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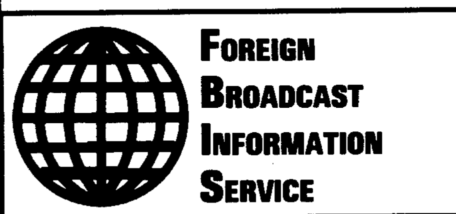
26 April 1993



JPRS Report

Near East & South Asia

INDIA

Budget

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Finance Minister's Budget Speech Presented

93AS0675D Calcutta FINANCIAL EXPRESS in English 28 Feb 93 pp 5-7

[Text]

Part A

Sir,

I rise to present the budget for 1993-94.

2. It is now twenty months since our government took office; twenty eventful months in which we have worked ceaselessly to overcome the very difficult economic situation we inherited. In June, 1991, the economy was in the throes of an unprecedented balance of payments crisis. A savage squeeze had been imposed on imports; international confidence had collapsed; industrial production was falling; and inflation was on the rise.

3. The sense of crisis is now behind us. We have restored a measure of normalcy to our external payments. The annual rate of inflation has been reduced from the peak of 17 percent in August, 1991 to below 7 percent. International confidence has been restored. Agriculture has performed well in the current year and industrial production is beginning to recover. The growth of the economy, which had declined to 1.2 percent in 1991-92, is expected to be around 4 percent in 1992-93. The economic strategy we have followed, resting on the twin pillars of fiscal discipline and structural reform, has been vindicated by the decisive upturn.

4. Fiscal discipline was necessary because the government had lived for too long beyond its means. The rising fiscal deficits of the Central Government were the root cause of our balance of payments problem, rising prices and high rates of interest. We have made good progress by reducing the fiscal deficit from 8.4 percent of GDP in 1990-91 to about 5 percent in the current year.

5. Policies of structural reform aimed at increasing efficiency in resource use and improving our international competitiveness were crucial for providing a lasting solution to the payments crisis. It was necessary to restructure our trade and industrial policies, encourage efficiency through greater domestic competition, allow our producers to have access to imports at reasonable rates of duty, encourage foreign investment and upgradation of technology, and progressively integrate the Indian economy with the world economy. Without these reforms, India would face the certain prospect of entering the 21st century as just about the poorest country in Asia. I am convinced that the Indian people would never tolerate such an outcome. India's natural and human resources entitle us to think in terms of becoming a major powerhouse of the world economy. Our reforms are inspired precisely by this vision.

6. The policy initiatives we have taken do not in any way reduce our commitment to take care of the poor and the disadvantaged. On the contrary, we have taken steps to minimise the burden of adjustment on the poor and working classes. We have disproved those professional prophets of gloom who were predicting millions of people becoming unemployed.

7. When we embarked on this path, we knew that the benefit of our policies would only be seen after three to four years. Patience is therefore essential. Nevertheless, Honourable Members can take comfort that the early results are certainly encouraging. Inflation is down and production is beginning to recover. Fears of being swamped by imports as a consequence of liberalisation have proved to be grossly exaggerated. Despite the virtual removal of import licensing in 1992-93, total imports in 1992-93 in U.S. dollars are likely to be lower than in 1990-91. Although the rupee has been floated for most current account transactions, the market exchange rate has remained relatively stable. The investment climate has improved considerably. Corporate capital issues by non-Government public limited companies in April-October, 1992 were 67 percent higher than in the same period of the previous year. Loans sanctioned by financial institutions in the first ten months of 1992-93 were 49 percent higher than in the same period of the previous year. Foreign investors are showing active interest in investment in many sectors, including critical infrastructure sectors such as power and petroleum. Since August 1991 the approvals given for foreign investment proposals up to the end of January amount to an equity investment of $2.3 billion. These are of course only approvals at this stage and actual flows will take time to materialise, but they certainly indicate a substantial potential for larger investment inflows in the future.

8. Nevertheless, there is no room for complacency. Fiscal imbalances are still large. The efficiency and resource generating capacity of public sector enterprises are still very inadequate. Inflationary expectations have not yet been purged from the system and inflationary pressure could easily build up again if fiscal discipline is relaxed. The economy is still vulnerable to external shocks and loss of confidence. The riots and disturbances in December and January have also taken their toll, by disrupting domestic production and exports and by casting doubts about the stability of our polity and society and our determination to persevere with the difficult task of economic reform. We can ill afford such doubts.

9. The priorities for economic policy, at this critical stage of our economic restructuring, are very clear:

—We must continue with the fiscal correction to ensure that inflationary expectations are effectively curbed; to this end, the fiscal deficit both at the Centre and in the States must be further reduced as a percentage of GDP.

—The room for fiscal manoeuvre gained by restraining expenditure over the past two years must be used to give a strong fillip to development expenditure in

1993-94, especially for programmes of poverty alleviation, rural development and the vital social services such as education and health.

—The hesitant industrial recovery must be converted into a strong revival in 1993-94, which can then be followed by a vigorous boom in the last three years of the Eighth Plan.

—We must make further progress with our announced strategy of tax reform, moving to a simpler tax system, with moderate rates and much greater focus on compliance.

—We must ensure that our economic strategy gives full support to agriculture on which the livelihood and well being of the majority of our people depend, and also to agro-processing industries, which have a tremendous potential for increasing employment and income in rural areas.

—Finally, exports must be made a truly high priority national endeavour so that we can move as quickly as possible to managing the balance of payments without the need for continued exceptional financing from abroad. This is the only meaningful route to self-reliance.

10. The expenditure and tax proposals for 1993-94, which I will be presenting shortly, have been tailored to meet these objectives.

11. Adequate availability of credit at reasonable rates of interest will be crucial in converting this year's weak industrial recovery into a strong revival next year. One factor behind the inadequacy of credit for the commercial sector is the pre-emption of a large proportion of banks' resources by the government at below-market rates of interest through the Statutory Liquidity Ratio (SLR). In 1992-93 we began the process of reducing the SLR in order to release a larger volume of resources for commercial lending. Our objective is to reduce the SLR further from an effective average level of about 36 percent at present to about 25 percent over the next 3 years. The precise phasing of the reduction will be announced by Reserve Bank of India, taking into account the emerging aggregate monetary and credit situation.

12. The reduction in inflation achieved thus far justifies a reduction in interest rates. Accordingly, the Reserve Bank of India is separately notifying a reduction in the maximum interest rate on bank deposits from 12 percent to 11 percent. Simultaneously, the minimum lending rate of 18 percent on commercial advances is being lowered to 17 percent. It is my expectation that the lowering of interest rates will help the economic recovery in the coming year. As inflation abates, there will be scope for further reduction in interest rates.

13. No economic strategy can succeed in our country which does not recognise the central role of agriculture in supporting broad-based and equitable development. The government is firmly committed to ensuring that agriculture, agro-processing and rural development are given top priority in the design of economic policy.

14. A major instrument for encouraging agricultural production and making it profitable is the assurance of remunerative prices to the farmers. Procurement prices for the last kharif crop and the forthcoming rabi have been handsomely raised to ensure that farmers are compensated for increases in the cost of inputs. It is also the policy of the Government not to place administrative restrictions on movements of agricultural products within the country. Our farmers must have the full benefit of prices available in the domestic market.

15. Agricultural credit is another critical input for agricultural, and more broadly, rural development. The flow of rural credit from institutional sources is expected to jump from Rs 13,800 crore during 1992-93 to Rs 16,500 crore during 1993-94, an increase of 20 percent. NABARD's [National Bank for Agricultural and Rural Development] investment refinance support to banks will increase by 22 percent from Rs 2,300 crore in the current year to Rs 2,800 crore in 1993-94. Within this total, NABARD has evolved an innovative package of measures to ensure special attention to priority areas. Term loans for minor irrigation will support the sinking of 3.75 lakh wells and installation of 6 lakh pumpsets. The rate of NABARD refinance of bank loans is being increased to 90 per cent in the case of North Eastern States and also of investments in 100 per cent export oriented units in agriculture and allied activities. NABARD will also take up pilot projects for intensive development of rural industries in five selected districts with an outlay of Rs 125 crore. NABARD is setting up a Venture Capital Fund, with an initial corpus of Rs 5 crore, to assist new and innovative investments in farm and non-farm sectors, and a Cooperative Development Fund with an initial corpus of Rs 10 crore to help improve management systems and skills in cooperative banks. In 1993-94, we shall pay special attention to revitalising the agricultural credit system so that it becomes a more effective instrument for increasing capital formation and productivity of agriculture.

16. Our strategy of gradually reducing the high levels of protection to Indian industry, and integrating our economy with the world economy, will clearly help Indian agriculture. It will moderate the high industrial prices which the farmer has to pay. It will also ensure a more competitive exchange rate, at which our agricultural and agro-based exports will be much more profitable. I venture to suggest to Honourable Members that in the medium run, these changes will be far more significant in favouring agricultural producers than any programme of special subsidies could ever be.

17. In my Budget speech last year I had indicated that the Government intended to implement the recommendations of the Narasimham Committee on financial sector reform in stages. The securities scam which was discovered in April 1992 has revealed certain weaknesses

which add urgency to the need for financial sector reform. A major reform initiated last year was the introduction of new norms for income recognition, and provisioning for bad debts and the prescription of new capital adequacy requirements in line with internationally accepted Basle Committee norms. The new norms will ensure that the books of the banks will reflect their financial position more accurately and in accordance with internationally accepted accounting practices. These changes will improve our ability to evaluate the performance of the banks and will also make for more effective bank supervision.

18. Because of the new norms, however, banks will have to make large provisions amounting to over Rs 10,000 crore for bad and doubtful advances in their portfolios. As the provisioning norms are being introduced in two stages, the first impact will be felt in the year ending 31 March 1993, with a further impact next year. The resulting losses will eat into the capital of the banks, which is already inadequate given the new capital adequacy norms. In order to protect the viability and financial health of the Indian banking system I am making provision for a large capital contribution of Rs 5,700 crore to the nationalised banks in 1993-94 to meet the gap created by the application of the first stage of the provisioning norms. There will be no immediate net outgo from the budget, as the Government's contribution is in the form of Government bonds; but the interest payment on these bonds, and their ultimate redemption will be a real burden on the budget in future. This is the price we have to pay for having long tolerated management practices in the banks and types of lending which paid inadequate attention to portfolio quality and recoveries. I may add that while undertaking such a large injection of capital into the banks, specific commitments will be required from each bank to ensure that their future management practices ensure a high level of portfolio quality so that the earlier problem does not recur.

19. Even this large injection of capital will only solve the immediate problem. Additional losses will arise because of the second stage of provisioning next year. Besides, the capital adequacy requirements are also being introduced in a phased manner and there will be additional capital needs on this accounts in 1994-95 and 1995-96. This burden cannot be borne entirely by the budget without eating into scarce resources which are desperately needed for development, especially in the rural areas. Government has, therefore, decided that the State Bank of India, as well as other nationalised banks which are in a position to do so, will be allowed to access the capital markets to raise fresh equity to meet their shortfall in capital requirements over the next three years. The additional capital thus mobilised will help our banks to expand their lending which would otherwise be constrained by capital inadequacy. Government will, continue to retain majority ownership, and therefore effective control, in the public sector banks. Necessary legislation to give effect to this decision will be introduced later in the year.

20. If banks are to make provisions for bad debts, they must also be able to realise the security on their bad debts. At present the legal process for realising bank dues is tortuous, and cases take several years in the courts. Government has, therefore, decided to set up Special Tribunals to expedite legal action by the banks to enforce recoveries. Legislation to this effect will be introduced in the course of the year.

21. The securities scam has also revealed weaknesses in the existing system of supervision of banks. Following the recommendations of the Narasimham Committee, Reserve Bank of India has decided to strengthen its supervisory arrangements by setting up a separate Board for Financial Supervision within the Reserve Bank.

22. Parallel with reforms in the banking system we are vigorously pursuing reforms in the capital markets. We must ensure that trading and settlement take place with speed and transparency under appropriate rules and regulations designed to ensure investor protection. The Securities and Exchange Board of India [SEBI], which was given statutory status and powers twelve months ago, has been entrusted with the task of bringing about this transition. As promised in my last Budget speech, the office of the Controller of Capital Issues in the Ministry of Finance has been abolished, and almost all powers under the Securities Contract (Regulations) Act have been delegated or transferred to SEBI.

23. Several important steps have been taken in the current year to reform the capital market. Rules and regulations have been notified to deal with insider trading, the operation of mutual funds, registration of brokers, merchant bankers and other intermediaries. The scheme for allowing Foreign Institutional Investors to invest in the capital markets announced in my last Budget speech has been implemented and a number of approvals given. Several private sector mutual funds have recently been given clearances by SEBI. A company has been incorporated for the establishment of a National Stock Exchange which is expected to operate as a model stock exchange with member brokers all over the country trading in the exchange through modern telecommunication facilities. Proposals are also being considered for the establishment of a centralised depository with a National Clearance and Settlement System.

24. We are determined to ensure that further reforms of the capital market are implemented in the course of 1993-94 so that the capital market can mobilise large funds for investment. On the basis of experience gained, the Government has decided to amend the Securities and Exchange Board of India Act to give SEBI additional powers in order to increase its effectiveness.

25. With reforms underway in the banking sector and in the capital markets, it is necessary to address the need for similar reforms in the insurance industry aimed at introducing a more competitive environment subject to suitable regulation and supervision. I propose to appoint

a High Powered Committee to go into these issues in depth and submit its recommendations within six months.

26. In my Budget speech last year, I announced the introduction of a new system of exchange rate management under which a dual exchange rate regime was introduced, and import licensing was eliminated on most items of capital goods, raw materials, intermediates and components. These items became freely importable against foreign exchange purchased in the market. The system has worked fairly well and the market exchange rate has been remarkably stable. The existence of a dual rate, however, hurts exporters and other foreign exchange earners who have to surrender 40 percent of their earnings at the official rate, getting the benefit of the higher market rate on 60 percent. Many exporters have said that this amounts to a tax on exporters of goods and services whose continuation cannot be justified at a time when exports must receive our fullest support. There is merit in this point of view, and the experience of the past year gives ground for confidence that we can unify the exchange rate and still manage the balance of payments with a reasonable degree of stability in the exchange rate. The Government has therefore decided to eliminate the dual rate arrangement. All exporters, as well as other foreign exchange earners such as our workers abroad, will henceforth be allowed to convert 100 percent of their earnings at the market rate. All imports will also henceforth have to be paid for at the market rate. The details of the new system are being notified separately by Reserve Bank of India. I expect that this will give a major boost to exports, and will further encourage foreign exchange flows into official channels.

27. Several other steps are also being taken to stimulate exports. The Commerce Ministry is reviewing the list of items whose exports are subject to one or other restriction with a view to removing as many restrictions as possible. Reserve Bank of India is taking steps to ensure that adequate credit will be available for exports. Banks have already been asked to ensure that export credit amounts to at least 10 percent of their total advances. The interest rate on rupee export credit is being reduced by one percentage point. As a further measure of support for exports, the interest tax will be waived in the case of export credit from banks. I will have more to say on incentives for exporters when I come to the tax proposals in the Budget.

28. A new policy towards foreign investment has been an integral part of our strategy of modernising the economy, and establishing global linkages which will be of critical importance in the emerging world economy. I have already mentioned that the initiatives taken in this area thus far have yielded encouraging results. I have no doubt that as our reforms proceed and gain momentum, we can expect to attract a substantial share of the private investment that is presently flowing to many developing countries in Asia. The Government has signed the Multilateral Investment Guarantee Agency (MIGA) convention and we expect to join MIGA formally as soon as membership procedures are completed. Several countries, including the U.K., Germany and the United States, have expressed an interest in signing bilateral investment treaties. The Government has indicated a willingness to enter into bilateral negotiations on this issue.

29. Industrial modernisation, and especially the creation of internationally competitive industries, requires a massive expansion of and qualitative improvement in infrastructure. This is especially true of power generation, telecommunications and roads. Traditionally, these areas have been the preserve of the public sector. Substantial expansion of public investment in these areas is certainly necessary. However, the needs of the country are far beyond the capacity of the public sector to deliver in a reasonable time frame. The Government has, therefore, adopted a policy of encouraging private sector involvement and participation in these areas to supplement the efforts being made by the public sector. In order to attract such investment it will be necessary to make changes in policies, procedures and the regulatory framework in these sectors. The Government proposes to make such changes as the need arises.

30. Over the past two years, we have taken several steps to remove unnecessary bureaucratic interference in economic activity in order to create an environment in which the energies of our people can be harnessed to maximise innovation, production and growth. However, I am constantly told that despite liberalisation at the policy level, our procedures in many areas remain archaic and cumbersome. Many of our laws also need thorough review to bring them in line with the emerging economic environment. The Government has therefore decided that a special review group will be constituted in each Ministry to make a review of existing laws and procedures to identify changes needed in the light of the new policies. I hope the State Governments which have a crucial role to play in promoting development and investment in the new environment will also take similar steps at their end.

31. Let me now turn to the revised estimates for 1992-93.

32. We have tried to maintain strict control over expenditure, but certain increases over the Budget estimates were unavoidable. An additional provision of Rs 1,500 crore has to be made for food, fertiliser and export subsidies. The additional requirement of food subsidy is because of the delay in increasing issue prices to absorb the impact of higher procurement prices. The higher provision for export subsidy is because of settlement of claims in the pipeline for cash compensatory support and continuance of benefits for deemed exports. In respect of fertilisers the increase is due to the reduction in prices of urea and higher input costs. In addition, I have provided Rs 340 crore as one-time assistance to farmers for purchase of fertilisers whose prices were

decontrolled. Ministry of Home Affairs has to be provided additional funds for meeting security-related expenditure in the wake of disturbed conditions in certain parts of the country. While an assessment of the actual requirements is being made, I have for the present included in the Revised Estimates an additional provision of Rs 285 crore. If a further provision becomes inescapable, we shall come to the House for the necessary Supplementary Grants. These and other increases have been offset by a reduction of Rs 1,300 crore in the requirements for loans to States against small savings collections. The decline in small savings collections has been a matter of concern and Government has taken measures to improve the rate of return to the investors. As a consequence, the collections have shown an uptrend in recent months. As a result of all these developments, total non-plan expenditure is higher by Rs 3,278 crore as compared with the budget estimates.

33. On the plan side, there is an increase in budgetary support for the Central Plan for certain sectors. An additional provision of Rs 630 crore is being made for the National Renewal Fund [NRF], which is a key element in our strategy for economic reforms. Similarly an additional provision of Rs 250 crore has been made for strengthening schemes in the social sectors such as Health and Family Welfare. The provision for Rural Development is being augmented by Rs 500 crore.

34. Central assistance to State and Union Territory Plans is being augmented by Rs 1,228 crore mainly for externally aided projects where the pace of implementation justifies an allocation larger than in the Budget Estimates.

35. Taking Plan and non-Plan expenditures together, the total provision in the Revised Estimates is Rs 1,24,726 crore against Rs 1,19,087 crore in the Budget Estimates.

36. Against these additional expenditures, revenue receipts have also been higher because of better collections and higher royalty on offshore crude oil. Capital receipts under market loans and small savings receipts are lower than in the Budget Estimates; but this offset by the higher receipts from 364-days treasury bills, which is a new instrument designed to develop a market for Government securities.

37. The total receipts in the Revised Estimates are Rs 1,17,524 crore compared to Rs 1,13,698 crore in the Budget Estimates. The Budget deficit is estimated at Rs 7,202 crore and the fiscal deficit for the year is now placed at Rs 36,722 crore. These figures are somewhat higher than envisaged in the Budget Estimates but within tolerable limits for macro-economic stability.

38. I now turn to the Budget Estimates for 1993-94.

39. The resource constraints facing us last year imposed a tight leash on the development programmes we could finance in 1992-93. The total size of the Central Plan in 1992-93 (BE) was only 12.6 percent higher than in the previous year. With the improvement in the fiscal situation achieved in the course of 1992-93, and the modernation in inflation, we are now in a position to give a boost to the Plan, while ensuring continued improvement in the fiscal deficit. Accordingly, the Central Plan outlay for 1993-94 has been fixed at Rs 63,936 crore which is almost 32 percent higher than the figure of Rs 48,407 crore in 1992-93.

40. The Central Plan will be financed to the extent of Rs 23,241 crore from budget support which is almost 26 percent higher than the budget support of Rs 18,501 crore in 1992-93. The balance of the Central Plan outlay of Rs 40,695 crore will be met from internal and extra-budgetary resources compared with Rs 29,906 crore in 1992-93, representing a step-up of 36 percent. I am providing Rs 18,010 crore for Central assistance for States and UT [United Territories] Plans in 1993-94 compared to Rs 16,111 crore in 1992-93. The total budgetary support from the Central Government Budget to the Central and State Plans increases by almost 19 percent from Rs 34,612 crore in 1992-93 to Rs 41,251 crore in 1993-94.

