemes etc is not a good indicator of the support to the poor, as the money is rarely spent well. Notwithstanding this, during 1996-97 the RE for social services was Rs 10,041 crore as against an allocation of Rs 10,579 crore. On rural development, the actual was Rs 6,664 crore as against an allocation of Rs 7,520 crore. Against this backdrop, the proposed increase in outlay for 1997-98 is not creditable.

The well-being of people with low income depends on the prices of essential commodities e g foodgrains, diesel and LPG which are controlled by the government. In regard to foodgrains, under the RPDS, the issue price was first raised and then on that, 50 per cent reduction given. Even worse, the supply has been reduced by 10 kg, forcing the poor to buy this quantity from the market at much higher prices. In the net, the poor will have to shell out more money for the same quantities, i e 20 kg which he was getting from the PDS.

The prices of diesel and LPG were raised in July 1996, by 15 per cent and 30 per cent respectively. The former led to spiralling transport cost which, in turn, affected the prices of vegetable, fruits and education etc. The government is now gearing itself to remove the subsidy on diesel and reduce the same on LPG and kerosene (a cabinet note has already been moved by the petroleum ministry). This will lead to a further steep increase in their prices.

The hike in railway freight by 12 per cent across-the-board has added fuel to the fire. This is bound to exacerbate inflationary pressures. The exemption of items like foodgrains and urea from the freight hike is no relief as the selling prices of both are controlled by the government. All that it does is to prevent increase in the burden of food/fertiliser subsidy on the exchequer.

The combined effect of all these will make the poor poorer and push many of those with modest income towards poverty. The situation will get aggravated by the policy decisions in regard to the SSI sector, particularly de-reservation of 14 items including biscuits, ice-cream etc. Even the proposed concession in excise duty will be offset by withdrawal of the Modvat benefit.

Even the salary-earners with high income who are likely to benefit from the reduction, will not be happy either as much of it will be offset by continuing rapid inflation. At the end of it, even the government employees, jubilating over the pay commission bonanza, may not have much to rejoice.

The corporate sector is seriously handicapped by poor infrastructure, particularly power and high cost of these services and basic inputs e g feedstock/fuel, apart from high interest rates. The state-level taxes put an additional burden. In view of this and overall demand constraint, growth of industries and profit margins will be seriously constrained.

The energy, transport and communications have to be in good shape if the desired growth is to materialise. And yet, these have been completely neglected in the budget. During 1996-97, the actual spending is much less than plan outlays. In energy, the shortfall is Rs 4669 crore, whereas in transport it is 1588 crore. The proposed outlay for 1997-98 is lower than in 1996-97. Still worse, the budgetary support for these sectors is nil.

In his speech, the finance minister said that the proceeds from the voluntary disclosure scheme (VDS) would be used for development of the infrastructure. There is a big question mark as to whether the scheme will yield significant revenues. When evaders have got used to safe haven by hiding income, why should they disclose and pay 30 per cent?

Even though the tax on interest has been abolished, the lending rate continues to rule high. This is despite measures announced by the RBI, including reduction in CRR to pump additional liquidity in the system. In no small measure, the problem is due to continued heavy borrowing by the government. Needless to say, that during 1997-98, the proposed borrowing is 33 per cent more than the RE for 1996-97.

With continuing problems of infrastructure and the high cost syndrome which the economy is trapped in, it is just not possible to sustain the momentum of growth in 1997-98. Significant shortfall in the expected tax collection is, therefore, inevitable. The non-tax revenue, particularly dividend and profits from the central PSUs too, will be affected. This will lead to still higher borrowings by the government crowding out lending to industry and trade and higher interest rates.

The government should have taken some bold initiatives to give relief to the common man.