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Budget sans growth

The private sector is disillusioned with the bureaucracy and political establishment says Uttam Gupta

EXPECTATION of accelerated growth in GDP during 1995-96 and thereafter is not borne out by the Union Budget. Not only is the financial provision for supporting productive investment too meagre. There is no significant incentive to boost savings and investment in the non-government sector.

The revised estimate of capital expenditure during 1994-95 is Rs 39,370 crore which is about 16 per cent higher than 1993-94 actuals. Considering 11 per cent inflation rate, the increase in real terms works out to a meagre 5 per cent. Even worse, about 72 per cent of the increase is on the non-plan side. By definition, such expenses do not add to the productive stock of capital.

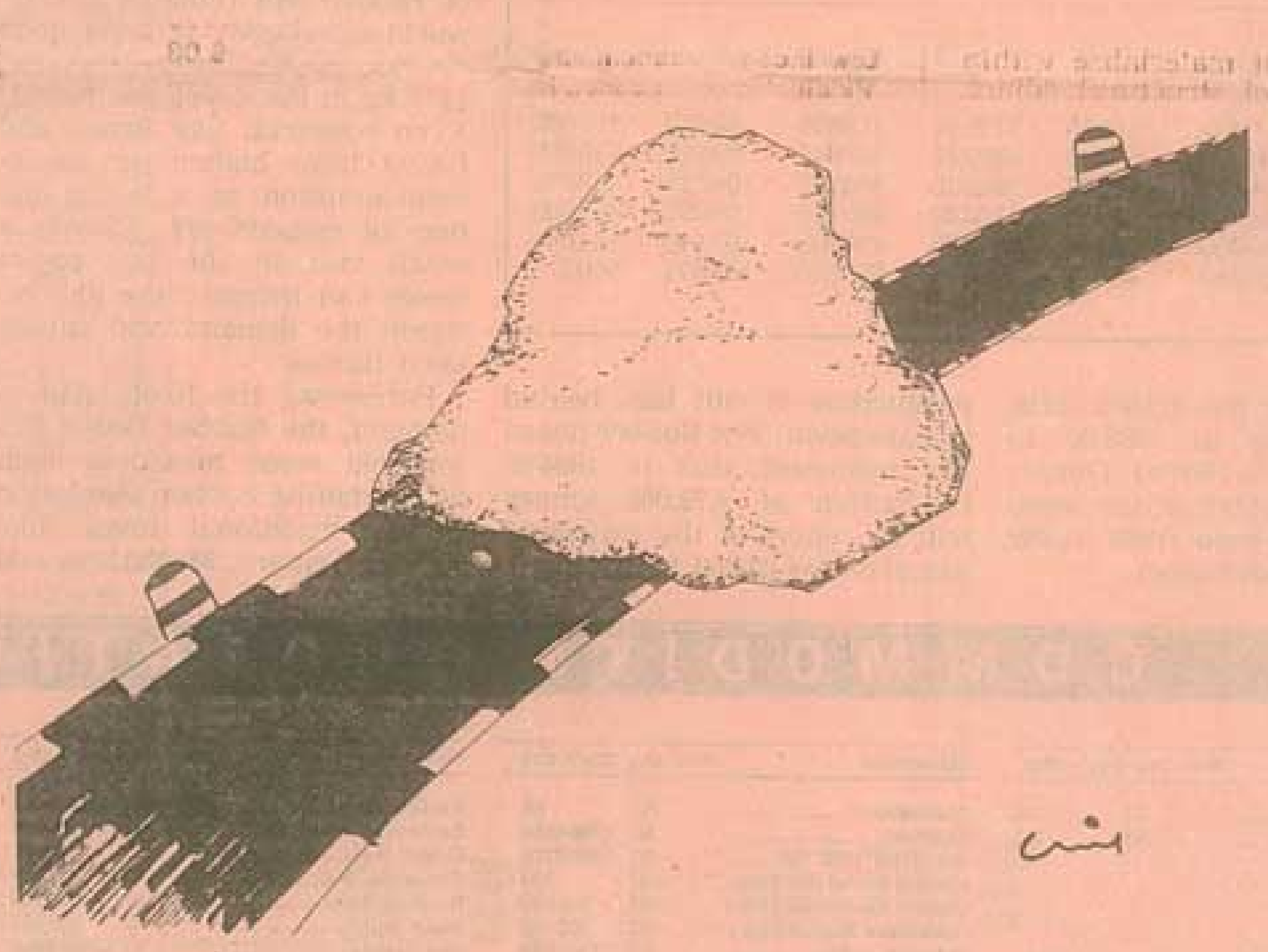
The provision for capital expenditure during 1995-96 at Rs 35,823 crore is even lower by Rs 3547 crore compared to the revised estimate for 1994-95. Bulk of this, reduction (Rs 2893 crore) is on the non-plan account. But even plan capital expenditure is down by Rs 654 crore. In real terms, there will be a steep decline since inflation is unlikely to be contained within single digit.