41. The large increase in budget support for the Plan has enabled a substantial step-up in Central Plan programmes in the social sectors and rural development which depend upon budgetary resources. The outlay for the Department of Rural Development next year has been enhanced by a massive 62 percent to Rs 5,010 crore. Both employment generation and capital formation in rural areas will receive a major boost. The allocation for the Jawahar Rojgar Yojanas [JRY] being increased to Rs 3,306 crore compared with the current year's level of Rs 2,046 crore. This is aimed at creating 1100 million mandays of employment. It is proposed to train 3.5 lakh young persons in rural areas under the Training of Rural Youth for Self Employment (TRYSEM) programme. For the rural water supply programme, the provision has been increased substantially from Rs 460 crore in 1992-93 to Rs 740 crore next year. Higher allocations have also been provided for the Integrated Rural Development Programme. The programmes of decentralised planning and development will receive a massive stimulus as a result of the strengthening of Panchayati Raj institutions as envisaged in the Constitution (72nd Amendment) Bill, 1991.

42. The development of human resources is given high priority in the Eighth Plan; Hon'ble Members are also aware that education is an area which is very close to my heart. I am, therefore, particularly happy to announce that the outlay for education is being increased from Rs 952 crore to Rs 1,310 crore, which is step up of 37.6 percent. Universal provision of primary education and adult literacy of satisfactory quality, particularly for girls and women, is a pre-requisite for the modernisation of the economy and the society. I am happy to inform Honourable Members that our total literacy campaigns are breaking new grounds, and are now being implemented in 182 districts covering approximately 430 lakh adult learners. A new scheme is being launched for the

improvement of primary education in educationally backward districts and in districts where the total literacy campaigns have been successful, leading to an enhanced demand for primary education. In these districts, districts specific and population specific plans for achieving universalisation of elementary education are being prepared. Twenty to twenty-five districts out of about 200 educationally backward districts where female literacy is below national average, will be taken up for preparation of districts plans in 1993-94. In the sphere of higher and technical education, modernisation and upgradation would receive high priority. Keeping in view the aspirations of the North-Eastern region, the government has decided to set-up a university in Nagaland and an Indian Institute of Technology in Assam.

43. For Health, the provision is Rs 483 crore, which is 60 percent higher than the level of Rs. 302 crore in the current year's Budget. A major part of the provision will be for national programmes for control of communicable and other diseases. The Family Welfare programme is of overriding national importance; the provision under this head is being stepped up from Rs. 1,000 crore for the current year to Rs. 1,270 crore for the next year. A programme to improve the quality of family planning services in Uttar Pradesh is being launched at a cost of US $325 million, with assistance from USAID. In addition, with the aim of reducing maternal mortality, under the Social Safety Net Scheme, assistance will be provided for improvement of infrastructure at Primary Health Centres in 90 demographically backward districts.

44. The National Commission for Women set up last year is looking into various important issues relating to women. For the integrated child development services the provision is Rs. 474 crore compared to Rs. 360 crore in the current year. This will enable us to strengthen the infrastructure set up of the scheme. The provision for the Ministry of Welfare has been increased from Rs. 530 crore to rs. 630 crore. This includes Rs. 73 crore for the liberation and rehabilitation of Safai Karmcharis. A provision of Rs. 247 crore has been made for special Central assistance for Scheduled Castes component plan. The operations of the National Scheduled Castes Finance and Development Corporation and the National Backward Classes Finance and Development Corporation will be further expanded.

45. The Government regards agriculture as a sector of prime importance for the national economy. The budgetary allocation for the plan schemes of the Ministry of Agriculture including Animal Husbandry and Dairying is being increased by 36 percent from Rs. 1,408 crore to Rs. 1,918 crore. In addition, the bulk of the outlay on agriculture is in the State Plans.

46. The requirements of the infrastructure sectors such as Petroleum and Natural Gas, Power, Telecommunications, Railways and Transport have also not been neglected. Investment programmes in these sectors are implemented through public enterprises or departmentally run commercial undertakings and these organisations are expected to finance their plan outlay through their internal and extra budgetary resources. The plan outlay for Petroleum and Natural Gas has been nearly doubled to Rs. 12,114 crore from the current year's level of Rs. 6,208 crore. The outlay for Power has been increased by 22 percent from Rs. 5,167 crore in the current year to Rs. 6,269 crore. The outlay for Roads has been stepped up from Rs. 464 crore to Rs. 593 crore. The outlay for Chemicals and Petro-Chemicals has also been stepped up from Rs. 763 crore to Rs. 1,206 crore. The Plan outlay for the Railways has been increased from Rs. 5,700 crore to Rs. 6,900 crore including Rs. 400 crore for the Konkan Railway Corporation Ltd.

47. Turning to non-Plan expenditure, I would like to draw the attention of the House of the tremendous burden of interest payments. The provision for 1993-94 is Rs. 38,000 crore compared with Rs. 32,500 crore in the current year. The high interest burden is due to rising volume of government debt, which itself, reflects the large fiscal deficits, incurred year after year. However, with the reduction in the fiscal deficit and hence in the Government's borrowings, the growth of this item is expected to decelerate sharply by 1995-96.

48. For Defence expenditure the provision has been increased from Rs. 17,500 crore in the current year to Rs. 19,180 crore next year. The requirements on account of fertilisers and export subsidies will be significantly lower reflecting the impact of the measures already taken to rationalise these subsidies. The expenditure on the Farm Loan Waiver scheme will be Rs. 500 crore; with this, the Government's commitment for payment under the scheme will be fulfilled. I am providing Rs. 3,000 crore for food subsidy as against Rs. 2,800 crore in the current year. It will be the endeavour of the Government to keep the burden of food subsidy at a reasonable level and to ensure at the same time that the vulnerable sections of society are fully protected. Excluding the expenditure on interest, the provision for another non-plan expenditure in 1993-94 is about Rs. 3,180 crore lower than the Revised Estimates for the current year. As in previous years, no separate provision is being made for additional dearness allowance which may become payable next year. The additional expenditure on this account will have to be absorbed by all Ministries within the approved budget provision.

49. Coming to receipts, gross tax revenues at the existing level of taxation are estimated at Rs. 89,389 crore compared to Rs. 78,782 crore in the current year. States' share of taxes next year is estimated at Rs. 22,590 crore as against Rs. 20,505 crore in the current year's Revised Estimates. I am taking a credit of Rs. 3,700 crore for market borrowings as against the current year's level of Rs. 3,670 crore. External assistance, net of repayments, is estimated at Rs. 6,819 crore as against Rs. 5,374 crore in the current year. Net small savings collections next year are estimated to reach the current year's level of Rs. 5,500 crore despite heavy maturities falling due next

year. As in the current year's Revised Estimates, I am taking credit of Rs. 3,500 crore for receipts from disinvestment of equity in public enterprises. Total receipts at the existing levels of taxation are estimated at Rs. 130,990 crore and total expenditure at Rs. 131,323 crore leaving a gap of Rs. 333 crore.

Part B

50. I now turn to the tax proposals for 1993-94.

51. In framing these proposals I have been acutely conscious of the conflicting requirements of comprehensive reform of the tax structure on the one hand, and the need to protect revenues to finance the large increase in the Plan, on the other. Last year significant reforms were made in personal income taxation based on the recommendations of the Chelliah Committee. Reform of corporate taxation was deferred until the detailed recommendations of the Chelliah Committee were received. These have since been received. The Committee has also recently submitted its final report on indirect taxes, recommending significant reduction in customs duties as well as rationalisation and simplification of excise duties.

52. I accept the broad thrust of the Chelliah Committee's recommendations on both direct and indirect taxes. We must move as rapidly as possible to a regime of moderate tax rates in direct taxation, which will encourage better compliance especially if supplemented by efforts at broadening of the tax base. We must also move to a regime of low to moderate customs duties which is essential for efficient and competitive industrialisation. Our excise duties should also be simplified with fewer rates and our long term aim should be to move to a Value Added Tax System. However, a nationwide value added tax system cannot be introduced overnight. There has to be a broad agreement among the Centre and the States on the design of such system. In order to promote informed discussion and debate, I am requesting the National Institute of Public Finance and Policy to prepare the design of a possible value added tax system.

53. Although all the major recommendations of the Chelliah Committee are important, they cannot be implemented immediately for the simple reason that tax reform, which typically involves lower tax rates collected on a broader base, often involves a loss of revenue in the short run. Fiscal experts tell us that the loss of revenue will be made up in the medium term, but there is no guarantee that this will happen immediately, and Finance Ministers have to look after the short term if they want to survive in the medium term. I hope the House will agree with me that a phased transition is needed.

54. A key issue in phasing the transition is whether to do a little on all fronts or to make decisive changes in certain areas, with a clear declaration of progress to be made in other areas in future. I have thought over this matter carefully and I feel that decisive action in critical areas is more important than marginal improvements on all fronts. The most critical area for action at present is customs duties. Despite the adjustments in customs duties in the last two budgets, our duties are still much higher than in most of our competitor countries, especially on capital goods. With these duties, and the resulting high capital costs, our producers will never be able to compete in world markets. Nor can we expect new investment, both domestic and foreign, to flow into areas with export markets in view, if high customs duties make them uncompetitive. Yet it is such investments that we need most at present if we want to reduce our dependence on external assistance. We cannot and must not continue with the approach of setting up industries aimed solely at the domestic market in the belief that replacing imports ipso facto contributes to self reliance, without considering at what cost we are effecting the replacement. In fact, replacement at unduly high cost contributes to inefficient industrialisation, an inability to export and a permanent dependence on external assistance. We must take a bold initiative in this area while taking due care to protect the legitimate concerns of our industry. Normally, the revenue loss from customs duty reduction could have been made up through higher excise duties. However, there are compelling reasons for rationalising and reducing excise duties over a wide range of industries because many of our duties are too high and parts of industry are also suffering from recessionary conditions.

55. In these circumstances, Hon'ble Members will appreciate that I have limited room for manoeuvre in the area of direct taxes. Major reform of the corporate tax structure, along the lines recommended by the Chelliah Committee is undoubtedly desirable. However, for the reasons indicated, it will have to be postponed to the next year.

56. I would like, however, to give a stimulus to new investment in those States in which all the districts are industrially backward. Accordingly, I propose to give a five-year tax holiday, commencing from the year of production, for new industrial undertakings located in all the North-Eastern States, Jammu & Kashmir, Himachal Pradesh, Sikkim, Goa and Union Territories of the Andaman and Nicobar Islands, Dadra and Nagar Haveli, Daman and Diu, Lakshadweep and Pondicherry.

57. Electricity is a critical input for the future growth of our economy. I therefore propose to introduce a five-year tax holiday in respect of profits and gains of new industrial undertakings set up anywhere in India for either generation or generation and distribution of power. The five-year tax holiday will begin from the year of generation of power.

58. The five-year tax holiday, in both these cases, will be part of section 80-IA of the Income-tax Act. At the end of the five-year period, these units will be entitled to the existing deduction under section 80-IA for the remaining period.

59. To promote a cleaner and healthier environment, I propose to allow depreciation admissible on plant and machinery relating to environment protection and pollution control at 100 percent, instead of the existing 40 percent, of capital cost under the Income-tax Rules.

60. Hitherto, our institutions of higher learning have been almost entirely dependent on Government funds. As government funds are limited, we must find ways of funding these institutions from industry. This will also bring them closer to industry and more responsive to its needs. I, therefore, propose to raise the income tax deduction given to contributions to approved universities, institutes of technology, institutes of management and equivalent institutions from 50 percent at present to 100 percent.

61. A strong science and technology base is an essential prerequisite for a modern, progressive economy. Indian scientists and technologists have proved, time and again, that they are second to none in the world, given the right work atmosphere, proper motivation and adequate facilities. Indian industry needs to spend a lot more on research and development. In doing so, I would encourage industry to make use of the facilities offered by our national laboratories and research institutes. To that end, I propose to introduce a weighted deduction of 125 percent, of the contribution out of income from business or profession for research programmes in approved national laboratories and institutions carrying out research and development in natural and applied sciences. This weighted deduction will be available only for research programmes determined by the users and the producers of research, and approved by the prescribed authority.

62. I propose to extend the five-year tax holiday under section 10A of the Income-tax Act, at present available to units set up in the Free Trade Zones, to units set up in Software Technology Parks and Electronic Hardware Technology Parks. In July, 1991, I had introduced a 100 percent, deduction for three years in respect of income derived from export of software. Software exports have done well and I propose to extend the concession for one more year i.e., for assessment year 1994-95.

63. Under the scheme for permitting Foreign Institutional Investors in our capital market, we had indicated that such investors would be liable to tax at 20 percent, on investment income and 10 percent, on long term capital gains. I also propose to extend a concessional rate of tax of 30 percent, in respect of short term capital gains for such investors.

64. As I have already mentioned, a substantial reform of personal taxation was carried out last year based on the recommendations of the Chelliah Committee.

I propose to leave the rate structure and exemption limit unchanged and make only a few modifications.

65. Last year, because of severe resource constraints, I was compelled to retain the surcharge on personal income above Rs 1 lakh at 12 percent. I had hoped to be able to remove the surcharge in the current year but I am constrined to continue with it for one more year. However, I propose to raise the standard deduction from salary income from Rs 12,000 to Rs 15,000 and the standard deduction for working women with incomes up to Rs 75,000 from Rs 15,000 to Rs 18,000.

66. In recognition of the hardship to old people in these days of inflation, I had given a tax rebate of 10 percent last year to senior citizens whose gross total income is below Rs 50,000. I propose to raise the tax rebate to 20 percent and further increase the income limit from Rs 50,000 to Rs 75,000.

67. Last year, I had announced that a scheme for giving Advance Rulings in respect of transactions involving non-residents would be worked out. The scheme has been drawn up and I am bringing forward legislative proposals for the creation of a statutory authority, headed by a retired Judge of the Supreme Court. I do hope that the scheme will be welcomed by non-residents.

68. I propose to extend the simplified scheme of presumptive taxation introduced last year to small road transport operators operating, hiring or leasing one transport vehicle.

69. Payments made under Voluntary Retirement Schemes to public sector employees were fully exempt from income tax, last year I extended this exemption to private sector employees. I propose now to extend this facility to employees of statutory authorities and local authorities.

70. Recognising the trauma of bringing up a handicapped child, I had, last year increased the deduction permissible for guardians of handicapped dependants under the income-tax law from Rs 6000 to Rs 12000. I now propose to further raise this deduction to Rs 15000. I also propose to allow a deduction in respect of income of handicapped minors clubbed with the income of their parent to the full extent of the child's income up to a maximum of Rs 20,000.

71. In my first Budget Speech in July, 1991, I had proposed the setting up of the National Foundation for Communal Harmony to provide assistance to the children of families affected by communal riots. The Foundation has since been established under the aegis of the Home Ministry. I now propose to extend the benefit of 100 percent deduction under section 80G of the Income-tax Act in respect of donations made to the Foundation. I also propose to exempt the income of the National Foundation for Communal Harmony fully from income tax.

72. At present, charitable trusts and institutions have to seek approval every three years from the Commissioner of Income-tax in order that donations to them are eligible for tax exemption. To reduce paper work and

simplify the procedure, I propose to increase the maximum period of approval by the Commissioner to five assessment years.

73. I would like to see India gain prominence, not only in the global economy, but also in the world of sports. There are provisions in the Income-tax Act to allow exemption in respect of income of approved sports associations or institutions and to grant 50 percent deduction in respect of donations made to them. I propose to amend the Rules relating to eligible projects or schemes under section 35AC of the Act to include promotion of sports in such activities. This would provide 100 percent deduction in respect of spending on approved sports projects and schemes.

74. Last year, I had proposed the setting up of a National Court of Direct Taxes for expeditious settlement of litigation in direct tax matters. The proposal has been examined in detail and I hope soon to bring forward legislation in this regard. In regard to a Direct Taxes Code, the Government will take a final view, taking into account the recommendations of the Chelliah Committee on the subject.

75. The Wealth-tax Act was considerably recast last year and the basis of taxation was shifted from wealth to unproductive assets. There has been persistent demand that a residential dwelling is a universal necessity and should not be subjected to wealth-tax. Hence, I propose to exempt the value of one residential house or part thereof from the levy of wealth-tax.

76. Last year, I had exempted residential houses, motor cars, etc., held as stock-in-trade from the levy of wealth-tax. I now propose to exempt urban land held as stock-in-trade. However, to discourage speculation in the guise of stock-holding, I propose to restrict the exemption to three years beginning from the year in which the land is acquired.

77. The exemption limit for purposes of gift-tax was fixed at RS 20,000 some years ago. I agree with the recommendations of the Tax Reforms Committee that this limit needs to be revised and, therefore, propose to raise it to Rs 30,000.

78. Gifts made by a person to any dependant relative in respect of marriage of the relative is exempt from gift-tax only up to Rs 10,000, whereas vast expenditures on ostentatious marriages go scot-free. In order to encourage savings and productive investment, I propose to raise the exemption limit at the time of the marriage of a dependant relative from Rs 10,000 to Rs 30,000.

79. As an incentive to the export drive which has to be kept up at all costs, I propose to exempt all banking companies from the levy of Interest-tax on export credit provided by them.

80. The various changes that I have proposed would result in a loss of Rs 300 crore of which the States' share would be Rs 194 crore. The amount involved is very small—less than 2 percent of the gross direct tax collections. I am ignoring it in the expectation that better tax collection would cover this loss.

81. I now turn to the proposals relating to indirect taxes.

82. Since 1973, we have been levying a separate auxiliary duty in addition to the basic customs duty. In order to simplify the tariff structure and the assessment process, I propose to do away with the separate auxiliary duty and merge it with the basic duty.

83. Our first priority in restructuring customs duty should be in the area of capital goods and project imports since these duties affect the incentives for new investment. Last year the duty on projects and general machinery was brought down from 80 percent to 55 percent. This is still too high compared with rates in competitor countries and a further reduction is necessary. I, therefore, propose to lower the import duty on projects and general machinery to 35 percent. Projects in certain priority sectors such as, power, coal mining and petroleum refining currently attract a duty rate of 30 percent. I propose to reduce the rate to 25 percent in the case of coal mining and petroleum refining. In view of the special importance of the power sector, the duty on power projects is being reduced to 20 percent and this rate is also being extended to machinery required for modernisation and renovation of power plants.

84. The House can rest assured that in restructuring duties on capital goods, I have made every effort to protect the legitimate interests of domestic capital goods industry. We have had extensive discussions with various Ministries as well as representatives of concerned industries. In order to ensure that lower duties on imported machinery do not hurt the domestic capital goods industry, it is necessary to lower the import duty on components, to enable our manufacturers to compete effectively. I, therefore, propose to reduce to 25 percent the duty on components of general machinery which presently is either 40 percent or 35 percent. In order, however, to ensure that domestic industries producing such components are not adversely affected, I propose to impose countervailing duty on such components at 10 percent with full facility of set-off under MODVAT [Modified Value Added Tax].

85. At present there are a number of other capital goods, including various types of machine tools, which attract different rates of duty in the range of 60 percent to 110 percent. There are also instruments which attract duties varying from 40 percent to 110 percent. I propose to rationalise this structure into three duty rate slots, viz., 40 percent, 60 percent and 80 percent. The rationalisation involves generally a duty reduction between 20 to 30 percentage points. Consequential reduction is being made in the rates of duty on specified parts and components.

86. Hand-operated tools are capital goods for artisans and skilled workers and currently attract duties varying

from 40 percent to 110 percent. I propose to prescribe a uniform rate of 40 percent for all these tools.

87. The logic of reducing duties on capital goods requires lowering of duties on metals and metal goods as well, as these are the basic raw materials of the domestic capital goods industry. Accordingly, to help domestic producers, I propose to lower the customs duty rates on ferrous metals by 10 to 20 percentage points in most cases. In line with these changes the import duty on steel scrap is being refixed at 15 percent. The import duty on specified refractory raw materials is being reduced to 30 percent. Turning to non-ferrous metals, I propose to reduce the duty rates by 10 to 55 percentage points in most cases. The resulting rates on unwrought and unalloyed forms will vary from 25 percent to 50 percent and on wrought forms from 70 percent to 80 percent.

88. The duty structure for chemicals is characterised by a multiplicity of rates and many irrationalities. Input duties are often out of line with duties on finished products. I, therefore, propose to restructure the duty rates on chemicals with a view to significantly lowering duty rates at the upper end and also ensuring that the duty rates on impetus are not generally higher than the duty on end products. The present duty rates on basic feed-stocks such as, ethylene, propylene, butadiene, benzene, styrene and ethylene dichloride vary between 25 percent and 80 percent. These rates are being replaced by a uniform low duty rate of 15 percent. The duties on xylenes, paraxylene, toluene, acrylonitrile and cumene are being reduced to 40 percent. The duties on DMT, PTA and MEG which represent a higher stage of production, are being reduced and unified at 70 percent. In the case of caprolactum, however, the duty is being increased from 50 percent to 60 percent, in order to adequately protect the interests of the domestic units.

