Frontier
Vol. 44, No. 41, April 22-28, 2012

NOTE

Budget: Who Gets What?

Bharat Jhunjhunwala writes :

THE GOVERNMENT TREASURY is empty from the payments made to government servants for salaries, perks, pension and leakages. Treatment of this chronic disease is beyond the capacity of the present UPA Government. Head of the Government Dr Manmohan Singh has himself been a government servant whole his life and taking action to whittle down his caste brothers is not amenable to him. One-half of the revenues of the Government are consumed in direct payments to the employees in form of salaries and pensions. More monies are extracted by them out of government expenditures through commissions. Yet more monies are again extracted by them through corruption. Condition of the State Governments is worse. One report says that 75 percent of the revenues of State of Kerala are used up in paying salaries and pensions. The Pay Commissions have continuously increased salaries of government servants. It was necessary for the government to increase revenue receipts to bear this increasing burden of government servants. This necessary step has been taken by Finance Minister Pranab Mukherjee in the budget by raising the rates of excise duty and service tax. Therefore, the Government must be criticized for not reining in the payouts to government servants and not for increasing taxes. It is unfair to support increase in salaries of government servants and at the same time criticize the government for raising taxes.

The budget is not so bad if one sets aside the matter of increase in tax rates. Especially beneficial for the common man are the steps taken towards direct transfers of subsidies in cash. Experiments have been made for direct transfers of subsidies on kerosene and LPG in Alwar and Mysore respectively. The Finance Minister has indicated that these direct transfers will be expanded to 50 more districts in the coming six months. It would have been ideal to distribute fertilizer and diesel subsidies and even government health and education expenditures in the same manner. That said it is good that the Finance Minister has taken a small step in the right direction.

The farmers and poor people stand to benefit from the interest subsidy scheme. Farmers and women Self-Help Groups will continue to be given loans at a subsidized rate of 7 percent. They will get a further subsidy of 3 percent for timely repayment reducing the effective interest rate to 3 percent. This step is welcome. However, this will fail to raise the incomes of the farmers and SHG members. Main problem faced by them is of low prices for their produce. Interest subsidies will surely lower the cost of production but profit obtained from this reduction will, in all likelihood, be transferred to the consumers through a parallel reduction in prices of the produce. It is seen that debt has rarely led the poor into prosperity. The real objective of the Government is to keep prices of goods produced by the poor low so that the urban middle class remains pacified. Nevertheless, interest subsidy is better than no subsidy.

In addition to lower prices of food items, there is more for the middle class in the budget. Basic exemption of income tax has been raised from Rs 1.80 lacs to Rs 2.00 lacs. This is inadequate. Inflation of 7-8 percent means that it should be raised to Rs 1.95 lacs at least to retain parity with the last year. Yet, this small increase is better than no increase. Additionally, they can invest in equities up to Rs 50,000 per year and claim 50% deduction for the same from taxable income.

The common man stands to benefit from the budget in another way—though only in the long run. Effort of the Finance Minister is to control the fiscal deficit. There are doubts whether that will happen because government expenditures have a way of jumping ahead. Nevertheless the common man stands to benefit if the fiscal deficit is controlled. Foreign investors may develop confidence in the Indian economy, investment may increase, growth rate may increase and common man will then stand to benefit.

The increase in taxes will be troublesome for the corporate as well. Goods will become expensive and sales may flounder. Yet there is some relief for them. The Finance Minister has raised the limit of tax-free bonds in infrastructure sector from Rs 30k crores to Rs 60k crores.

Shortcoming of the budget is that Public Sector Undertakings have been given more food and fuel instead of selling them off. Last year the target from disinvestment was Rs 40k crores. Only 14k crores was attained. Target for the coming year is Rs 30k crores which is laggard. Bigger problem is that the Finance Minister has in the same breath provided more funds to Public Sector Banks.

It is necessary to understand the basic philosophy of the government to appreciate this budget. The UPA Government is committed to heavy government. It wants to collect more taxes and use the revenues for people's welfare. The rates of excise duty and service tax have been increased in keeping with this thinking. Problem with this philosophy is of quality of government expenditures. Most money spent in the name of people's welfare is actually captured by the government servants and upper classes. The philosophy is turned on its head in such a circumstance. The people pay taxes and the government servants make merry. Perhaps the UPA leaders know this reality. Perhaps the unsaid objective is to create an army of supporters of the government who will crush the people's voice. But untruth does not stand the test of time. The people will surely realize that the welfare bureaucracy is behaving like a welfare mafia. The UPA Government should think afresh on this basic ideology. Till then it is futile to expect much more. □□□