This signals government's dwindling interest in investment. An inevitable consequence of unprecedented increase in revenue expenditure. The latter was up by 11 per cent during 1994-95 and a further increase of 11 per cent has been budgeted for 1995-96. At Rs 1,36,328 crore, revenue expenditure exceeds revenue receipts by a whopping Rs 35,5411 crore and sucks 80 per cent of the total expenditure proposed for 1995-96. Needless to say that heavy borrowings from all sources are used predominantly for financing current consumption.

The explanation that heavy interest burden is at the root of the problem cannot hold due to three basic reasons. First, past profligacy cannot be easily wished away. Second, it has accelerated in the reform years, leading to doubling the interest payments from Rs 26000 crore then to Rs 52,000 crore in 1995-96. Third, though accumulated debt is the culprit, no effort was made to retire at least a part of it. Even the disinvestment proceeds was used for reducing the Budget deficit, ignoring the Rangarajan Committee recommendations.

The forced withdrawal from investment is being justified on the hope that the private sector will fill the gap. Is the latter coming forward? On the ground, project execution on any significant scale is yet to be seen. The conclusion is apparent: That the private sector, including the MNCs, are either not convinced about the policy environment or, are disillusioned with the Indian bureaucracy and political establishment.

Even assuming for a moment that the government has no responsibility towards future growth, what about the replacement, rehabilitation and modernisation needs of existing PSUs. Unless, these are immediately attended, there is an imminent danger of majority of them becoming sick.



The Budget pins hope on further reduction and rationalisation of the custom and excise duties. The implicit rationale is that these moves will generate pressures for cost reduction which, in turn, contribute to growth prospects by augmenting demand and enhancing profitability. This is misleading because duties are only one component of the total production cost. Other major elements are administered prices of basic inputs, utilities and services.

Administered prices have been increased steeply in the recent past and more such hikes are in the offing. Railway freight has been increased by 7 per cent across the board. Interest rates continue to rule high. Already, the rupee has undergone substantial depreciation offsetting the benefits of customs duty reduction. The cascading cost-push effect will eventually make industrial products — whether imported or domestic — costlier and thus work against growth.

The Budget has not addressed pending issues of lowering the corporation tax (whether by way of reducing the basic rate or eliminating surcharge) and capital gains tax. True, despite the prevailing rate, majority of the companies showed good profits during 1994-95 and consequently, investible surplus. But, that was more because of the substantial savings in interest consequent to mobilisation of equity funds from within and abroad, including substantial premium.

With stock markets gripped by a series of payment crisis, increasing uncertainties and diminishing interest of the FIIs, it is unlikely that similar support will be forthcoming during 1995-96. Absence of any support for inducing generation of investible resources has to be viewed in this background.

The government has proposed a five year tax holiday for investment in infrastructural projects. This is inconsequential as no such project has a chance of getting completed in less than five years; and by the time it gets ready the exemption will no longer be available.

No effective measures have been proposed to bring down the rate of inflation. On the supply side, there is nothing worthwhile to overcome structural weaknesses. Despite FCI selling foodgrains in the open market, prices are still ruling high. On the demand side, money supply is still not under control, thanks to the incoming dollars. The government may have put a ceiling on the monetised deficit, but even this is not without heavy cost; borrowings by government at market determined interest rates to bridge the gap is leading not only to overall shortage of funds, but also increase in the cost of funds to the industries. Diversion of loanable funds of commercial banks to the proposed Rural Infrastructural Fund will fruther aggravate this trend.

Inflation not only reduces the real value of any given pool of investible funds but also affects demand by eroding purchasing power. With household savings having already gone down steeply and no inducement in the Budget to reverse this, the continuing inflationary pressures are bound to take a serious toll in terms of stifling growth.

Industrial growth of over 8 per cent during the first 8 months of 1994-95 and resultant GDP growth of 5.3 per cent has led to some into believing that the economy will do even better during 1995-96. This does not square with our weak economic fundamentals. Besides, the 1994-95 results calls for circumspection. Industrial growth was on a low base caused by negative growth in 1991-92 and sluggish performance in succeeding two years. Agriculture, too, did well primarily because the weather god was benevolent.

Profligacy in spending continues to be the crux of the problem. It crowds out investment for productive purposes both within the government and outside, on the one hand, and by undermining macroeconomic stabilisation efforts, on the other. It could also undo some of the potentially positive effects of trade and industrial liberalisation and reduction and rationalisation of central levies.

The only way to achieve good growth rate on a sustained basis and a better living standard for the people is to address this issue seriously.