89. The electronics industry has the potential of becoming a world class industry contributing to our export effort and to employment generation. I propose to take up this challenge. The rates of duty on project imports and on specified capital goods for electronics attract duty at either 30 percent or 50 percent at present. I propose to reduce these rates to a uniform rate of 25 percent. The import duties on raw materials, piece-parts and components at present are levied at 40 percent, 60 percent and 80 percent. Thes rates are being reduced to 20 percent, 35 percent and 50 percent, respectively. The import duty on specified raw materials for the manufacture of optical fibre cables is being drastically reduced from 90 percent to 20 percent in recognition of the urgency of extending and modernising the telecom sector.

90. In order to strengthen our export capability in existing export-thrust areas such as textiles, leather, marine products, gems and jewellery, etc., where we have a comparative advantage, I propose to reduce the import duty on specified capital goods for these sectors from 40 percent to 25 percent. In addition, certain recommendations have been made by the Groups on Extreme Focus items for export for augmenting the export potential of certain sectors such as food processing, horticulture and floricultural industries. Accordingly, the import duty on specified items for these sectors is being reduced to 25 percent.

91. The ship-breaking industry is employment intensive and an important source of raw materials for the secondary sector of our steel industry. In order to encourage the growth of this industry, I propose to prescribe a lower merged duty of customs at 5 percent ad valorem. The ferrous materials obtained from breaking up of such ships, etc., which are presently subject to excise duty are being fully exempted.

92. Our film industry is one of the largest in the world in terms of footage of films produced. Although it has achieved this status without much need for incentives, it is now facing greater competition from the electronic media, and deserves some special encouragement. I, therefore, propose to reduce the duties on jumbo rolls of cine positive films from 55 percent to 25 percent and on finished cine film rolls from about 65 percent to 40 percent. I also propose to reduce the duty on negative cine films from about 35 percent to 25 percent.

93. In order to encourage the development of non-conventional energy sources, especially solar energy, the import duty on specified raw materials and items of this industry is being reduced by 15 to 20 percentage points. In respect of wind-operated electricity generators I propose to reduce the import duty from 40 percent to 25 percent.

94. As a gesture of goodwill towards Bangladesh, I propose to fully exempt the famous Jamdanee saris from payment of import duties. Small-scale units, eligible for excise duty exemption for clearances to domestic area are at present required to pay excise duty on goods exported by them to Nepal and Bhutan. I propose to exempt these from this levy. I hope these steps will make a contribution towards improving trade with SAARC [South Asian Association for Regional Cooperation] countries.

95. At present, accredited press cameramen have the facility of importing photographic equipment free of duty up to a limit of Rs 60,000 but no such facility is available to other journalists to import specialised equipment such as, laptop computers, personal computers, fax machines and typewriters. I have often wondered whether this explains why my photographs in the Press are better than the editorial comments! As a measure of my commitment to encourage modern technology in India, journalism and in recognition of the sterling role played by our Pressmen in creating a wider appreciation of issues of economic reform in the country, I propose to allow accredited journalists also a one time facility to import such equipment duty free up to a value of Rs 60,000.

96. The duty rate on certain specified items of baggage was recently reduced from 255 percent to 150 percent.

As a measure of simplification, I propose to reduce the general baggage rate itself from 255 percent to 150 percent.

97. In line with these reductions in import duties for individual sectors, and keeping in mind the present exchange rate, there is scope for reduction in the maximum rate of duty on all goods. Accordingly I propose to reduce the maximum rate from 110 percent to 85 percent except for a few items including passenger baggage and alcoholic beverages.

98. I am aware that Honourable Members will be concerned that lowering of import duties and import liberalisation may put too much pressure on our industry and make it vulnerable to unfair competition and dumping. I would like to assure Honourable Members that these issues have been carefully considered and the proposed changes will not put undue pressure on industry. The change in the exchange rate over the past two years has created considerable room for duty reduction without hurting domestic industry. Besides, I am also reducing duties on raw materials and inputs which will help to reduce cost for our producers, enabling them to compete more effectively. Even with these changes, duties on finished products will be well above the long-term structure recommended by the Chelliah Committee. We can move to that goal in phases over the next few years. As for unfair competition through dumping, our anti-dumping laws are already operational and action under these laws will be taken expeditiously whenever it is needed. I may mention that provisional action has recently been taken in one case.

99. In last year's Budget export duties had been imposed on iron ore and unpolished granite. Certain difficulties faced by these sectors have since been brought to my notice. I, therefore, propose to withdraw the export duty on iron ore and unpolished granite.

100. I turn now to my proposals relating to excise duties. These are guided by the need to simplify the rate structure, to give some relief on articles of mass consumption, help the domestic capital goods industry so as to increase its competitiveness and also reduce capital costs, assist industries suffering from depressed demand conditions, and to provide relief to small-scale industry.

101. A surcharge by way of special excise duty has been levied since 1988, and the rate is currently 15 percent of the basic excise duty. As a measure of simplification, I propose to merge the special excise duty with the basic excise duty rates while also rationalising the resulting duty rates.

102. I propose to give some relief from taxation on a large number of articles of mass consumption as a measure of protection to the common people, who have been hard hit by inflation. Coffee, tea and instant tea are being fully exempted from excise duty. I also propose to reduce excise duty on vanaspati from Rs. 1900 to Rs. 1500 per metric ton. I propose to fully exempt footwear made by units under KVIC [Khadi and Village Industries Commission] as well as those run with cash assistance received under the integrated Rural Development Programme, irrespective of the value limit. In respect of footwear manufactured by other units, I propose to enhance the present value limit for the purpose of exemption from Rs 75 to Rs 125 per pair. I also propose to reduce the excise duty:

—on evaporative coolers from 23 percent to 10 percent;

—on electric fans from 17.25 percent to 10 percent;

—on specified domestic electrical appliances from 23 percent to 15 percent;

—on dry cell batteries from 34.5 percent to 25 percent;

—on printing and writing ink from 17.25 percent to 10 percent;

—on radio sets from 23 percent to 10 percent;

—on toothpowder from 17.25 percent to 10 percent;

—on noodles and roasted cereals from 17.25 percent to 10 percent;

—on biscuits from 11.5 percent to 7.5 percent;

—on plastic moulded luggage from 34.5 percent to 25 percent;

—on mattresses and bedding articles of cellular rubber from 69 percent to 30 percent.

103. At present the excise duty on capital goods and instruments varies from 11.5 percent to 23 percent. In order to lower capital costs and stimulate investment, I propose to reduce the excise duty on a large number of capital goods and instruments to a uniform rate of 10 percent. For the power sector, I am proposing an even lower rate of 5 percent.

104. Revival of industrial growth is a key element in the strategy for 1993-94. Sectors such as the automotive sector, television and the refrigeration and air-conditioning industries are currently suffering from recession. Workers employed in these industries face an uncertain future. Revenue prospects will also suffer if the present trend is not reversed. I, therefore, propose to provide a significant relief to these industries by way of reduced incidence of excise duties. I expect them to respond positively to this stimulus.

105. In order to encourage the public transport sector, I propose to reduce excise duty from 23 percent to 15 percent on non-petrol driven commercial vehicles for carrying goods and passengers. Correspondingly, the excise duty on the chassis of such vehicles will also stand reduce to 15 percent. I also propose to fully exempt excise duty on body-building on chassis of buses and similar passenger vehicles. The excise duty on three-wheelers, is being reduced from 23 percent to 15 percent.

I also propose to reduce the excise duty on motor cars from 55 percent to 40 percent.

106. I propose to reduce the specific duty on colour television sets from rates at present varying from Rs 1925 to Rs 4785 per set to rates varying from RS 1250 to Rs 2200 per set.

107. The rates of excise duty on refrigerators presently vary from Rs 575 to Rs5750 per refrigerator depending on their capacity. I propose to reduce the rates of Rs 400 to Rs 3500 per refrigerator. Other refrigerating appliances, including those used for cold storage in the agriculture sector currently attract an ad valorem duty of 69 percent. This is far too high as it affects the growth of food processing and preservation industries. I, therefore, propose to reduce the duty to 20 percent. I propose to reduce excise duty on air-conditioners from rates varying from Rs 13800 to Rs 85100 per unit at present to rates varying from Rs 7000 to Rs 70000 per unit depending on its capacity. In respect of compressors for air-conditioner of capacity not exceeding 7.5 tonnes, I propose to reduce the excise duty from Rs 6900 to Rs 5500 per compressor.

108. I propose to reduce the excise duty on bulk plastic resins such as low and high density polyethylene, polyvinyl chloride, polystyrene, etc., from 46 percent to 35 percent. This measure will benefit small-scale units manufacturing plastic products.

109. Metals are the basic raw materials of industry and the Tax Reforms Committee has suggested reduction of excise duty in this category. I, therefore, propose to rationalise the existing duty structure on metals. On ferrous metals, the ad valorem rates generally vary between 11.5 percent to 23 percent. I propose to rationalise the structure into two slabs, 12.5 percent and 15 percent. Aluminium has duty rates ranging from 23 percent to 40.25 percent. I propose to replace these rates by a uniform rate of 25 percent. Other non ferrous metals like copper, zinc, lead, etc., attract duty rates varying from 11.5 percent to 34.5 percent. I am proposing a uniform duty of 15 percent for these. Certain ferrous materials are still subjected to specific rates of duty. I have proposed some upward adjustment in these rates taking into account the price increase since last year.

110. As a measure of environment protection, and in order to save wood, I propose to reduce the excise duty on plywood from 34.5 percent to 20 percent. I also propose to include pulp made from rice and wheat straws in the scheme of full excise duty exemption for production of writing and printing paper and uncoated kraft paper containing not less than 75 percent of pulp made from bagasse, jute, etc. This will widen the scope for using non-conventional raw materials in the manufacture of paper.

111. Currently, excise duty is being levied on mechanised, semi-mechanised, non-mechanised and cottage sectors of the match industry at Rs 3.15, Rs 2.10, Rs 1.75 and Re 0.75 per hundred boxes respectively. The Government of Tamil Nadu has brought to my notice certain difficulties faced by this industry and also certain anomalies in the structure. Accepting this suggestion, I propose to reduce the rates to Rs 2.40, Rs 1.25, Re 1.00 and Re 0.50 respectively and also to restrict the existing concessions in the cottage sector only to units which are registered co-operative societies or recognised by KVIC or the State KVIB.

112. The excise duty on cosmetics and everyday toilet preparations such as, talcum powder, shampoos, face creams, shaving creams, etc., is very high at 120.75 percent. These items are now being increasingly used by a wide section of the people for personal care. I have received several representations from the trade, consumers and women's organisations for reduction of excise duty. I have also received complaints regarding the growth of spurious products and other abuses related to the evasion of this very high duty. I, therefore, propose to reduce the excise duty on cosmetics and toilet preparations from 120.75 percent to 70 percent.

113. I propose a marginal upward revision in the specific rates of excise duties levied on tyres, tubes and flaps.

114. I also propose to revise upwards the specific rates of excise duty on molasses from Rs 172.50 to Rs 200 per tonne.

115. The small-scale sector has been a source of strength to Indian industry and a nursery for new entrepreneurship. The central excise duty exemption scheme for this sector has contributed significantly to its development along with other measures taken by the Central and State Governments. I propose to simplify the scheme and restructure it to give additional incentives to the smaller units and at the same time respond to certain recommendations of the Estimates Committee and the Public Accounts Committee.

116. I propose to enhance the limit for exemption from registration from Rs 7.5 lakhs at present to Rs 10 lakh. This will free a large number of the smaller units from the necessity of registration, and at the same time enable the tax authorities to devote greater attention to the comparatively larger units. At present, excise duty is completely exempted from the first Rs 20 lakh of turnover for units producing goods under one chapter of the excise tariff, and the limit is Rs 30 lakh if the goods produced under more than one chapter of the tariff. I propose to enhance the duty exemption limit to Rs 30 lakh for all units. This should benefit a large number of units in the lower segment of the small-scale sector.

117. As part of the restructuring, I feel that the larger units in this sector can contribute a little more to the exchequer. At present, the excise duty payable above the zero duty limit and up to Rs 75 lakh is normal duty minus 10 percentage points, subject to a minimum of 5 percent ad valorem. I propose to retain this for clearances up to Rs 50 lakh in a financial year. For clearances beyond Rs 50 lskh and up to Rs 75 lakh, the concessional

rate will be normal duty minus 5 percentage points, subject to a minimum of 5 percent ad valorem.

118. At present, buyers of goods from small-scale manufacturers, get a notional credit under MODVAT which is 5 percentage points more than the central excise duty actually paid by the latter. The Public Accounts Committee has found certain irregularities in the operation of this facility. The Tax Reforms Committee has also not favoured continuance of this special dispensation, which essentially helps the large scale user industry. I, therefore, propose to withdraw the higher notional credit which the buyers of goods produced by the small-scale units are getting at present. They will receive MODVAT credit only on the basis of duty actually paid.

119. In respect of cosmetics and refrigerators and air-conditioning appliances, I propose to liberalise the excise duty concessions for the small-scale sector having regard to price escalation over the years. I propose to extend full exemption in respect of clearances from Rs 5 lakh at present to Rs 15 lakh. Thereafter, clearances up to Rs 30 lakh in a financial year would attract 50 percent of the normal duty. Clearances above Rs 30 lakh in a financial year will attract normal duty. The liberalised scheme of exemption will be available only to those units whose value of clearances does not exceed Rs 50 lakh in a financial year.

120. All the proposed changes in the small-scale sector will take effect from 1st April, 1993.

121. I now turn to certain proposals relating to agriculture, textiles and health sectors, covering both customs and excise duties.

122. Agriculture is the key to our economic growth, and deserves special fiscal incentives aimed at modernisation and diversification of this sector. I propose to reduce the import duty on various items of machinery used for agriculture, horticulture, forestry, poultry-keeping, etc., from 55 percent to 25 percent. I propose to reduce the import duty on rice transplanters from 40 percent to 15 percent. I also propose to reduce the import duty on grand parent poultry stocks from 105 percent to 40 percent. The import duty on certain amino acids is proposed to be reduced from 65 percent to 15 percent.

123. In respect of out-board motors used for fishing, I propose to reduce the import duty from 40 percent to 15 percent.

124. I propose to reduce the import duty on specified pesticides from 110 percent to 75 percent. The import duty on certain pesticide intermediates is being reduced from rates ranging between 65 percent and 110 percent to 50 percent.

125. I propose to reduce the import duty on specified goods for horticulture and green houses to 25 percent.

126. At present, tractors of engine capacity above 1800cc and trailers attract a total excise duty of 17.25 percent and 23 percent respectively. I propose to reduce the excise duty on them to 10 percent and 15 percent respectively.

127. I have a package of excise duty concessions for the textile industry. Next to agriculture, it is the largest employer in the country. The present excise duty rates on polyester and nylon filament yarn are higher as compared to other types of yarn. Substantial capacities have been set up in the synthetic sector of fibre and yarn. As part of a long term policy of bringing synthetic fabrics within the reach of the common man, I feel there is a need to reduce the [as published] Hence, I propose to reduce the excise duty on polyester filament yarn from Rs 80.60 to Rs 69 per kg and on nylon filament yarn from Rs 71.50 to Rs 57.50 per kg. I also propose to reduce excise duty on polyester staple fibre from Rs 13.65 to Rs 12.65 per kg and on viscose staple fibre from Rs 15.60 to Rs 14.95 per kg. On polypropylene filament yarn, I propose to reduce the excise duty from Rs 32.50 to Rs 28.75 per kg. I further propose to reduce excise duty on acrylic staple fibre from Rs 15.60 to Rs. 14.95 per kg.

128. Health-care deserves special treatment. I propose to reduce import duty on specified bulk drugs at 110 percent or 80 percent to 25 percent. I also propose to fix a uniform rate of 50 percent on specified drug intermediates which currently attract import duties varying from 60 percent to 110 percent. In respect of homoeopathic medicines, I propose to reduce import duty from 40 percent to 25 percent.

129. Indigenous manufacture of medical equipment deserves all encouragement. At present, full exemption from import duty is available to certain parts of specified life saving electronic medical equipments. To help in accelerating the indigenisation process, I propose to extend full exemption to such parts for the manufacture of specified non-electronic life-saving medical equipments also. In respect of components for the manufacture of certain other medical equipments, I propose to reduce import duty from 45 percent and 25 percent at present to 15 percent. Further, for the same reason, I propose to fully exempt specified sight-saving equipments from excise duty and to lower excise duty on some medical equipments to 10 percent.

130. I propose to reduce the import duty on aseptic form-fill-seal machines for packing intravenous fluids fo the pharmaceutical industry from 40 percent to 15 percent.

131. I have also proposed certain amendments in the Finance Bill seeking to effect changes in the excise and customs tariffs which are generally in the nature of enabling provisions and have no revenue significance. Besides, there are proposals for amendment of some of the existing notifications. In order to save the time of House, I do not propose to recount them.

132. The proposal in regard to changes in the excise duties outlined above are likely to result in a revenue loss

of Rs 2249 crore as conventionally calculated. However, I expect that as a result of the many steps that the Government is taking, including the duty reductions, the production of excisable goods will go up, and the loss will therefore be partially offset by a gain of about Rs 1000 crore on this account. Out of the net loss of revenue in excise duties the Centre's share will be Rs 708 crore and that of State Rs 541 crore.

133. The proposed restructuring of customs duties results in a net loss of Rs 3273 crore. This revenue loss will be entirely borne by the Centre.

134. The net impact of my proposals on customs and excise duties taken together amount to a revenue loss of Rs 4522 crore on indirect taxes. The impact on the Centre's revenue is a loss of Rs 3981 crore and that on States is Rs 541 crore. I believe this is a temporary loss and is necessary to impart a new dynamism to India's economy. In the medium term, this loss will be more than made up by increased efficiency, competitiveness and faster growth of the economy.

135. Copies of notifications giving effect to the changes in customs and excise duties effective from the 28th February, 1993 will be laid on the Table of the House in due course.

136. Taking into account the revenue loss arising from my proposals relating to indirect taxes the budget deficit for 1993-94 is estimated at Rs 4314 crore and the fiscal deficit at Rs 36,959 crore.

137. Mr Speaker, Sir, the world around us is changing very rapidly, becoming more integrated as a marketplace and also more competitive. Other developing countries are successfully transforming themselves to meet these challenges. We cannot afford to stay out of this process, appearing to be absorbed with obscurantist preoccupations and sectarian divisions. The solution lies precisely in harnessing the considerable energies of our people, especially the young, to the exciting task of economic rejuvenation. I have used this Budget as an opportunity to put economic and social development firmly back on the national agenda. This is the only way to show the world that India is a nation on the move and is determined to succeed.

138. It is India's destiny to be a major player on the global economic and political scene. For that we need a vibrant and rapidly expanding economy with deep and abiding concern for the poor and the under-privileged. Politics has to be a purposeful instrument for realising our cherished goals. There is no scope for confrontation or cold war tactics when it comes to dealing with the nation's social and economic objectives. We need wisdom, sobriety, firmness of purpose and above all national unity.

139. As Swami Vivekananda used to say there is an element of divinity in each human being. We have to create an environment in which this divine potentiality can be mobilised for building a strong economy and a just society. This is the challenge that our political system must face squarely. I venture to think that this budget focusses the nation's attention on this imperative task.

140. Sir, I commend the Budget to this august House.

Papers Publish Finance Minister's Budget Speech

93AS0638A Calcutta THE TELEGRAPH in English 28 Feb 93 pp 7, 9

[Text] Following is the text of part B of the Budget speech of the finance minister, Dr. Manmohan Singh.

I now turn to the tax proposals for 1993-94.

In framing these proposals I have been actively conscious of the conflicting requirements of comprehensive reform of the tax structure on the one hand, and the need to protect revenues to finance the large increase in the plan, on the other. Last year significant reforms were made in personal income taxation, based on the recommendations of the Chelliah Committee, reform of corporate taxation was deferred until the detailed recommendations of the committee were received. These have since been received. The committee has also recently submitted its final report on indirect taxes, recommending significant reduction in customs duties as well as rationalisation and simplification of excise duties.

I accept the broad thrust of the Chelliah Committee's recommendations on both direct and indirect taxes. We must move as rapidly as possible to a regime of moderate tax rates in direct taxation, which will encourage better compliance, especially if supplemented by efforts at broadening of the tax base. We must also move to a regime of low to moderate customs duties which is essential for efficient and competitive industrialisation. Our excise duties should also be simplified with fewer rates and our long term aim should be to move to a value added tax system. However, a nationwide value added tax system cannot be introduced overnight. There has to be a broad agreement between the Centre and the states on the design of such a system. In order to promote informed discussion and debate, I am requesting the National Institute of Public Finance and Policy to prepare the design of a possible value added tax system.

Although all the major recommendations of the Chelliah Committee are important, they cannot be implemented immediately for the simple reason that tax reform, which typically involves lower tax rates collected on a broader base, often involves a loss of revenue in the short run.

Fiscal experts tell us that the loss of revenue will be made up in the medium term, but there is no guarantee that this will happen immediately, and finance ministers have to look after the short term if they want to survive in the medium term. I hope the House will agree with me that a phased transition is needed.

A key issue in phasing the transition is whether to do a little on all fronts or to make decisive changes in certain

areas, with a clear declaration of progress to be made in other areas in future. I have thought over this matter carefully and I feel that decisive action in critical areas is more important than marginal improvements on all fronts. The most critical area for action at present is customs duties. Despite the adjustments in customs duties in the last two budgets, our duties are still much higher than in most of our competitor countries, especially on capital goods. With these duties, and the resulting high capital costs, our producers will never be able to compete in world markets. Nor can we expect new investment, both domestic and foreign, to flow into areas with export markets in view, if high customs duties make them uncompetitive. Yet it is such investments that we need most at present if we want to reduce our dependence on external assistance. We cannot and must not continue with the approach of setting up industries aimed solely at the domestic market in the belief that replacing imports ipso facto contributes to self-reliance, without considering at what cost we are effecting the replacement. In fact, replacement at unduly high cost contribute to inefficient industrialisation, an inability to export and a permanent dependence on external assistance. We must take a bold initiative in this area while taking due care to protect the legitimate concerns of our industry. Normally, the revenue loss from customs duty reduction could have been made up through higher excise duties. However, there are compelling reasons for rationalising and reducing excise duties over a wide range of industries because many of our duties are too high and parts of industry are also suffering from recessionary conditions.

In these circumstances, Hon'ble Members will appreciate that I have limited room for manoeuvre in the area of direct taxes. Major reform of the corporate tax structure, along the lines recommended by the Chelliah Committee is undoubtedly desirable. However, for the reasons indicated, it will have to be postponed to the next year.

I would like, however, to give a stimulus to new investment in those states in which all the districts are industrially backward. Accordingly, I propose to give a five-year tax holiday, commencing from the year of production for new industrial undertakings located in all the Northeastern states, Jammu & Kashmir, Himachal Pradesh, Sikkim, Goa and Union Territories of the Andaman and Nicobar Islands, Dadra and Nagar Haveli, Daman and Diu, Lakshadweep and Pondicherry.

Electricity is a critical input for the future growth of our economy. I therefore propose to introduce a five-year tax holiday in respect of profits and gains of new industrial undertakings set up anywhere in India for either generation or generation and distribution of power. The five-year tax holiday will begin from the year of generation of power.

The five-year tax holiday, in both these cases, will be part of section 81-1A of the Income-Tax Act. At the end of the five-year period, these units will be entitled to the existing deduction under section 80-1A for the remaining period.

To promote a cleaner and healthier environment, I propose to allow depreciation admissible on plant and machinery relating to environment protection and pollution control at 100 percent. Instead of the existing 40 percent of capital cost under the Income-Tax Rules.

Hitherto, our institutions of higher learning have been almost entirely dependent on government funds. As government funds are limited, we must find ways of funding these institutions from industry. This will also bring them closer to industry and more responsive to its needs. I, therefore, propose to raise the Income Tax deduction given to contributions to approved universities, institutes of technology, institutes of management and equivalent institutions from 50 percent at present to 100 percent.

A strong science and technology base is an essential prerequisite for a modern, progressive economy. Indian scientists and technologists have proved, time and again, that they are second to none in the world, given the right work atmosphere, proper motivation and adequate facilities. Indian industry needs to spend a lot more on research and development. In doing so, I would encourage industry to make use of the facilities offered by our national laboratories and research institutions. To that end, I propose to introduce a weighted deduction of 125 percent of the contribution out of income from business of profession for research programmes in approved national laboratories and institutions carrying out research and development in natural and applied sciences. This weighted deduction will be available only for research programmes determined by the users and the producers of research, and approved by the prescribed authority.

I propose to extend the five-year tax holiday under section 10A of the Income Tax Act, at present available to units set up in the Free Trade Zones, to units set up in Software Technology Parks and Electronic Hardware Technology Parks. In July, 1991, I had introduced a 100 percent deduction for three years in respect of income derived from export of software. Software exports have done well and I propose to extend the concession for one more year, i.e., for assessment year 1994-95.

Under the scheme for permitting Foreign Institutional Investors in our capital market. We had indicated that such investors would be liable to tax at 20 percent on investment income and 10 percent on long-term capital gains. I also propose to extend a concessional rate of tax of 30 percent in respect of short term capital gains for such investors.

As I have already mentioned, a substantial reform of personal taxation was carried out last year based on the recommendations of the Chelliah Committee. I propose to leave the rate structure and exemption limit unchanged and make only a few modifications.

Last year, because of severe resource constraints, I was compelled to retain the surcharge on personal income above Rs 1 lakh at 12 percent. I had hoped to be able to remove the surcharge in the current year but I am constrained to continue with it for one more year. However, I propose to raise the standard deduction from salary income from Rs 12,000 to Rs 15,000 and the standard deduction for working women with incomes up to Rs 75,000 from Rs 15,000 to Rs 18,000.

In recognition of the hardship to old people in these days of inflation, I had given a tax rebate of 10 percent last year to senior citizens whose gross total income is below Rs 50,000. I propose to raise the tax rebate to 20 percent and further increase the income limit from Rs 50,000 to Rs 75,000.

Last year, I had announced that a scheme for giving Advance Rulings in respect of transactions involving non-residents would be worked out. The scheme has been drawn up and I am bringing forward legislative proposals for the creation of a statutory authority, headed by a retired judge of the Supreme Court. I do hope that the scheme will be welcomed by non-residents.

I propose to extend the simplified scheme of presumptive taxation introduced last year to small road transport operators operating, hiring or leasing one transport vehicle.

Payments made under Voluntary Retirement Schemes to public sector employees were fully exempt from Income Tax; last year I extended this exemption to private sector employees. I propose now to extend this facility to employees of statutory authorities and local authorities.

Recognising the trauma of bringing up a handicapped child, I had, last year increased the deduction permissible for guardians of handicapped dependents under the Income Tax law from Rs 6,000 to Rs 12,000. I now propose to further raise this deduction to Rs 15,000. I also propose to allow a deduction in respect of income of handicapped minors clubbed with the income of their parent to the full extent of the child's income up to a maximum of Rs 20,000.

In my first Budget speech in July, 1991, I had proposed the setting up of the National Foundation for Communal Harmony to provide assistance to the children of families affected by communal riots. The Foundation has since been established under the aegis of the home ministry. I now propose to extend the benefit of 100 percent deduction under section 80G of the Income Tax Act in respect of donations made to the Foundation. I also propose to exempt the income of the National Foundation for Communal Harmony fully from Income Tax.

At present, charitable trusts and institutions have to seek approval every three years from the commissioner of Income-Tax in order that donations to them are eligible for tax exemption. To reduce paper work and simplify the procedure, I propose to increase the maximum period of approval by the commissioner to five assessment years.

I would like to see India gain prominence, not only in the global economy, but also in the world of sports. There are provisions in the Income-Tax Act to allow exemption in respect of income of approved sports associations or institutions and to grant 50 percent deduction in respect of donations made to them. I propose to amend the rules relating to eligible projects or schemes under section 35AC of the Act to include promotion of sports in such activities. This would provide 100 percent deduction in respect of spending on approved sports projects and schemes.

Last year, I had proposed the setting up a National Court of direct taxes for expeditious settlement of litigation in direct tax matters. The proposal has been examined in detail and I hope soon to bring forward legislation in this regard. In regard to a Direct Taxes Code, the government will take a final view, taking into account the recommendations of the Chelliah Committee on the subject.

The Wealth-Tax Act was considerably recast last year and the basis of taxation was shifted from wealth to unproductive assets. There has been persistent demand that a residential swelling is a universal necessity and should not be subjected to wealth-tax. Hence, I propose to exempt the value of one residential house or part thereof from the levy of wealth-tax.

Last year, I had exempted residential houses, motor cars, etc., held as stock-in-trade from the levy of wealth-tax. I now propose to exempt urban land held as stock-in-trade. However, to discourage speculation in the guise of stock-holding, I propose to restrict the exemption to three years beginning from the year in which the land is acquired.

The exemption limit for the purpose of gift-tax was fixed at Rs 20,000 some years ago. I agree with the recommendations of the Tax Reforms Committee that this limit needs to be revised and, therefore, propose to raise it to Rs 30,000.

Gifts made by a person to any dependent relative in respect of marriage of the relative is exempted from gift-tax only up to Rs 10,000, whereas vast expenditures on ostentatious marriages go scot-free. In order to encourage savings and productive investment, I propose to raise the exemption limit at the time of the marriage of a dependent relative from Rs 10,000 to Rs 30,000.

As an incentive to the export drive which has to be kept up at all costs, I propose to exempt all banking companies from the levy of interest-tax on export credit provided by them.

The various changes that I have proposed would result in a loss of Rs 300 crores of which the States' share would be Rs 194 crores. The amount involved is very small—

less than 2 percent, of the gross direct tax collection. I am ignoring it in the expectation that better tax collection would cover this loss.

I now turn to the proposals relating to indirect taxes.

Since 1973, we have been levying a separate auxiliary duty in addition to the basic customs duty. In order to simplify the tariff structure and the assessment process, I propose to do away with the separate auxiliary duty and merge it with the basic duty.

Our first priority in restructuring customs duty should be in the area of capital goods and project imports since these duties affect the incentives for new investment. Last year the duty on projects and general machinery was brought down from 80 percent to 55 percent. This is still too high compared with rates in competitor countries and a further reduction is necessary. I, therefore, propose to lower the import duty on projects and general machinery to 35 percent. Projects in certain priority sectors such as, power, coal-mining and petroleum refining currently attract a duty rate of 30 percent. I propose to reduce the rate to 25 percent in the case of coal-mining and petroleum refining. In view of the special importance of the power sector, the duty on power projects is being reduced to 20 percent and the rate is also being extended to machinery required for modernisation and renovation of power plants.

The House can rest assured that in restructuring duties on capital goods, I have made every effort to protect the legitimate interests of domestic capital goods industry. We have had extensive discussions with various ministries as well as representatives of concerned industries. In order to ensure that lower duties on imported machinery do not hurt the domestic capital goods industry, it is necessary to lower the import duty on components, to enable our manufacturers to compete effectively. I, therefore, propose to reduce to 25 percent the duty on components of general machinery which presently is either 40 percent or 35 percent. In order, however, to ensure that domestic industries producing such components are not adversely affected, I propose to impose counter-vailing duty on such components at 10 percent with full facility of set-off under MODVAT [Modified Value Added Tax].

At present there are number of other capital goods, including various types of machine tools, which attract different rates of duty in the range of 60 percent. There are also instruments which attract duties varying from 40 percent to 110 percent. I propose to rationalise this structure into three duty rate slots, namely, 40 percent, 60 percent and 80 percent. The rationalisation involves generally a duty reduction between 20 to 30 percentage points. Consequential reduction is being made in the rate of duty on specified part and components.

Hand-operated tools are capital goods for artisans and skilled workers and currently attract duties varying from 40 percent to 110 percent. I propose to prescribe a uniform rate of 40 percent for all these tools.

The logic of reducing duties on capital goods requires lowering of duties on metals and metal goods as well, as these are the basic raw materials of the domestic capital goods industry. Accordingly, to help domestic producers, I propose to lower the Customs duty rates on ferrous metals by 10 to 20 percentage points in most cases. In line with these changes the import duty on steel scrap is being refixed at 15 percent. The import duty on specified refractory raw materials is being reduced to 30 percent. Turning to non-ferrous metals, I propose to reduce the duty rates by 10 to 55 percentage points in most cases. The resulting rates on unwrought and unalloyed forms will vary from 25 percent to 50 percent and on wrought forms from 70 percent to 80 percent.

The duty structure for chemicals is characterised by a multiplicity of rates and many irrationalities. Input duties are often out of the line with duties on finished products. I, therefore, propose to restructure the duty rates on chemicals with a view to significantly lowering duty rates at the upper end and also ensuring that the duty rates on inputs are not generally higher than the duty on end products. The present duty rates on basic feed-stocks such as, ethylene, propylene, butadene, benzene, styrene and ethylene dichloride vary between 25 percent and 80 percent. These rates are being replaced by a uniform low duty rate of 15 percent. The duties on xylene, paraxylene, toluene, acrylonitrile and cumene are being reduced to 40 percent. The duties on DMT, PTA and MEG which represent a higher stage of production, are being reduced and unified at 70 percent. In the case of caprolactum, however, the duty is being increased from 50 percent to 60 percent, in order to adequately protect the interests of the domestic units.

The electronics industry has the potential of becoming a world class industry contributing to our export effort and to employment generation. I propose to take up this challenge. The rates of duty on project imports and on specified capital goods for electronics attract duty at either 30 percent or 50 percent at present. I propose to reduce these rates to a uniform rate of 25 percent. The import duties on raw materials, piece-parts and components at present are levied at 40 percent, 60 percent and 80 percent. These rates being reduced to 20 percent, 35 percent and 50 percent, respectively. The import duty on specified raw materials for the manufacture of optical fibre cables is being drastically reduced from 90 percent to 20 percent in recognition of the urgency of extending and modernising the telecom sector.

In order to strengthen our export capability in existing export-thrust areas such as textiles, leather, marine products, gems and jewellery, etctera, where we have a comparative advantage, I propose to reduce the import duty on specified capital goods for these sectors from 40 percent to 25 percent. In addition, certain recommendations have been made by the Groups on Extreme Focus items for export for augmenting the export potential of certain sectors such as food processing, horticulture and

floricultural industries. Accordingly, the import duty on specified items for these sectors is being reduced to 25 percent.

The ship-breaking industry is employment-intensive and an important source of raw materials for the secondary sector of our steel industry. In order to encourage the growth of this industry, I propose to prescribe a lower merged duty of Customs at 5 percent ad valorem. The ferrous [as published] Our film industry is one of the largest in the world in terms of the footage of films produced. Although it has achieved this status without much need for incentives, it is now facing greater competition from the electronic media, and deserves some special encouragement. I, therefore, propose to reduce the duties on jumbo rolls of cine positive films from 55 percent to 25 percent and on finished cine film rolls from about 65 percent to 40 percent. I also propose to reduce the duty on negative cine films from about 35 percent to 25 percent.

In order to encourage the development of non-conventional [as published]

At present, accredited press cameramen have the facility of importing photographic equipment free of duty up to a limit of Rs 60,000 but no such facility is available to other journalists to import specialised equipment such as, laptop computers, personal computers, fax machines and typewriters. I have often wondered whether this explains why my photographs in the Press are better than the editorial comments! As a measure of my commitment to encourage modern technology in Indian journalism, and in recognition of the sterling role played by our Pressmen in creating a wider appreciation of issues of economic reform in the country, I propose to allow accredited journalists also a one time facility to import such equipment duty free up to a value of Rs 60,000.

The duty rate on certain specified items of baggage was recently reduced from 255 percent to 150 percent. As a measure of simplification, I propose to reduce the general baggage rate itself from 255 percent to 150 percent.

In line with these reductions in import duties for individual sectors, and keeping in mind the present exchange rate, there is scope for reduction in the maximum rate of duty on all goods. Accordingly I propose to reduce the maximum rate from 110 percent to 85 percent except for a few items including passenger baggage and alcoholic beverages.

I am aware that honourable members will be concerned that lowering of import duties and import liberalisation may put too much pressure on our industry and make it vulnerable to unfair competition and dumping. I would like to assure honourable members that these issues have been carefully considered and the proposed changes will not put undue pressure on industry. The change in the exchange rate over the past two years has created considerable room for duty reduction without hurting domestic industry. Besides, I am also reducing duties on raw materials and inputs which will help to reduce cost for our producers, enabling them to compare more effectively. Even with these changes, duties on finished products will be well above the long term structure recommended by the Chelliah Committee. We can move to that goal in phases over the next few years. As for unfair competition through dumping, our anti-dumping laws are already operational and action under these laws will be taken expenditously whenever it is needed. I may mention that provisional action has recently been taken in one case.

In last year's Budget export duties had been imposed on iron ore and unpolished granite. Certain difficulties faced by these sectors have since been brought to my notice. I, therefore, propose to withdraw the export duty on iron ore and unpolished granite.

I turn now to proposals relating to excise duties. These are guided by the need to simplify the rate structure, to give some relief on articles of mass consumption, help the domestic capital goods industry so as to increase its competitiveness and also reduce capital costs, assist industries suffering from depressed demand conditions, and to provide relief to small-scale industry.

A surcharge by way of special excise duty has been levied since 1988, and the rate is currently 15 percent of the basic excise duty. As a member of simplification, I propose to merge the special excise duty with the basic excise duty rates while also rationalising the resulting duty rates.

I propose to give some relief from taxation on a large number of articles of mass consumption as a measure of protection to the common people, who have been hard hit by inflation. Coffee, tea and instant tea are being fully exempted from excise duty. I also propose to reduce excise duty on vanaspati from Rs 1,900 to Rs 1,500 per metric tonne. I propose to fully exempt footwear made by units under KVIC [Khadi and Village Industries Commission] as well as those run with cash assistance received under the Integrated Rural Development Programme, irrespective of the value limit. In respect of footwear manufactured by other units, I propose to enhance the present value limit for the purpose of exemption from Rs 75 to Rs 125 per pair also propose to reduce the excise duty:

—On evaporative coolers from 23 percent to 10 percent,

—On electric fans from 17.25 percent to 10 percent,

—On specified domestic electrical appliances from 23 percent to 15 percent,

—On dry cell batteries from 34.5 percent to 25 percent,

—On printing and writing ink from 17.25 percent to 10 percent,

—On radio sets from 23 percent to 10 percent,

—On tooth powder from 17.25 percent to 10 percent,

—On noodles and roasted cereals from 17.25 percent to 10 percent,

—On biscuits from 11.5 percent to 7.5 percent,

—On plastic moulded luggage from 34.5 percent to 25 percent,

—On mattresses and bedding articles of cellular rubber from 69 percent to 30 percent.

At present the excise duty on capital goods and instruments varies from 11.5 percent to 23 percent. In order to lower capital costs and stimulate investment, I propose to reduce the excise duty on a large number of capital goods and instruments to a uniform rate of 10 percent. For the power sector, I am proposing an even lower rate of 5 percent.

Revival of industrial growth is a key element in the strategy for 1993-94.

It is India's destiny to be a major player on the global economic and political scene. For that we need a vibrant and rapidly expanding economy with deep and abiding concern for the poor and the underpriviliged. Politics has to be a purposeful instrument for realising our cherished goals. There is no scope for confrontation or cold war tactics when it comes to dealing with the nation's social and economic objectives. We need wisdom, sobriety, firmness of purpose and above all national unity.

As Swami Vivekananda used to say there is an element of divinity in each human being. We have to create an environment in which this divine potentiality can be mobilised for building a strong economy and a just society. This is the challenge that our political system must face squarely. I venture to think that this Budget focusses the nation's attention on this imperative task.

Sir, I commend the Budget to this august House.

Articles Criticize New Budget as Inadequate

Rural Poverty Unaffected

93AS0670A Calcutta THE TELEGRAPH in English 11 Mar 93 p 8

[Article by Alok Ray: "Waiting by the Fast Track"]

[Text] The basic message of the 1993-94 budget is that the economic reforms process which started with the 1991-92 budget is continuing, despite the recent social and political developments. Moreover, Mr Manmohan Singh, the finance minister, has been able to keep all vocal sections, including the International Monetary Fund [IMF], in good humour with his budget proposals, thereby improving the chances of carrying the process further in the future.

Whether under pressure or not, there is little doubt the Indian government is following the typical IMF-World Bank policy package. This package has three basic components: stabilisation, liberalisation of the domestic economy and opening up of the forces of international competition.

Economists of all persuasions generally agree Central and state governments have been living beyond their means for a long time. Consequently, there is an urgent need for stabilisation which, in effect, means cutting down government budget deficit and controlling growth in money supply. This is considered the way to keep inflation and the balance of payments under control since both essentially arise from a mismatch between supply and demand at the aggregate national level.

Through successive budgets Mr Manmohan Singh has brought down fiscal deficit—which is the gap between government expenditure and revenue, to be financed by borrowing from the market and printing of notes—as a percentage of gross domestic product from 8.4 to nearly five percent. He hopes to bring it down to around 4.5 percent in the coming year.

A lot of scepticism was expressed on whether the finance minister would ever be able to achieve this degree of fiscal correction. Moreover, it was widely feared cutting government expenditure would reduce supply, especially if public investment is cut. Hence, apart from causing recession it may also worsen inflation.

Mr Singh can take credit that despite the severe fiscal discipline the rate of growth of the economy—though low at around one percent in 1992-93—has remained positive and the inflation rate has also been brought down to a reasonable level.

It should however be kept in mind the adverse supply side effects of reduced public investment on infrastructure such as power, transport, communications and irrigation generally take longer to manifest while the demand side effect of reduced government expenditure works immediately.

Despite the general consensus in favour of fiscal discipline, opinions sharply differ on where the axe should fall. Defence expenditure is a holy cow that cannot be touched. One of the major criticisms of Mr Singh's 1992-93 budget was that public expenditure on physical as well as social infrastructure, such as health, education, rural development and poverty alleviation programmes, bore the brunt of the hacking.

Mr Singh has tried to silence his critics by substantially increasing allocations on precisely these heads in his 1993-94 budget. He has also sent signals for a greater role of the private sector in infrastructural development by providing tax relief for power generation. For economic and political reasons, a five year tax holiday for new industrial undertakings in industrially backward regions also finds a place in his budget.

Now that fiscal discipline has been restored to a large extent without generating serious inflationary pressures,

combating inflation gets high priority on the agenda. Mr Singh wants to achieve this with excise tax relief to a wide range of articles, including various consumer durables. The lending rate to business has been reduced by one percent. The progressive reduction in the statutory liquidity ratio would also make available larger funds for private sector investment.

If shortage of demand is the main constraint, one would expect a large part of the tax reduction to be passed on to the consumers to boost demand. Especially in a liberalised economy where restriction on expansion of output and investment in the form of industrial licensing has been virtually abolished over the past few years. Mr Singh has twice been able to fool a large number of people who made it a habit to rush for consumer durables in late February to "beat the budget."

Some people would be tempted to label excise concessions given to the consumer durables sector as "elitist." But two points must be borne in mind. A reduction of Rs 1,000 to 2,000 in the price of a colour television or a refrigerator means a lot to people who are at the margin of being able to buy or not buy these goods, and not to the really rich. Hence the benefits would largely accrue to the growing middle class in both urban and rural areas on whose purchasing power industrial growth would have to depend, given the pattern of income distribution in India.

Moreover, employment generation from the expansion of output, through direct as well as multiplier effects, would benefit the not so well off working classes, even when they cannot afford the goods themselves. Excise concessions have also been given to a wide range of mass consumer goods, which should benefit organised labour.

Where the poor would really feel the pinch is in the gradual dismantling of the public distribution system. In principle, proper targeting of subsidy is ideal. But it is easier said than done. The budget has assured remunerative prices to farmers. Since it is very difficult to devise and implement a scheme by which only the poor would get the benefit of food subsidy, poor people's access to the PDS [expansion not given] would be gradually eroded. Increased profitability of exports of agricultural products, raw or processed, would also raise the prices of many farm products, causing disproportionate hardship to the relatively poor.

The expected reform of the corporate tax structure as suggested by the Chelliah Committee has not taken place, mainly because the finance minister could not afford to have further revenue loss, given the large losses from reduction in excise taxes and customs duties. As a result, the share market showed signs of immediate disapointment.

However, given the imperative need for expanding output and employment in the recessionary environment by reducing costs and prices, Mr Singh has made the right choice in favour of excise tax reduction as against reduction in corporate tax rates.

Opening up to forces of international competition is the most controversial aspect of the reforms package.

As expected in the wake of the Chelliah Committee report, some reduction in customs duties has taken place. Apart from reducing costs of imported inputs, this is expected to improve efficiency of Indian import competing industries by forcing them to face international competition. The reductions have, however, been kept moderate in view of the resultant revenue loss and the adjustment costs of Indian industries.

But the most dramatic announcement was the complete abolition of the dual exchange rate system.

A single, market determined exchange rate would immediately increase the profitability of exports and inward remittances. Instead of the earlier 60 percent, now the entire foreign exchange proceeds can be converted at the market rate. This should also reduce the diversion of foreign exchange to the hawala market through underinvoicing of exports if the market rate is not very different from the hawala rate. But the most basic argument in favour of a single, market determined exchange rate is the automatic self-balancing mechanism for the balance of payments which it provides.

Where would the value of the rupee settle in the unified market? Theory tells us the rupee should settle somewhere in between the pre-budget official and market rates, provided there is no shift in either demand or supply of foreign exchange. This does not rule out the possibility the unified rate may go above the earlier market rate if there is a significant step up in imports following customs duty reduction. In the longer run, exchange rate movements would be determined by the more fundamental forces affecting imports, exports and capital flows.

There is an apprehension that with reduction in customs duties the domestic market will be flooded with cheaper imported goods. This is not necessarily true. Consumer goods imports are still in the "negative list." Moreover, if imports go up without a matching increase in foreign exchange earnings, the value of the dollar would go up. This would neutralise the effect of reduction in customs duties on the rupee price of imported goods.

The major immediate problem with unification is the possible hike in the rupee price of petroleum products which the government has so far been able to purchase at the cheaper "official rate." A large part of the domestic price of oil consists of excise and other levies by the government. So even if the rupee cost of imported oil goes up, the government can keep the domestic price stable by suitably adjusting these domestic taxes. In other words, the hard choice is between adding a few percentage points to inflation rate or suffering a revenue loss.

The rupee resources required for imported defence supplies would also increase as these too would lose the

benefit of the lower official rate. Unlike oil, the government cannot pass this burden to consumers. However, no allowance for these additional expenditures has been made in the budget. This clearly underestimates the budgetary deficit.

Some economists question the wisdom of across the board export subsidisation through exchange rate adjustment as against selective export subsidies. Even without going into the details of the theoretical debate, two points may be noted. First, exchange rate depreciation increases the profitability of existing as well as potential export industries whereas selective subsidisation affects only some existing industries. Second, there is less chance the likes of Ms Carla Hills being on our throat if incentives are provided through exchange rate adjustment rather than open subsidies.

One final comment on the strategy of economic liberalisation which Mr Singh is trying to implement through successive budgets. The removal of restrictions on the domestic economy and injecting international competition may, under the best possible scenario, improve efficiency of the industrial sector and, after the initial adjustment phase, may set the economy, on a higher growth path.

But it remains doubtful whether this can make any significant dent on the massive rural poverty that exists in India. Nations as diverse as South Korea and China largely removed mass poverty through extensive land reforms before they embarked on the path of economic liberalisation. That is not the case in India.

Savings Neglected

93AS0670B Calcutta THE TELEGRAM in English 4 Mar 93 p 8

[Article by Tathagata Chatterjee: "Singh's Song of Sixpence"]

[Text] In one of his rollicking comedies, Charlie Chaplin exhibits his inimitable concept of saving. He picks up a coin and puts it in his torn pocket, only to pick up the same coin again with glee. Real life imitated real life last Saturday when the finance minister, Mr Manmohan Singh, presented the 1993-94 budget.

In a bitterly ironic act of Chaplinsque legerdemain, he has doled out a string of hosannas expected to generate mass consumerism in times of recession. The industrial lobby is rejoicing at the arrival of these economic mannas from the finance ministry heavens.

Despite the sugarcoating, Mr Singh's budget has nothing to offer by way of encouraging savings. Save and be damned is the implicit watchword knocking the ubiquitous small saver off his senses. Mr Singh's budget can therefore be described at best as good slapstick, at worst bad economics.

In a developing country economic growth, given the supply of labour and its rate of growth, is primarily dependent on the rate of capital accumulation and productivity of investment.

Whether it is financed from internal or external sources, by inflationary or non-inflationary means, such a process of capital formation involves three essential steps: an increase in the volume of real savings, the channeling of savings through a finance and credit mechanism and the act of investment itself.

The first requirement is of fundamental importance if a higher rate of investment is to be achieved without generating inflation. From internal sources, an increase of savings can be generated voluntarily through a reduction in consumption; involuntarily through additional taxation, compulsory lending to the government and inflation; and, finally, by the absorption of underemployed labour into productive work.

From external sources, the financing of development may be met by the investment of foreign capital, restriction of consumption imports and improvements in the country's terms of trade.

Mr Singh seems to suffer from stereoscopic vision deficiency. For investment, he has focussed sharply on the external sources. The fully floating rupee may attract foreign investors but is also likely to contribute to further inflation and trade deficit.

The hope that by joining the Multilateral Investment Guarantee Agency [MIGA] India can photocopy the South Korean or Chinese bonanza of foreign investment is also riddled with miscalculations and contradictions.

Unlike the newly industrialised economies, India has no close linkages with any developed countries. Further, India's economic advancement offers no political advantage to the developed world.

Thus it is impossible to share Mr Singh's enthusiasm over foreign investment. Domestic savings simply cannot be neglected, especially since the present scenario is, to say the least, grim.

Economists have identified four major phases in India's savings trends. In the first phase, 1950-51 to 1966-67, the gross domestic savings rate remained as low as 10.2 percent. This gradually increased to 16.3 percent during the second phase, 1966-67 to 1972-73. The third phase from 1972-73 to 1978-79 has been called the "high savings phase" with the rate jumping to around 18 percent.

The major reasons for the good performance were increasing social awareness on saving, accruals in the form of non-resident private transfers and rapid branch expansion of commercial banks involving increased geographical and functional coverage.

During the fourth phase starting from 1980-81 there has been a stagnation in the savings rates at around 20 percent.

Nearly three-fourths of domestic savings are contributed by the household sector. There has been a marked shift in the composition of household savings from physical to financial assets, particularly in the Eighties.

Private corporate sector's contribution to domestic savings has been less than 10 percent. However, corporate sector savings to GDP [Gross Domestic Product] have been more or less stagnant, around one to two percent over the whole period. Public sector savings, always low, turned negative in 1983-84 and has been poor since.

Last year's budget called for abnormal policy changes which forcibly resulted in a distorted allocation of savings among competing assets vis a vis household sectors. It distorted the portfolio choice of savers in the form of a rise in the holding of shares and securities. There was corresponding fall in small savings owing to withdrawals of special tax benefit schemes under 80CCA and 80CCB.

The impact of the withdrawals of concessions has been acutely felt by small, medium and fixed income groups whose tax liability has increased. In fact, given the taxpayers' objective of minimising the effective tax burden, last year's budget forced the households to step into the highly cut throat and notoriously risky capital markets.

But the overkill was limitless and soon the securities scam shook the nation. No action has since been taken to cure the malady. Also the differential treatment in the 1992-93 budget for the two types of asset income, capital gains and wealth, contradicted each other only to provide a distorted and ambiguous impetus to saving.

Given this depressing backdrop, Mr Singh should have incorporated measures to tackle the problem in this year's budget. Instead he chose to maintain a facade of sang froid.

At present, the corporate savings rate is affected by the existence of a large number of sick, closed or inefficiently run companies. A way to make them viable would be to reduce the corporate tax rate to 40 percent as per Chelliah committee recommendations. That would have improved their net profitability by 20 percent and India's competitiveness in the world market by two percent.

Mr Singh should have permitted the private sector to mobilise funds from semi-urban and rural areas by instituting a corporate savings trust on the lines of the Unit Trust of India. The private sector should have been allowed to issue profit sharing bonds and non-voting shares to increase resources on equal terms with the public sector.

Mr Singh not only should have removed the restrictions on the growth in the number of recognised small savings agents but should also have increased commissions from the present one percent to three percent of the amount mobilised through the National Savings Scheme.

The budget should have restored the provisions of the sections 80CCA and 80CCB of the Income Tax Act and should have extended it to similar schemes operated by commercial banks.

The millions of small income-earners who would perhaps be liable to taxation cannot be reached by fiscal concessions. For them, the finance minister should have formulated special low value savings certificates with attractive rates.

Mr Singh has shamelessly pandered to the whims of a politically powerful farm lobby that has cornered all the benefits of India's one shot green revolution. Like last year, he has refrained from imposing a very logical agricultural tax. Neither did he devise special bonds and insurance schemes with the provision that the beneficiaries would be those who have larger agricultural income.

The meagre personal tax concessions will be more than offset by the recent increases in administered prices of sugar and coal. Moreover, the floating rupee is likely to throw defence and petroleum units into a tailspin resulting in substantial increases in administered prices of their products.

The "spend more save less" budget will induce the middle class to excess consumption or what economists ascribe as "consumption liberalisation of import substitution."

Such lopsided policies are likely to create a demand-pull inflation. This will lead to a distortion of investment decisions. Perhaps, worst of all, inflationary expectations may lead to a reduction in private savings propensities as small savers will begin to view stock exchanges as another extension of Las Vegas or Monte Carlo.

Crowding out will occur in the product market when public enterprises will start competing with the private sector in providing luxury items.

That stock markets all over the country crashed on the first full day of post-budget trading bears testimony to the above analysis. And worst is yet to come.

Finally, elementary macroeconomics tells us that savings minus investment equals exports minus imports. In the 1980s although rate of savings was high, the government, working under the assumption of a foreign exchange constraint, was unable to mobilise these savings into investment. Hence, it began to use external resources as a substitute for domestic ones. Its own saving efforts suffered.

There was substitution in consumption too. The government borrowed money to import petroleum. The situation worsened with a ballooning current account deficit which led the country to borrow multilaterally.

To avoid a debt trap from foreign loans and keep investment going domestic savings must be raised. As the leading excess investor and consumer as well as borrower from abroad, the government cannot shirk its responsibility. It needs to bring down its dissavings.

The task is all the more important in the light of maintaining a six percent growth rate in the Nineties. This is exactly where this budget has failed to score.

Exchange Rates Unreformed

93AS0670C Calcutta THE TELEGRAPH in English 3 Mar 93 p 9

[Article by Dipankar Bhattacharya: "Capital Ideas Are Missing"]

[Text] The finance minister, Mr Manmohan Singh, has taken the rupee for a swim in international waters. Exporters, importers, foreign exchange dealers, the government and the Reserve Bank of India [RBI] are waiting—the last two with fingers crossed—to see if it floats or sinks. But come what may, the die has been cast.

For the government there are no comebacks now. Whatever the level at which the rupee settles, international credibility considerations—which at this juncture of India's economic restructuring are more important to the government than domestic accountability—will not permit a reversal to the fixed exchange rate mechanism.

The 1993-94 budget has allayed apprehensions that the rupee would be made convertible on the trade account as quid pro quo to the International Monetary Fund [IMF] for not limiting the fiscal deficit to 3.5 percent of the gross domestic product. A genuine desire to globalise seems to have prompted the decision to float the rupee. This becomes even more evident from the budget's export promotion package.

Official faith in devaluation's recuperative prowess is touching. The devalued rupee, claim government economists, will make Indian exports competitive, propelling them up by 15 percent. The interest rate cut on export credit and the tax exemption on bank loans to exporters will aid this process. Imports will become dearer. A confident North Block is predicting that in the medium term the trade deficit will be no more than two percent of the GDP.

But surely somebody is being naive. We have had devaluations before. In 1991, a 22 percent drop in the value of the rupee accelerated exports and the trade deficit fell by over 50 percent from around Rs 70 billion. However, the reduction has not been sustained. The trade deficit is at present at around Rs60 billion.

It should be remembered the present level of trade deficit is in spite of fairly exorbitant import barriers. With the tariff reductions announced in this budget, acceleration in imports can be expected to be faster. Re-erecting protectionist tariff barriers will not be possible given the government's desire to display its earnestness about globalisation.

Direct export incentives are not part of "bad international behaviour." The budget's export thrust seems to have taken that into account. However, instead of small incentives across the board, a concentrated shove in specified sectors would go a longer way in reducing the trade gap. This will involve greater collaboration between the government and industry a la the Asian Tigers.

Budget measures to control the trade deficit can be significantly diluted by domestic inflation which reduces gains from a lower exchange rate. Higher domestic prices reduce exports and increase imports. On this front India is at a disadvantage. Inflation rates in the country vary between 7 and 11 percent depending on which index is quoted. This compares poorly to inflation rates in the region of 5 percent in the industrialised nations.

The government is euphoric about global recession having depressed oil prices. Global recession or inflation, however, are two-edged swords. If recession is good for imports, it is also detrimental to exports. Global inflation works the other way round. And India is a very minor player in international trade. Global cycles would tend to be amplified in the Indian context.

Optimism over a lower trade deficit via devaluation needs to be tempered by considerations of the technology bottleneck which severely constrains the substitutability of imports in India. The last devaluation saw imports decelerating, but they did not decline.

Empirical evidence suggests an inelastic demand for third world exports. Unless Indian technology matches global standards there is little point in globalising the economy. As long as technical dynamics work against exports and for imports, there can be little hope of significant reduction in the trade deficit, let alone an export-led growth.

Mr Singh's efforts at freeing the rupee would also have benefited from broadbasing foreign exchange dealerships before floating it. There are genuine apprehensions that existing dealers will collude to depress the value of the rupee against that of the U.S. dollar.

Hard currencies are being withheld by havala traders in anticipation of lower exchange rates, thereby exerting depressionary pressures on the domestic currency. In the absence of effective regulation, for which the RBI can claim credit, the exchange rate will stabilise faster and at a higher value if a larger number of traders entered the market.

But convertibility on the trade account is not all that can be done in the sphere of currency reform. Apart from

displaying the government's earnestness about globalisation a decision to go for capital account convertibility would also increase the RBI's regulatory capacity in the foreign exchange market.

As things stand, the RBI can regulate the balance of trade by trading U.S. dollars in the foreign exchange market and by controlling money supply to check domestic inflationary tendencies. But net capital outflow is negatively related to the domestic rate of interest which the RBI could manipulate if the capital account was made convertible. Monetary policy has a more direct effect on exchange rates and balance of payments, as opposed to fiscal policy whose impact is at best uncertain.

Conventional economic wisdom has its place, preferably in economic text books. Despite competitive interest rates, buoyant stock markets and liberalised economic institutions, the government's fears of a massive outflow of capital, in case the rupee is made convertible on the capital account, are not baseless. Capital flows in the unrarefied real world are not solely dependent on rates of return alone. Expectations of socio-political stability have a large role to play in their determination.

Since 1991, the government has been brazenly seducing private foreign investors, with little to show for it. The fact that Mr Singh stopped short of making the rupee fully convertible is testimony to the economy's lack of capital attracting potential. Domestic capital, by its tendency for flight, shows it shares this opinion.

Foreign capital will remain wary of entering India as long as there is no assurance it can also leave the country. So, convertibility on the capital account cannot be delayed for too long. But this cannot be an isolated step. Government efforts at wooing foreign capital and keeping domestic capital at home will benefit from a determined attempt to reduce incremental capital-output ratios across the board. More importantly, the country's international image will need serious upgradation.

Making the rupee convertible suffers from the same type of myopia that has characterised nearly all of the government's restructuring—putting the cart before the horse. The thrust seems to be to liberate the economic superstructure without any systematic effort to treat the malaise affecting the social, political and economic substructures.

Restructuring economic institutions is necessary for growth, but the sufficiency criteria will be fulfilled only if the substructural constraints are removed.

Education, health, infrastructure and technology are areas which have been in chronic need of effective government action for a long time now. Possibly because returns from these areas accrue long after any government can hope to remain in office, they have been persistently ignored. However, no amount of industrial trade and financial reforms can lead to sustainable growth without extreme distortions unless these substructural constraints are removed.

The budget appears to have made efforts to remedy this. Increased social spending, tax relief for research and emphasis on infrastructure are steps in the right direction. Yet doubts remain, is it not a bit too little, a bit too late?

Program Implementation Lacking

93AS0670D Calcutta THE TELEGRAPH in English 2 Mar 93 p 8

[Article by Alok K. Chatterji: "Where Have All the People Gone"]

[Text] So much has already been made out of the budget supposedly promising structural adjustment with a human face that there is danger of everyone forgetting alleviation of rural poverty is not something the finance minister, Mr Manmohan Singh, invented on February 27. Eradicating rural poverty has been one of the primary objectives of planned development in India. This has been maintained right up to the most recent five year plan, the eighth.

The eighth plan increases the proportion of outlay on rural development to 7.93 [percent] from the corresponding figure of 5.01 percent in the previous plan. In respect of social services, the eighth plan allocation goes up from 16.31 to 18.20 percent in the seventh. All these are quantitatively commendable for poverty alleviation.

Moreover, the eighth plan document had argued for the necessity of freeing "unnecessary controls and regulations and withdrawing state intervention" from anti-poverty programmes. Human resource development is the ultimate goal of the plan. Apart from employment, the many facets of HRD [Human Resources Development] are building people's institutions, population control, universalisation of elementary education, eradication of illiteracy and providing safe drinking water and primary health facilities to all.

The plan was initiated at a time the wisdom of planning was being questioned and the macroeconomic processes had led to such disbalances in the external account there was no alternative but to go cap in hand to the international lending agencies. The fiscal correction which was therefore undertaken resulted in severe expenditure compression on many fronts.

However, the authors of the eighth plan did not sacrifice elimination of poverty to fiscal austerity. The plan document recognises employment generation as the main source of poverty alleviation. The growth strategy is geared to this aim. The Integrated Rural Development Programme [IRDP] and Jawahar Rojgar Yojana [JRY] form the backbone of rural employment generation. Given the enhanced outlay for "rural development" in the eighth plan, it is necessary resources are utilised to build up rural infrastructure. Bottlenecks like inaccessibility to markets and inputs in the hills, deserts and forests are taken care of in the new plan.

For the purposes of a "safety net," the Maharashtra Employment Guarantee Programme of providing 90 to 100 days of employment per person, has been considered model. The plan document admits that in contrast there was about 15 days of employment generated per person through the JRY in 1990-91. Therefore, certain changes in the IRDP and JRY were in order. Activities undertaken should fulfil local needs within the overall framework of the village plan.

So much for what the plan promises. What does the budget have in store for the fight against widespread penury?

The much complimented tax cuts hold little for the poor. That excise duty on fans has been reduced from 17.25 to 10 percent will cool down the ensuing summer for the middle class. But it does little for the rural masses of casual labourers and small and marginal farmers.

For the poor, actually, there has been no change at all. True, the allocation for rural employment generation has impressively increased in the 1993-94 budget. But it has the same and unworkable idea that merely increasing expenditure on certain programmes will make a significant dent on poverty. It does not. Leakages from the programmes designed to tackle poverty has been well documented. The chief beneficiaries of expenditures on alleviating the miseries of the poor have not been the poor. The rural rich and the bureaucratic personnel responsible for programme implementation have always managed to corner most of the resources earmarked for generating employment and income among the rural have nots.

Not only did the finance minister, in his budget speech, not dwell upon measures to improve project implementation but, in trying to hog the glory of presenting a humane budget, forgot to mention the annual exercise is rather small and insignificant in so far as poverty alleviation is concerned. Those observers who have found the budget promising a lot for the poor are ignoring one of its fundamental facets.

Budgetmaking in India is a rather limited process which influences, at best, 30 percent of the organised sector through fiscal measures. The vast numbers of unorganised poor in the agricultural sector remain outside the effective ambit of the budgetary exercise except in so far as the announcements of the amount of money according to heads such as rural development.

Even the funds allocated for the poor majority of the nation in the government's annual fiscal exercises have not been constant. A good example is last year's budget which severely reduced allocations for social expenditure in the mad rush to achieve the deficit targets stipulated by the International Monetary Fund. That has been put right in the government's spending plans for the year 1993-94 but the perspective remains faulty.

People or rather people's participation is the missing ingredient in the anti-poverty programmes. Although they have come in different names and details official initiatives to tackle poverty have never seen people as active agents in their own betterment.

There must be planning from below. Decision making must be decentralised. Popular entreprises need to be encouraged. Our budget exercise has failed not so much in allocating, but in considering the people in such quantitive allocations. There is seldom any monitoring. There is only administrating. There is no one budget any more, but budgets before and after a budget.

The poor should not be made to depend on occasional and insufficient government doles. They should be involved in projects that will generate incomes for them. Simply allocating funds will not do if schemes are hijacked by vested interests. Participation by and accountability to the poor is the best means to thwart such interests.

Today in India, everyone looks for jobs but few are being created. The public sector has exhausted its stock. The little that remains has been earmarked for the backward classes, not necessarily the poor. In the context the new orientation of human resource development with a view to educating the masses for their own enterprises assumes additional importance.

A budget is a limited exercise which has worked ceaselessly to overcome the very difficult economic situation that we had inherited. In the words of Mr Singh, in June 1991 the economy was in the throes of an unprecedented balance of payments crisis. A savage squeeze had been imposed on imports, international confidence had collapsed, industrial production was falling and inflation on the rise.

In March 1993, we are still under the shackles of a global process of structural changes and shortrun stabilisation without being able to look forward to a long-term human resource development. Such a development will create the necessary purchasing power in the hands of the poor and help develop an internal market of mass consumption goods. This would provide the necessary incentives for undertaking small scale productions in rural India.

Thus, it is not merely the pattern of allocation, but the very purpose and meaning of budgetary allocations which needs to undergo changes. We must allocate funds to educate people in new enterprises. Our bottleneck is not only capital.

So long as the people remain poor in their hearts and minds, no amount of doles and subsidies will lead to their material uplift. Provision of credit now often turn into dowry for village grooms. The politician-bureaucrat nexus will prevent any attempts at genuine social development.

There must be an educative process to unlearn the political economy of siphoning off government money for private gain. Efforts must be directed towards increasing productivities of the poorer classes of people.

Our budgetary exercise till 1993-94 has missed these points. In the name of structural changes, it has successfully diverted attention from the glaring rural-urban, rich-poor divide.

The terms of the debate has been shifted to the question of determining the respective domains of the organised public and private sectors. All the platitudes notwithstanding the 1993-94 budget did little that will be effective in countering the trend that has led to the numbers of those in absolute poverty jump from 308.317 million in 1970-71 to more than 360 million at present. Not too much should, therefore, be read into its human face.

Based on Flawed Thinking

93AS0670E Calcutta THE TELEGRAPH in English 16 Mar 93 p 8

[Article by Sankar Ray: "High Price of Folly"]

[Text] The governor of the Reserve Bank of India [RBI], Mr C. Rangarajan, has hinted bank lending rates may be lowered from 17 percent if inflation dips further. The basis of these statements is obviously the wholesale price index. In other words the interest rate is a function of the inflation rate, not the reverse. But economists of the World Bank and the International Monetary Fund [IMF] seem to think otherwise. A recent paper "Are high interest rates effective for stopping high inflation? Some sceptical notes" by Mr Guillermo A. Calvo on the research staff of the IMF poses a different approach. The paper was presented at a symposium on inflation in socialist economies in transition. He lambasted the holy rule that the higher interest rates, the quicker price stability is achieved.

The Latin American monetary economist cited Argentina's unsuccessful structural readjustment programme in support. "A policy of high interest rates and tight money may indicate lack of confidence in the programme and may lead to a state of generalised bankruptcy. Unfortunately it may take a long while for it to become apparent that serious financial trouble exists," he observed.

Pointing out the model used conventionally "is a very short run depiction of the economy in which financial linkages with the rest of the world are not explicitly considered. Some countries with high inflation rates face serious international debt problems." He referred to Argentina's stabilisation programme of July 1989 pointing out that "the money rate of interest hovering around 15 percent a month from August to November while the exchange rate was fixed against the dollar and inflation came down to about five percent a month. The programme collapsed towards the end of November 1989 and high interest rates resumed during the next two months." Mr Calvo was shocked at the downturn in Argentina's performance, a recent phenomenon at that time and cautioned against high interest rates.

The Indian finance minister, Mr Manmohan Singh, ostensibly cautious against complacency, mentioned somewhat conceitedly in his recent budget speech that "the annual rate of inflation has been reduced from the peak of 17 percent to below seven percent. International confidence has been restored." There is no denying Mr Singh has shown his acumen as a kind of visionary among finance ministers. He is a bright exception to his run of the mill predecessors who mostly read budget speeches with bureaucrats prompting from the wings. But he ought to remember Argentina's fiasco, that the Latin American economy has for nearly two decades remained mired as a "middle developed capitalist system."

True Mr Manmohan Singh has kept every sector in good humour, except those burnt in the stockmarket, and his budget proposals should stimulate demand and economic growth. But he cannot hold in check the danger of inflation for two reasons. First, increases in steel prices by around three percent, coal prices by 12 percent and an all round increase in railway fares will jack up prices. It is almost inevitable petroleum and diesel prices will rise because the Indian Oil Corporation has to buy dollars to import oil at market rates. Following the rupee's full convertibility on trade account the inflationary spiral will accelerate.

Even then the inflation rate may not cross 10 percent simply because prices are already very high in contrast to what they were a couple of years back. The inflation rate is not a true reflection of the price situation. If the rate changes marginally at an already high price level the claim the inflation rate is going down is wholly deceptive.

Coming back to the question of interest rates it has to be pointed out that only under perfect capital mobility does the domestic interest rate equal the global nominal interest rate. The global nominal is the interest rate in terms of foreign currency. India is far away from perfect capital mobility despite the full floating of the rupee. Monetary economists rightly criticise the two phase convertibility as a sudden imposition if not a gamble. The Indian economy and the market suffer from a plethora of imperfections that make the use of interest rates a tricky policy tool.

Mr Rudiger Dornbusch, Ford international professor of economics at the Massachusetts Institute of Technology [MIT], has argued complete abolition of subsidies can be defended only under conditions of an efficient tax system. He warned against the folly of the assumption that "fiscal problems can be solved by mass retrenchment of public sector employees and privatisation."

The MIT scholar suggests the simultaneous restructure of public sector spending by moving towards investment from consumption, and retaining the productive public services. The contrast with the medieval ideas underpinning the national renewal fund is striking.

Another point missing in the otherwise creative budget of Mr Manmohan Singh is the concept of savings. This is a serious omission. There are no incentives for savings. Given that lower excise duties on a host of consumer items will increase private consumption expenditure, the finance minister should have proposed measures to encourage savings.

Most of the items, even cigarettes whose prices were hiked twice during the last four months, that enjoy excise duty cuts were cheaper a few months back. One is led to think massive excise duty cuts were a foregone conclusion to the manufacturers of these items. No comments are necessary. But the process of fiscal and monetary management is far from being efficient. The finance minister should not take to wearing laurels yet.

Truth About Oil Concealed

93AS0670F Calcutta THE TELEGRAPH in English 10 Mar 93 p 8

[Editorial: "Sooner and Better"]

[Text] The government may have to admit the folly of its post-budget optimism over keeping the prices of petroleum products low much sooner than it expected or would have liked to. That a floating rupee would not immediately lead to upward revisions in the prices of the bulkiest of the official bulk imports was based on two assumptions. First, the surplus in the oil pool account will provide a cushion for costlier imports. Second, international oil prices will keep on being on the lower side for some time to come. However, the oil industry itself has not given the oil pool surplus the ability to provide security for more than two months. And with the Organisation of Petroleum Exporting Countries planning a cut back in production, global crude prices are expected to rise earlier than the finance ministry mandarins had predicted. A "sooner than the government had promised" hike in the prices of petroleum products will doubtless add to the already poor credibility of official assessments of official policies. But it needs to be appreciated such hikes, their inflationary impact notwithstanding, are rational, and what is more, in some ways beneficial.

Rational because the government cannot and should not continue to subsidise oil consumption by paying the difference between import and domestic prices. Beneficial because higher domestic prices will discourage consumption and encourage oil exploration—exactly what good economics recommends for relatively scarce commodities. Sensible oil policy would also require the government devise a formula where the principal transport fuel, diesel, and the mass consumption item, kerosene, bear a lesser brunt of increased prices than petrol and liquified petroleum gas. Further, the technical hitches in storage and distribution must be removed. Their existence makes the decision to allow private import of petroleum products somewhat meaningless. Many argue the inflationary impact of higher oil prices would render several other policies similarly irrelevant. The cost push effect in this thesis is exaggerated. But it scarcely means the government can ignore it, especially since the rupee is expected to depreciate over the next months from its present high. Instead it should prune wasteful and administrative expenditure, thus dampening aggregate demand, and eliminate the red tapism that still afflicts exporters and foreign investors, thus increasing foreign exchange inflows. That will make higher oil prices easier to live with.

Statistics Falsified

93AS0670G Calcutta THE STATESMAN in English 1 Mar 93 p 1

[Article by C.R. Irani: "Rabbit Out of a Hat"]

[Text] On the face of it the Finance Minister, Dr Manmohan Singh has achieved the impossible. He has cut the Budget deficit, increased the Plan expenditure substantially, effected across-the-board reductions in excise duties on consumer durables like motor cars, air-conditioners, refrigerators and TV sets, and cut customs duties on a large variety of imports worth a total of Rs [Rupees] 4,522 crores in a full year. He has taken credit for Rs 3,500 crores from sale of public sector equity but has not announced any major increases in taxes. There is to be no change in personal income taxes except for raising the standard deduction from Rs 12,000 to Rs 15,000 and full exemption for one residential house from wealth tax. The Finance Minister accepts the Chelliah Committee's recommendations for restructuring and reducing the incidence of income-tax on corporations but defers action for another year pleading budgetary constraints. Corporations do not have the right to vote and can accord to wait, seems to be the underlying thought. It is quite clear that the Minister has set out to please the middle classes and at first sight he must be held to have succeeded brilliantly.

That the nationalised banking sector as a whole is nothing short of a scandal is quite clear from the proposals although, of course, the Minister makes no such admission. The banks will be making a provision for bad debts of as much as Rs 10,000 crores this year of which the Government will contribute Rs 5,700 crores. That the Government should make a contribution is entirely fair considering the fact that politicians in office have, since the days of bank nationalisation treated banks as milch cows available to them whenever they needed money for entirely improper purposes, and the habit still continues. Large provisions will need to be made on this account, says the Minister, next year and the year after. It is reliably estimated that the total cost to the nation of this systematic fraud is of the order of Rs 28,000 crores and which the Minister characterises, with breathtaking understatement, as "inadequate attention to the quality of debts." It would have been reassuring if there were any indications anywhere that the widespread abuse of

power by which banks were forced to lend money on the unstated admission that it would not have to be repaid, would cease.

With the total assets of the banks estimated not to exceed Rs 7,500 crores the nationalised banking sector has a negative net worth, and by a large margin. It is to be hoped that in making optimistic assessments of the proceeds of sale of new equity, the Government is not assuming that shares of nationalised banks would fetch much more than the value of the paper on which they are printed. In anticipation of an argument such as this, the Budget bravely proclaims the setting up of special courts to recover these loans. When these special courts fail, and fail they must for reasons which are obvious, it will be claimed that the Government did its best and a curtain must be drawn over the mistakes of the past. In these circumstances to say that the Government must retain 51 percent control over the banks is to serve notice that nothing will change and the nation must continue to pay for the loot practiced since Indira Gandhi took over the banks.

There are more words of reassurance. There is to be a special board for supervision of banks—Indian and foreign—within the RBI and a high-powered Commission will go into the rest like, controlling insider trading, cleaning up and streamlining capital markets, reforming the insurance industry and setting up a national stock exchange which will introduce a brand new clearance and settlement system. The unstated objective is to attempt to suggest that the securities scam is a bad dream and that all that is needed is to strengthen the RBI and Government supervision in general. The best way to do this is to bring the guilty to book; to divert attention from what must be done in this fashion is to be too clever by half.

One searches the Minister's speech in vain for any meaningful proposals to cut unproductive government expenditure; all we are offered is a review of procedures, ministry by ministry. Interest on borrowings is now a staggering Rs 3,800 crores, up from Rs 3,200 crores; there are no proposals to reduce borrowings. Full convertibility on trade account will help exporters; it is to be hoped that they will be able to deliver.

There are some other good proposals but if the Minister has not been able to say good-bye to all "obscurantist preoccupations," as he himself puts it, the fault is not really his. He has done his best. Finally, it must have been a complete coincidence that when he referred to Swami Vivekananda, the TV screen went blank.

Stock Market Reaction Negative

93AS0670H Calcutta THE STATESMAN in English 12 Mar 93 p 8

[Article by A. Besant Raj: "State of Drift: The Bourses and the Budget"]

[Text] The stock markets which were awaiting a number of concessions have reacted adversely to the Budget. The rude shock came when the promised reduction in corporate taxes by five percent and withdrawal of surcharge did not come about. There was an equal dose of surprise when the individual Income-tax limit was not raised. Adding to the sense of injury were the non-introduction of investment allowances or higher rate of depreciation. What followed was unloading by the bull operators and hammering by the bears.

The Bombay Stock Exchange Sensitive Index, which stood at 2,813.15 before the Budget, tumbled by nearly 240 points in just two sessions and closed at 2,571.18 on Monday. The downtrend continued even on Tuesday when the index pierced its support level of 2,500 but closed at 2,565.32 on Wednesday. But worse was to come when Dalal Street opened after the Holi holiday. The Sensitive Index crashed by nearly 135 points forcing the authorities to apply circuit-breakers.

Price Hike

To understand the impact of the Budget on individual industries and companies, the Budget should be read along with the pre-Budget increase in price of coal by 12.8 percent and railway freight by 10 percent. There is also the decanalization of petroleum products which implies that the oil companies will have to buy the dollar needed for the purchase of oil henceforth at Rs 33 per dollar, which was available at Rs 26 to them earlier, through the Government. If and when the rupee falls further against the dollar, the cost of imported oil and fertilizer would rise further. This will also apply to import of aircrafts, ships, defence equipment and spare parts relating to these items.

The Finance Minister also seems to have disappointed the small-scale sector. Though he was committed to protect it, he has effectively reduced the excise exemption limit from Rs 75 lakhs to Rs 50 lakhs. This will increase the excise burden for this sector. The withdrawal of the five percent extra excise benefit for a large company buying from a small-scale unit is another blow to the sector, which has contributed significantly in exports and in creating employment in the economy.

The increase in coal, rail freight, foodgrain prices, sugar and the anticipated rise in petroleum products, including kerosene and cooking gas, will further erode the purchasing power in the economy. These price rises would particularly erode the already dwindled discretionary income in the hands of the middle classes. In view of this, in spite of the significant reductions in excise duty on cars, three wheelers, television sets, refrigerators, air conditioners, electric fans, etc., the shares of companies manufacturing these products have not shown an uptrend.

On the other hand, during the last few sessions after the Budget, there has been a steady erosion in the prices

followed by this week's crash, indicating that the investors in the stock market do not expect any significant revival in the demand for these products due to these excise cuts.

The reduction in the excise duty on coffee, tea and instant tea and the Rs 400 per ton reduction in vanaspati prices have been ignored by the stock market. Similarly, the reduction in excise duty on packaged biscuits and noodles has also been ignored by the market, though in the long run this is likely to help companies dealing in packaged food products.

The only product group which seems to get significant benefit from the reduction of excise duty is cosmetics and toiletries, where the excise duty has been sharply brought down from 120 percent to 70 percent. This should benefit companies like Colgate, Ponds, Lakme, Tips and Toes and Hindustan Lever. However, the Finance Ministry has clearly directed that the entire excise benefit should be passed on to the consumers, else these are likely to be withdrawn. Thus, while the companies may not directly benefit, this measure should help boost their sales. Moreover, this reduction in excise duty should help them to face the very tough competition these companies have been facing from mushrooming small companies enjoying total excise exemption and producing sub-standard products.

Fortunate Few

The excise duty benefits are further likely to help wood-based companies like Wimco, Kitply and Western Paques. Dry cell battery manufacturers like Indo National Lakhanpal, Union Carbide will benefit by the reduction in excise duty from 34.5 percent to 25 percent. Similarly, the significant duty reduction in man-made fibres will benefit companies like Reliance, South India Viscose and DCL Polyester.

The Finance Minister has given substantial import duty reduction on several products. In fact, of the total duty reduction of about Rs 4,500 crores, Rs 3,500 crores relate to reduction in import duties. While this will reduce the input cost to Indian companies using these imported products, this duty reduction will adversely affect local manufacturers of these products. Thus manufacturers of bulk drugs and bulk intermediates are likely to be badly affected. Manufacturers of capital goods in the country are also likely to be affected by the sharp reduction in duties on imported capital equipment. However, the full convertibility of the rupee would provide some measure of protection to the domestic manufacturers of these products.

The power sector is given a five-year tax holiday for new units and sharp reduction in Customs duties on imports. These should significantly help power companies like Tata Power, Tata Hydro and Bombay Suburban. Hotel companies such as Indian Hotels, Oberoi, ITC Hotels, etc., would also benefit from full convertibility of the rupee. Similarly, companies exporting software should do well. The export-oriented industries will again stand to gain from full rupee convertibility plus the one percent reduction in interest on export loans and also exemption from tax on the loans.

Further Fall

Yet the markets are continuing to slide down, in spite of support from financial institutions and several self-assuring speeches by the Finance Minister, the Governor of the Reserve Bank of India and the economic advisor to the Government of India, since the Budget. What is even worse is that the crash of March 9, when the BSE index closed at 2,318.56 in spite of several restrictions imposed by the Bombay Stock Exchange [BSE] authorities. The circuit breaker arrested a further possible fall, but there are small signs of a recovery for there are fears that the market may face a payment crisis in view of the continuous sharp fall in the price securities.

If the market sentiments were naturally dampened, the emerging political situation has hardly been a help. The break in the alliance between the Congress and the AIADMK [All India Anna Dravida Munnetra Kazhagam] in Tamil Nadu has weakened the Congress at the Centre. The disclosures relating to the receipt of a Rs 2-crore loan by Goldstar, a company of which a son of the Prime Minister is one of the promoters, from Mr Hiten Dalal, have further weakened the leadership at the Centre.

On the economic front there is more discouraging talk. The recent disclosure that petroleum product imports will be subsidized through the profits in the oil pool has not been helpful, as these profits are sufficient only to cover two months' import of oil products at the current value of the dollar and the current price of the crude. The market, thus, anticipates a further rise in input costs to industry and further erosion of purchasing power in the economy.

As things stand today, the market is likely to drift and go down further, in spite of the preventive measures being adopted by the stock exchange authorities. It would be prudent, in this market, to book profit in all scrip with a price earnings ratio exceeding 20 and to buy only very selectively and purely on fundamentals.

External Debt Increasing

93AS0670I Calcutta THE STATESMAN in English 13 Mar 93 p 12

[Article by Ranjit Sau: "Budget in a Tide of Times"]

[Text] The Union Budget for 1993-94 is startling. It has done something which is prima facie impossible. It has reduced Customs and excise duties, left income and corporate tax rates virtually untouched, increased expenditure, and yet has balanced its books in such a way that the fiscal deficit as a proportion of gross domestic product has gone down from 5.25 percent in the current year to 4.75 percent next year.

To cap it all, the Finance Minister has taken the bold step of allowing rupee to float in the trade account subject to certain restrictions on export-import of consumer goods. The Budget is thus a combination of hopes, assumptions, and subtle arithmetic. Calculations in the present Budget are reportedly based upon growth rates of five percent for the GDP [Gross Domestic Product] and eight percent for price level in the next financial year, compared to respectively 4.2 percent and eight percent in the current year.

Four Players

This means a marginal improvement in the growth rate of the GDP, and constancy in the rate of inflation. These assumptions seem fairly reasonable. However, let us consider inflation which has a very key role in the entire structure. For the present purpose, the Indian economy can be conceived as a game of four sets of players, namely—the Centre; the States; the foreign multinationals; and the public. To assess the Union Budget we must take into account the moves of all the players. The States cannot be left out of the story; if for nothing else, their budgetary expenditures are of the same order of magnitude as those of the Centre.

Dr Manmohan Singh has not made very explicit his thoughts on the impact of his Budget on the States. However, it is clear from his speech that the States' share of direct taxes collected by the Centre would go up from Rs 205.25 billion this year to Rs 225.90 billion next year, but there would be a net loss of the States' part of revenue on account of relief on excise duties to the tune of Rs 5.41 billion. On the whole, thus, the States' revenue from Central taxes and excise duties together, in nominal terms, will lag behind the rate of inflation. Thus, on this account, the States would get less in real terms next year compared to this year. Certainly, the States would receive other allocations from the Centre: but the aforementioned revenues are prime sources of States' receipts.

Meanwhile, some of the administered prices have been raised just before the presentation of the Budget. Prices of coal and sugar, for example, are up. Railway freight and fares have risen. Suppose initially the inflation continues at the present rate as postulated by the Finance Minister. Now, the States having received a smaller (in real terms) amount of tax and excise revenue through the Centre will either raise their own tax rates or cut expenditure. The former is most likely to happen, and, in that event, the rate of inflation will rise further crossing the postulated eight percent. Once inflation accelerates the entire fiscal edifice of Dr Singh will be in jeopardy.

The Government has claimed credit for taming inflation since July, 1991. It is relevant to remember that we have had almost for the first time in recent memory, an uninterrupted five-year spell of abundant rainfall. If the weather cycle is not altogether obsolete the harvest next year may turn out to be below the current level.

Food Imports

If food is to be imported at the market price of the dollar, the pressures on domestic prices of foodgrain may be quite high. Recall that the budgetary provision for food subsidy has only marginally increased from Rs 280 billion this year to Rs 300 billion next year, that is, by about seven percent which is less than the rate of inflation. This sum may not be adequate to hold the issue prices of foodgrain through the public distribution system in the likely event of an unfavourable monsoon.

How would the fourth group of players, the public, behave in this game? Some of them are fairly rich; quite a few others belong to the well-to-do middle class. Now that excise relief has been given to a wide range of durable and non-durable consumer goods, it is conceivable that prices will come within the reach of many buyers. Consumer goods cannot yet be imported from abroad. But many foreign items of conspicuous consumption have appeared in the Indian market in some form or other. There is a pent-up demand for all this, and possibly it is price elastic. One need not be surprised if consequently there is a drop in savings. The Budget has not made any perceptible effort to induce saving.

The Budget envisages a moderate stepping up of the GDP growth rate. If the capital-output ratio remains constant, the rate of saving must go up in order to bring about higher growth. The Finance Minister seems to have overlooked this aspect. Or, he might have tacitly relied upon a fall in capital-output ratio with the expected improvement in efficiency of resource utilization under the heat of global competition in Indian market.

Customs Question

Now, the third category of players, foreign multinationals, enters the scene. How would they take the lowering of Customs duty? If the foreign supplier is a profit-maximizing monopolist who follows the mark-up pricing rule, he will raise the dollar price of his merchandize as the tariff rate falls in India. If the theory is correct Dr Singh might find our import bill rising for, not one, but two reasons. There will be an increase in the volume of import, and rise in dollar price of imported goods, as Customs duties are reduced. Most probably the Finance Minister has not taken into account the second part.

The country is on the brink of an external debt trap, if not already deep into it. Because of ambiguity in definitions and data there is some confusion about the precise magnitude of India's external liabilities. The Reserve Bank of India has gone into the matter and recently published a report. The size of India's foreign debt—short, medium and long term—is pretty close to $100 billion. In 1990-91 the debt service charges came to $10 billion. At that time India was about to default on international payments. Gold of 67 tons was mortgaged abroad and shipped. It has been redeemed since then. But the strain on our external accounts remains. This year our current account deficit is expected to be $7

billion. With the changed trade policy the deficit will rise unless export earnings improve substantially.

Rupee Will Sink

93AS0670J Calcutta THE STATESMAN in English 14 Mar 93 p 8

[Article by Ranjit Sau: "Questions Over Pace & Sequence"]

[Text] The Finance Minister has liberalized imports with a view to bringing in an air of competition that is expected to ensure greater efficiency in industry. Indeed, "efficient industrialization" sums up the official mood. It is imperative that our exports are given a big thrust. The President in his inaugural address to the joint session of Parliament has just said: "In the world that is emerging, the economic strength of the nation will depend on its ability to compete in the international market place, on the basis of quality, reliability and price. It would be our endeavour to achieve a sustained growth rate of exports of 15 percent to 20 percent per annum in dollar terms within the next few years. It would be a basic plank of Government policy to encourage exports in every possible way and to remove all impediments or constraints that affect their growth." The Finance Minister has shaped the Budget in the light of this dictum.

World Trade

However, India will face very stiff competition in international market. The world economy is in recession. Reports of retrenchment and layoff in major industrialized countries are filling the pages of newspapers. Under the circumstances every country is eager to enhance its own exports, particularly to mitigate the recessionary effect of Budget deficit reduction. While the developing countries are opening up their economies the developed world is moving in the opposite direction.

Efficiency is certainly welcome. But the path the Finance Minister has chosen for this purpose is doubtful. Measured by the index of all borrowings from banks and financial institutions, the size of the present sick industrial units of small, medium, and large scale is equivalent to as much as one-half of the entire corporate sector of India. If imports and multinational corporations are immediately allowed greater and easier entry, the number of sick and weak industrial units is bound to multiply. One wonders if opening up the economy here and now is the only way to efficiency. How did Japan do it? How about South Korea?

That brings us to the questions of time horizon and optimal sequencing of reform measures. The Economic Survey of 1992-93 points out that the strategy of economic reform introduced in June, 1991, has two components: stabilization and structural reform. The former is a short-term affair of less than two years, while the latter is a medium-term exercise spread over not less than three years. Now that the rate of inflation has been brought down and foreign exchange reserves are at a comfortable level, the task of stabilization, or crisis management, is said to be done.

The Finance Minister is evidently under the impression that the other part, namely, structural reform, has to be completed in three years. It is noted that "only half this period is now over." True, you cannot cross a chasm in two jumps, nor can you prolong and stretch out the process of reform too far in time. But we are not convinced that structural reform has to be completed within the next year and a half at all costs. Perhaps it would be more prudent to give India's industry a little more time to prepare itself in a phased manner for the eventuality of global competition.

Agro Woes

No one denies that India's industry is high-cost and mostly inefficient by international standards. It is true that the country cannot afford such a situation for long. On the other hand, India's agriculture still depends very much on the monsoon. One or two consecutive bad harvests would be enough to ignite inflation and render the budgetary estimates irrelevant. Yet real investment in agriculture, both private and public, has declined throughout the last 10 years. This matter deserves no less urgent official attention. The Budget, no doubt, displays a remarkably higher allocation for rural development; but we are not sure how much of it would be earmarked for agrarian capital formation.

Dr Manmohan Singh has presented a Budget with multiple surprises. We do not remember any other Budget that reduces levies across-the-board, raises outlays, and yet cuts the deficit. His work has been facilitated by several extraneous circumstances such as favourable rainfall, in a world of recession softening of oil prices, and lower interest rate that eases debt service burden, and cut in defence repayment bill in the wake of the rupee-rouble rate renegotiation with Russia. He has also duly utilized the benefits now forthcoming from the fiscal squeeze of his last two Budgets.

Save Less

To sum up, the Finance Minister while preparing the Union Budget seems to have glossed over the reactions of the other three parties in the economic game. With a relatively smaller amount of tax and excise revenue received through the Centre, the States would be obliged to raise their own deficits, and thereby add to the inflationary trend. With excise concessions granted to a variety of durable and non-durable consumer goods, affluent and middle-class households would spend more on price-elastic luxury items, and hence save less.

Furthermore, according to our theory the foreign multinational corporations will raise the dollar price of their merchandize as soon as India lowers tariff; as a result the balance of payments will be worse than what the Finance Minister has reckoned. With free entry of foreign goods

and capital without any advance warning, a large segment of India's industry will become sick. This is a formidable combination. If it happens the rupee will no longer float; it will sink. Of course, this is the worst scenario, not necessarily the most probable. We are not prophets of any kind; we are not in the business of forecasting. We are only doing economic analysis and simply laying out the scenarios. For the most rosy pictures see the Government documents, and hear the Ministers and officials.

Budget Termed 'Deceptive,' Seen Inaccurate

93AS0683G Madras FRONTLINE in English 26 Mar 93 p 25

[Editorial: "A Deceptive Budget"; quotation marks as published]

[Text] It has by now become obvious to any serious observer that many significant budgetary measures are taken by the Central Government before the Union Budget is presented to Parliament, and many soon after the Budget has been passed by it. The Union Budget, in effect, has almost become a residual as far as budgetary measures per se are concerned. It has also become a practice with successive Finance Ministers to announce, as part of the Budget, policy measures that are not purely budgetary. Dr. Manmohan Singh's exercise for 1993-94 is true to this pattern.

The Budget for 1993-94 is, on the face of it, an exceptionally clever one. It announces, on the one hand, reliefs to the tune of Rs. 5,553 crore by way of reduction of customs and excise duties, with no balancing additional impositions by way of taxes. On the other hand, it reports both a substantially lower budgetary deficit than even the budget estimates of 1992-93 envisaged, and a significant step-up in Plan outlay. There is clearly more than meets the eye in this apparently remarkable result. A look at detailed, disaggregated data would be needed to identify the fudging and doctoring of figures that one is led to suspect prima facie. There is, however, enough of a hint in the Government reducing its net borrowing from the Reserve Bank of India [RBI] by a massive amount one fortnight just to meet the IMF performance criteria, and drawing from the same bank the same or a larger amount after the quarterly deadline passes.

Fudging apart, the cleverness of the Budget becomes quite easy to figure out when one adds up all the pre-Budget revenue-raising measures. The partial decontrol of the fertilizer industry in August 1992, the sharp hike in petroleum crude and product prices in September, the increase in issue prices of foodgrains effected in the very beginning of 1993, the hike in sugar and diesel prices, the increase in the prices of iron, steel and coal, the imposition of Rs. 1,848 crore in the Railway budget on the eve of the Union Budget, and the hike in telecom rates—all these add up to a burden that easily exceeds Rs. 10,000 crore in a full year.

The Finance Minister, having fleeced the majority of our people through these administered price hikes, has apparently decided to be generous to the captains of industry, though not necessarily Indian captains. The large, 32 percent step-up in Plan outlay is not to be taken at face value either, since much of this increase is to be financed, not by the Budget, but by so-called "internal and external budgetary resources" of public sector enterprises. Going by past experience, this would in practice mean further doses of sharp increase in administered prices. Turning to the significant increases in outlay in real terms for rural development and the social services sector, it needs to be pointed out that these are only 'significant' in relation to their abysmally low levels in the 1992-93 Budget which represented a sizeable cut in real terms over the 1991-92 outlays.

The expectation that the massive cuts in excise duties will provide considerable relief to the consumer is somewhat naive given the monopolistic character of our industrial economy. The argument that the reduction in customs duties will stimulate investment and growth through making available key inputs at lower prices, and providing a measure of competition to domestic producers is a half-truth that ignores the profoundly destructive impact on domestic industry and employment that those cuts will have. Taken together with other concessions to private, foreign capital in the Budget, the across-the-board reductions in customs duties are far more likely to contribute to de-industrialisation and a deepening of the recessionary trends in the economy.

A very serious aspect of our current economic crisis is the balance of payments situation. Against the background of this crisis, it is altogether short-sighted to hail full convertibility of the rupee in the trade account as the harbinger of a massive export boom, and thereby of export-led growth. On the contrary, full convertibility would most likely have a disastrous impact in both the short and the long run. Immediately, it amounts to a further devaluation of the rupee with a consequent sharp rise in import costs. In the longer run, it makes the economy highly vulnerable to the vagaries of the international commodity markets, the whims and fancies of international capital and the tender mercies of currency speculators.

At a conceptual levels, the Fund-Bank philosophy underlying the Budget is stubborn in not facing facts. It is a fact that despite a series of devaluations, exports have not picked up significantly in real terms. To anyone familiar with the present state of the international economy, the commodity structure of India's exports and the protectionism prevailing in the advanced countries, this result would be hardly surprising. Similarly, it is not a fact that lower tax rates lead to better compliance. Again this is logically not surprising at all, since as long as the incentive to evade remains a lowering of rates per se is of little consequence. However, since these facts are inconsistent with the Fund-Bank philosophy, the Budget finds it convenient to ignore them.

The nation, however, can hardly afford to ignore these and other facts which together imply that the present Budget will deepen the balance of payment crisis, that it will contribute to a simultaneous inflationary-deflationary squeeze on the economy—with full convertibility contributing to inflation, and customs duty reductions and cutbacks in public investment and spending to deflation—and that this Budget does not bother to address seriously the issues of poverty, employment and real wage rates.

An especially insidious aspect of the orchestrated hype about "the containment of inflationary pressures by prudent fiscal management" needs to be noted. Even a doctored figure of a 6.6 percent inflation rate, coming on top of a 14-percent rate in the previous year, and after five successive years of good monsoons, is nothing to rejoice about. An elementary point to be noted is that the 'tolerability' of an inflation rate is decided not by its absolute level, but by its relationship to changes in money wage rates. With declining employment, stagnant money wage rates, lower real subsidies, and a fresh burst of inflation in the offing, the working people of this country will find little cheer in the Union Budget for 1993-94. For the nation as a whole, full convertibility, massive import liberalisation, the opening up of such strategic sectors as power and finance to foreign private capital, and growing external debt constitute a serious threat to economic, and therewith to political, sovereignty.

New Budget Termed 'Gamble,' Seen Deficient

93AS0683E Madras FRONTLINE in English 26 Mar 93 pp 20-22

[Article by C.P. Chandrashekhar: "An Irrational Gamble: Now To Pay the Real Price"]

[Text] The packaging of a product, marketing experts would argue, is a dominant influence on its perceived value. That is a tenet is the mandarins at the Finance Ministry appear to have mastered. For many years now, the budget has been seen as the means by which the government finances 'development' by resorting to a combination of tax increases and tax concessions. As a result, it has come to be commonly assessed in terms of the differential distribution of the costs and benefits of growth across different sectional interests.

In recent years, however, the government's effort has been directed at making the best out of this perception with the aim of winning its budget allround support. Resources are now mobilised mainly through increases in administered prices that occur outside the budget. Cuts in budget support for capital expenditures are used to keep down the extent of resource mobilisation required for a given level of fiscal deficit. Revenue expenditures are curtailed through cuts in subsidies, towards the same end. And the privatisation of public sector units and borrowing by them are now important mechanisms for financing Plan outlays mentioned in the budget. This renders the budget less of a resource mobilisation exercise and more a venue to announce major changes in policy that do not in an obvious way touch anybody's wallet.

Finance Minister Manmohan Singh has, this year, used that strategy to present a Budget which has won an amazing degree of support. Well before the Budget, increases in the administered prices of coal, steel, sugar and food distributed through the public distribution system, and hikes in Railway freight and fares were used to mobilise resources totalling a few thousand crore rupees. The Budget then offers indirect tax concessions that aggregate more than Rs. 4,522 crore in terms of lost revenues, slashes subsidies, announces the removal of all restrictions on agricultural trade within the country, takes the bold step forward to full convertibility of the rupee 'on the current account' and, above all, claims to have stepped up Plan outlays, despite reducing the ratio of the fiscal deficit to GDP to 4.8 percent.

There are three questions which arise. First, what motivates these initiatives? How valid are the Minister's claims? And, finally, what implications do these measures have?

The answer to the first of these questions must begin by separating those initiatives which reflect an effort to further the change in regime from initiatives of the kind conventionally associated with the budget. The reduction in customs revenues, for example, is essentially the next step forward in the process of trade liberalisation. Having removed quantitative restrictions on most imports and placed them under open general licence, the Government is now reducing the barriers that tariffs set on the extent of imports. The reduction in subsidies from Rs. 9,480 crore in 1992-93 (revised estimates) to Rs. 7,000 crore in this Budget, reflects one of the two main forms of expenditure cuts being resorted to by the Government to control the fiscal deficit, the other being the reduction in capital expenditures. The removal of restrictions on trade in agricultural products, at a time when procurement is falling short of targets despite consecutive good harvests, implies that the Government is giving up on procurement as a prelude to dismantling the public distribution system. And the shift to full convertibility of the rupee for most current (and some capital) account transactions, reflects the move initiated last year to a more liberalised exchange rate regime. Pick a nation that is negotiating a large Extended Fund Facility loan from the International Monetary Fund (IMF), and was at the stage of the liberalisation process India was at the beginning of the year, and its economic programme is likely to reflect all these features.

On the other hand, the only mechanism being resorted to in the Budget to stimulate growth is the reduction of excise duties on a number of commodities. This in turn allows the Government to present the effort to stimulate growth as being at its own expense rather than of the population at large. Interestingly, these concessions are directed largely at a host of consumer durables and

commodities such as synthetic fibres, which were and would remain irrelevant luxuries for an overwhelmingly dominant section of the nation. And even here it is unclear whether cost increases resulting from the increases in the administered and/or post-devaluation rupee prices of intermediate and components, on the one hand, and the effort of manufacturers to translate a part of the reduction in duties into higher ex-factory prices, on the other, would neutralise the impact of the concessions on prices and demand.

This leaves the claim that despite massive duty concessions and a reduction in the fiscal deficit to GDP ratio, the Government has been able to step up Plan outlays. But that step-up is just illusory. To start with, the rather startling figures regarding the extent of increase incorporated in the Budget are based on a comparison between the budget estimates for this year and the budget estimates for the previous year. If the comparison is between the budget estimates for this year and the revised estimates or actual expenditures in the previous year, then the increase is far less even in nominal terms. Secondly, overall capital expenditure supported by the budget registers a decline in nominal terms relative to the revised estimates for the previous year. Thirdly, the increase in the central Plan outlay is accompanied by a squeeze on resource transfers (net of centrally-sponsored schemes) to the States, so that if budgetary expenditure on the Plan in both the Centre and the State are taken into account, the nominal increase is likely to be marginal or even negative. And finally, the overall increase in Plan outlays of around Rs. 14,000 crore is based on a Rs. 10,600-crore increase in the contribution of the internal and extra-budgetary resources of public enterprises. Such a major chunk of that increase is to come from borrowing, the experience of the Railways and the power sector with mobilising resources through borrowing suggests it is unlikely to be realised. Thus no real step-up in Plan or capital expenditures is likely.

Thus, clearly the arguments that this is a Budget for reviving the economy cannot be sustained. If growth is not in the offing, is the cause of stabilisation likely to be furthered by this exercise? The Government of course holds, on the basis of an ostensible turnaround in growth, the dampening of the point-to-point increase in the wholesale price index and the maintenance of foreign currency reserves of around $5 billion, that the process of stabilisation has already been successfully completed.

That case is specious on a number of counts. To start with, the pick-up in the rate of growth of industry from -0.1 percent in 1991-92 to an estimated 4 percent this year, is based on a downward revision of the indices of industrial production for the previous year, which does not appear to be warranted. And the estimated 5 percent agricultural growth in 1992-93 emerges because the estimate of a one percent decline in agricultural production provided in the RBI's [Reserve Bank of India] Annual Survey for 1991-92, released in September last year, has now been revised to a 2.8 percent decline, though the Meteorological Department's figures suggest that the monsoon in 1992-93 was, as in 1991-92, 92 percent of normal and the figures on offtake of fertilizer indicate that it stood at 12.7 million tonnes over both those agricultural years.

In fact, it is common knowledge that because of a delay in the arrival of the monsoon, expectations were that 1992-93 would not be a repeat of the three previous relatively good harvest years. This encouraged a degree of hoarding of food stocks by surplus farmers and traders, resulting in a decline in foodgrain procurement during the first 10 months of this financial year, as compared with the corresponding period of the previous year. Procurement in the period up to January 25 was at 12.6 million tonnes in 1992-93, below the corresponding figure for 1991-92 of 13.6 million tonnes. When expectations with regard to the crop were not realised, there would have been a process of dishoarding of stocks that accounts for the decline in the prices of food in particular and primary commodities in general. Not surprisingly, 71 percent of the decline in the point-to-point increase in the general price level during financial year 1991-92 and the first 10 months of 1992-93 is accounted for by those commodities. That is, stabilisation in the sense of a dampening of the rate of inflation, is attributable more directly to the monsoon and the expectations that preceded it rather than the cutback in the fiscal deficit of the Government.

This brings us to the last element of the effort at stabilisation—the correction of the balance of payments disequilibrium. In fact, it was that disequilibrium, reflected in an unsustainable current account deficit which stood just short of 3 percent of GDP, that led to the run on India's foreign currency reserves and necessitated the whole adjustment effort. Two years after that effort began and despite a substantial reduction in the fiscal deficit, the Economic Survey projects that the deficit on the current account of the balance of payments in 1992-93 would amount to 2.8 percent of GDP, as compared with 2.9 percent in 1988-89, 2.5 percent in 1989-90, 2.6 percent in 1990-91 and 1.1 percent in 1991-92 (when import compression measures were adopted in the face of a BoP crisis). This is essentially because with the relaxation of import compression imports have increased by 16.5 percent in dollar terms over the first nine months of this financial year, as compared with the corresponding period of the previous year, while exports in dollar terms rose by just 3.4 percent. Thus the adjustment effort has been a failure in a two-fold sense: first, fiscal adjustment has not cured the payments disease; and second, while structural adjustment has resulted in increased imports, exports have been far less responsive, increasing India's balance of payments vulnerability.

As a result of that failure, India has had to rely heavily on commercial borrowing. A look at the balance of payments figures in the Survey indicates that over the period April-September 1992, or the first six months of this financial year, India had to take recourse to a set of inflows under the head "Other Capital," which totalled

$3,045 million. Interestingly, the Survey leaves unexplained the nature of these inflows. Searching through the document, however, we find, in the section on Money and Finance, that $1,615 million of this is accounted for by inflows under the Foreign Currency (Banks and Others) Deposit or theFC(BO)D scheme, which was set up to invite deposits from foreign citizens (not just NRIs [Nonresident Indian]), banks and corporations. The massive inflows under that scheme in the first six months of the year may possibly be on account of foreign banks that had to make provision for losses incurred as a result of the securities scam. The FC(BO)D scheme was suspended as of July 31, 1992, after which there has been a consistent outflow under the scheme. Those outflows have been more than counterbalanced by inflows from the IMF, the World Bank, the Asian Development Bank, Germany and Japan, which have all been providing exceptional financing to help shore up India's balance of payments in the wake of a reform effort they support. India's aggregate external debt, excluding a defence debt and the civilian rouble debt, rose by $3.5 billion over the first six months of this financial year from $67.58 billion at the end of March 1992 of $71.1 billion at the end of September 1992. This compares with an average increase of $4.5 billion a year between end-March 1989 and end-March 1992. These inflows in turn explain the fact that foreign exchange reserves are still in the range of $5 billion, with the decline over the first 10 months of 1992-93 being to the tune of just about $500 million.

Despite this failure of the reform effort, the Budget, with an amazing degree of bravado, proceeds in the same direction. By reducing customs duties across-the-board, it provides the basis for an acceleration in the rate of increase in imports that would worsen the balance of payments position and aggravate the process of deindustrialisation. And the latter trend would be strengthened by the effort to keep the fiscal deficit down to less than 5 percent, in accordance with IMF requirements. That is, the Budget appears to further the tendency noticed in recent years for fiscal adjustment to push the economy into recession without correcting the balance of payments disequilibrium. That could mean another balance of payments crisis and a further dose of even more severe austerity under the auspices of the IMF.

The Government, of course, claims this is unlikely for two reasons. First, the shift to full convertibility on current account would ensure that the exchange rate—or the market-determined price of foreign exchange in terms of the rupee—would rise in the wake of increased demand for foreign exchange. The consequent devaluation of the rupee would not merely neutralise the effects of customs duty concessions on import prices, dampening demand for them, but would also reduce the foreign exchange prices of exports, resulting in a stimulus for growth. That is, rupee convertibility would not merely foreclose deindustrialisation and a worsening of the balance of payments problem, it would also serve to stimulate growth and improve the payments position. Secondly, in addition to all this, reduced taxes on foreign dividends, tax holidays for investment in certain backward areas and certain infrastructural industries and less cumbersome procedures, are all expected to spur export-oriented domestic and foreign investment, triggering a revival in the economy.

Each of these arguments needs to be dealt with separately. First, the shift to full convertibility on current account has two implications: 1. It widens the range of uses for which foreign exchange is available with ease, leading to increased demand; and

2. It determines the foreign exchange value of the rupee on the basis of demand and supply in a market for foreign exchange, where the players are the authorised dealers speculating for profit and hedging against losses and the Reserve Bank of India, which retains the right to intervene through purchases and sales of the dollar in order to stabilise the rupee.

Given the fact that at present the current account situation is about as bad as it was at the peak of the foreign exchange crisis, convertibility on current account would render the demand for foreign exchange greater than its supply. This would either result in a relatively steep devaluation of the rupee fuelled by speculation, or in a situation where the government both runs down its foreign currency reserves and borrows additional sums abroad to intervene in the foreign exchange market and stabilise the rupee. That is, a steep devaluation or a substantial increase in borrowing is what the current situation presages. But if the Government resorts to borrowing to stabilise the rupee, then neither would it neutralise partially the effects of the import duty cuts on import prices, nor would it provide the stimulus to exports. That is, the role of convertibility as a mechanism to stabilise the balance of payments and stimulate growth would be undermined to the extent that the rupee is stabilised.

However, even at this level of reasoning, there is a further problem. There exist a set of bulk imports, in particular of oil and fertilizers, that were earlier being imported at the official exchange rate of around Rs. 26 to the dollar, as compared to Rs. 32 in the open market. The landed rupee cost of these imports would be, therefore, immediately higher to the tune of around 25 percent. That is, even if the rupee is stabilised at the current open market rate, we can expect an increase in the cost of crucial inputs that would fuel cost-push inflation. Add to this the increase in costs associated with increases in the administered prices of coal and the hikes in railway freight, then this scenario where borrowing is used to stabilise the rupee is not merely one of slower growth, but also of higher inflation.

This implies that the only factor that could preempt a situation of no growth and some inflation, or (if the value of the rupee falls below its current market rate) slightly higher growth with relatively high inflation, is a

substantial inflow of foreign investment that could stabilise the rupee, stimulate growth based on exports as well as permit imports of a range of commodities that could dampen the rate of price increase. With Eastern Europe and almost every single developing country competing as sites for world markets-oriented foreign investment, there is no reason why a country like India, with more than a normal share of social strife, should be preferred. That is, the strategy of the Government is by all accounts an irrational gamble dictated by the IMF.

The burden of that irrational gamble, of course, falls most heavily on the working people. In the short run they not merely have to endure the stagflation that this form of adjustment implies, but also a massive attack on living standards through a cut in food subsidies and a gradual dismantling of the public distribution system. With the massive increase in procurement prices this year, and the likelihood of an indifferent or bad harvest in the wake of four relatively good monsoons, the decision to remove restrictions on the foodgrain trade is indeed ominous. Add to this the effects of the removal of rail tariff concessions on the transport of essentials, including foodgrains, increases in the prices of sugar and the relatively small increase in nominal food subsidies in the Budget, and the direct attack on the living standards of the working people becomes clear. That is, even if not presented in conventional terms, this Budget too unevenly distributes the burdens of its development strategy.

Logic Behind New Budget Questioned

93AS0683D Madras FRONTLINE in English
26 Mar 93 pp 16-17, 19

[Article by Prabhat Patnaik: "Low on Logic: An Exercise Without Rationale"; quotation marks as published]

[Text] Many have argued apropos the 1993-94 Budget that the Finance Ministry has not got its sums right, that the Budget figures in many instances are dubious. I shall not go into this question here. I would argue instead that the Finance Ministry has not got its logic right, that the reasoning behind the Budget is logically unsound.

There are two basic aspects of the budgetary strategy. The first is an attempt to stimulate borrowing-financed public investment, especially in the infrastructural sector. Since the fiscal deficit has to be kept within bounds agreed to by the International Monetary Fund (IMF), this borrowing is supposed to be done directly by the public sector enterprises (PSEs), instead of its being mediated through the Budget. In other words, the objective of stimulating borrowing-financed public investment is reconciled with that of keeping within the IMF-approved fiscal deficit target by 'offloading' the PSEs from the Budget. This is clearly shown by the fact that while Central Plan outlay is supposed to increase by 28.6 percent over last year's revised estimate, budget support for it is to go up by only 18.4 percent, while internal and extra-budgetary resources are to increase by 35.3 percent; within the latter, borrowings alone are to increase by 55 percent.

The second aspect of the budgetary strategy is the introduction of rupee convertibility together with import liberalisation measures like the reduction in customs duties. This second set of measures, some have said, are meant to appease the IMF into 'allowing' a larger fiscal deficit than it had earlier stipulated (such, unfortunately, is the current state of our sovereignty): 4.8 percent instead of 3.5 percent of gross domestic product (GDP). Now, my point is that these two aspects of the budgetary strategy are mutually contradictory.

In a situation of recession, borrowing-financed public investment has some rationale. True, it sets up interest obligations for the future which would necessitate price hikes adding to inflation. True also is the fact that PSE's may not always succeed in obtaining loans, as the recent example of the Railways has shown. Nonetheless, from a Government that lacks the will to garner larger direct tax revenue (and now under IMF tutelage is even more incapable of doing so), it is better to have borrowing-financed public investment than continued truncation of public investment even in the midst of a recession. The problem lies not with this measure per se, but with its being combined with the other one, namely liberalisation-cum-convertibility, which has no rationale whatsoever.

Large segments of domestic industry hitherto, especially capital goods, were protected, which means that at the free market rate (under the dual exchange regime) the import duties were high enough to make foreign goods more expensive. Since import duties have been slashed, it stands to reason that unless the rupee, under the now-introduced unified exchange rate regime, falls below the earlier free market rate, and that too to an extent large enough to offset the reduction in import duties, domestic goods generally and capital goods in particular would lose out to foreign products, a process that is called 'deindustrialisation'. But if the rupee falls to such an extent, then a whole range of essential imports that were earlier being bought at the official exchange rate, compared to which the free price of foreign exchange was 25 percent higher, would now have rupee prices that are well over 25 percent higher. And since these imports include petroleum and fertilizers, this would have a significant cost-push inflationary effect on the economy.

In short, either we avoid deindustrialisation, in which case inflation will be substantial, or the inflationary push is kept within limits, in which case there will be substantial deindustrialisation, or perhaps the exchange rate stabilises at some level which entails a combination of some cost-push with some deindustrialisation. The Finance Ministry officials, however, have been claiming that the new measures will result neither in cost-push nor in deindustrialisation, which is a logical impossibility.

But the matter does not end there. Suppose the exchange rate stabilises somewhere between the current weighted average rate (between the official and the free market) and the current free market rate, involving some cost-push and some deindustrialisation.

At that level of the exchange rate, however, investment cannot be augmented at will, but will depend upon the foreign exchange position, especially the inflow of external resources. Indeed, the exchange rate can stabilise at this level only if investment adjusts to the inflow of external resources. No matter how much rupee resources you can raise through domestic borrowing, no matter how much unutilised capacity exists in your capital goods sector, or in the economy in general, you still cannot push up investment if you want the exchange rate to stabilise at some reasonable (or target) level. In other words, given the resource inflow, either we can achieve investment targets, in which case the exchange rate is beyond our control, or we can have a target for stabilising the exchange rate, in which case the level of investment cannot be made to order. When the Finance Minister, having floated the rupee, is promising both a reasonable exchange rate as well as grandiose investment targets, he is making a logical error. True, if external resources flow in, these investment targets can be realised; but he has no control over it, and hence cannot promise it. In short, once we are in a regime of convertible currency, there is no room left for concepts such as Plan outlays and Plan targets. The outlay figures given in the Budget document have no logical basis whatsoever; they only reflect the fact that old habits die hard.

Let us now go beyond the logical point. Could it be true, purely empirically, that enough external resources would come in anyway to make the increases in outlays sustainable? Given India's non-too-good credit rating, commercial borrowing over the last two years, apart from aid from the Aid India Consortium, has been in the form of short-term credit or 'exceptional financing'. In fact, during this period India has taken recourse to exceptional financing to the tune of nearly $10 billion, and this has been a major factor underlying India's build-up of reserves. This kind of financing, or even extended facility from the IMF, given its maturity period, cannot really be used for boosting investment, and that too in the infrastructural sector where gestation lags are long. True, the mode of use of such borrowing will only be indirect, for providing balance of payments support, and sustaining the exchange rate, even while the country continues with its investment programme. But this would be both bad economics and something unacceptable to the Fund and other financiers who have no great love for public investment programmes. Short-term NRI [Nonresident Indian] deposits, and the repatriation of withheld export earnings and remittances, on which the Government pins a good deal of hope, are all subject to a high degree of volatility. Even though they can stabilise the exchange rate while large investments are being made, they can also be destabilising. An investment programme with 'hot money' support is founded upon quicksand and cannot be sustained for too long.

That leaves capital inflow associated with direct foreign investment (DFI). Adequate investment outlays can be put into the economy if direct foreign investment is forthcoming. Given, however, the international conjucture where numerous countries are vying for direct foreign investment, and the national conjuncture where the emergence of communal-fascist forces has caused apprehensions of instability, it is foolhardy to believe that any significant DFI is coming India's way. In short, not only is it the case that the Finance Minister has no control over investment outlays in principle under a regime of convertibility, but even in practice the inflow of foreign resources is wholly unlikely to make these outlays, realisable, unless he makes the country 'borrow short for investing long', which would contain the seeds for a disastrous future crisis (and even the available quantity of 'short borrowing' may be insubstantial). To say all this is not to argue against higher Plan outlays, but to underscore the irrationality of the simultaneous move to convertibility.

The irrationality of introducing convertibility springs not just from such immediate considerations. What it does in effect is to make the domestic price level relative to money wages, and hence the living standards of the mass of the working people, dependent on the whims and caprices of a bunch of foreign exchange speculators. And in a country in which the trade and current account are in perennial deficit, and are likely to remain so in the foreseeable future, speculation can affect the rupee only one way, namely downwards, to the detriment of the working people. The distinction that is drawn between current account and capital account convertibility, with the inference that the former does not encourage speculation, is a specious one in a situation where current receipts, whether from exports or transfers, can be withheld abroad. The argument that we need a unified and convertible currency to give incentives to exporters makes no sense: on such considerations we should see nothing wrong in leaving foodgrain prices entirely to the free market in order to give incentives to the farmers (which the Government still professes to find unacceptable).

To get back to the argument, all the talk about the Budget reviving the economy is no more than mere talk. In 1992-93, despite a virtual stagnation in the industrial sector (which the Government has tried to camouflage by 'doctoring' statistics and arbitrarily lowering the 1991-92 industrial output estimates), the current account deficit on the balance of payments was back to 2.8 percent, the same as when the acute foreign exchange crisis hit India. The need for huge amounts of exceptional financing continues despite stagnation, thanks to the Fund-Bank-imposed 'trade liberalisation' measures adopted last year. When further 'import liberalisation' together with convertibility has been introduced, any revival would require even huger amounts of external resource inflows, which are not only dangerous (especially if they are 'short-run') for the economy's future, but would not even be forthcoming. What we are likely

to end up with therefore is a combination of some debt-financed deindustrialisation, some depreciation-induced inflationary cost-push, and more or less meagre growth (which the Government in its current mood will again try to camouflage).

The depreciation-induced cost-push, moreover, would be acting together with other factors to raise the inflation rate, which continues to be in double digits when we compare averages for the year. Among these are the pre-Budget price hikes in sugar, coal, and rail transport (including for foodgrain movement). While inflation in the prices of essentials is thus getting a boost, the Government is in the process of dismantling the public distribution system. The Finance Minister's announcement lifting all restrictions on inter-State grain movements, and the encouragement to agricultural exports at the expense of domestic availability, are pointers to a shrinking role for the procurement-cum-public distribution system, as is the reduced provision for food subsidy in the Budget. It appears at first sight that this provision has been raised, from Rs. 2,800 crore (budget estimate) to Rs. 3,000 crore (budget estimate); but the reported actual food subsidy last year was in excess of Rs. 3,500 crore (possibly Rs. 3,900 crore), compared to which the budget provision is much lower.

The Finance Minister has, however, left a line of retreat for himself. While he has raised Central Plan outlays, he has drastically squeezed resource transfers to the States. Compared to a 12.5 percent increase in resource transfers to the States in 1992-93 (budget estimate), and a 12.9 percent increase in the previous year, the increase in the current Budget (over last year's budget estimate) works out to only 3.5 percent. This is also reflected in the fact that while Budget support for Central Plan outlay is scheduled to increase by 18.4 percent, the total Plan expenditure provided for in the Budget (which includes Central assistance for State Plans) is to rise by only 11.6 percent, which is barely above the inflation rate. The State Governments would indeed be subject to a double-squeeze: on the one hand their costs would go up on account of the cost-push factors mentioned above; on the other hand, their resources would shrink. It would be no surprise then if their own resource mobilisation for their Plans would be meagre, which together with the smaller Central Plan assistance, would mean a curtailment in their investment expenditures. Since the over-all public investment in the economy, as we have seen, is unlikely to be increased much, the State Governments would appear to be particularly culpable, and the Finance Minister would find an easy scapegoat.

A Budget that has doled out huge excise reliefs on a variety of luxury goods even while (together with pre-budgetary measures) imparting a boost to inflation in the prices of essential goods, that has followed IMF dictates down the line even to the point of introducing rupee convertibility, that has opened up the economy to deindustrialisation, would, one would have thought, be getting pilloried for its hardened callousness towards the people. If, on the contrary, it is being hailed in the media to a point which emboldens the Finance Minister to declare that it has no 'loopholes', then that is only indicative of the pervasiveness of this callousness.

Government's Annual Economic Survey Said Skewed

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[Article by Abhijit Sen: "A Blinkered View: On the Economic Survey 1992-93"; quotation marks as published]

[Text] The Economic Survey, the government's annual state of the economy report to Parliament, is expected to be an 'objective' account of the economic developments during the past year. Of course, in practice, most governments cannot resist the temptation to trumpet their achievements or to explain away their failures. But seldom has the Survey been so openly a manifesto of a particular viewpoint and so blatantly a 'good performance' self-certificate from its authors as Economic Survey 1992-93.

The financial year 1992-93 began with the presentation of a Budget whose main features were direct tax concessions, particularly for the stock market, and the partial convertibility of the rupee. These were hailed as 'historic' by the media, which swallowed hood, line and sinker, the Government's claim that the result would be wonders for investment and exports. The few critics who pointed out that in fact there was little in the Budget for either exporters or investors, and that it was actually a licence to speculation, were hooted at, with no less than Nani Palkhivala declaring it 'a Budget for honesty.'

Given this background, any candid review of the economy should surely have highlighted two facts. First, that the biggest financial news of 1992-93 was the stock-market and financial sector scam, and that this could occur only because the Budget stocked an already over-heated stock market even as uncertainty over financial sector liberalisation reduced the effective degree of supervision exercised by the Reserve Bank. And, secondly, that the partial convertibility of the rupee turned out to be a miserable failure as far as exports were concerned, so much so that it was abandoned in this year's Budget with the Finance Minister himself acknowledging in his Budget speech the argument made earlier by his critics that, far from being a boon to exporters, this had been a disincentive.

It is an indication of the degree of transparency of this year's Economic Survey that it devotes only one and a half pages to the scam and barely two paragraphs to the working of the partial convertibility arrangement, in both cases avoiding responsibility and pretending that the faiure of the much-hyped measures nearly justified further movement in the same direction: towards greater deregulation of banks, and 'full convertibility' of the rupee. It is this combination of a failure to acknowledge

past errors of judgment and a blinkered adherence to a particular worldview which is the real hallmark of this year's Economic Survey.

Consider each of the main areas covered by the Survey. Reviewing the growth of the economy during 1992-93, it projects an agricultural growth of around 5 percent and industrial growth of around 4 percent to claim in a rather satisfied manner that "growth of GDP is expected to exceed four percent." Besides the fact that even if attained this would mean a significantly lower growth than the 5 percent projection made at Budget time last year, there are other reasons for worry. For a start, the veracity of such claims is made dubious by the fact that GDP growth during 1991-92 was less than half the 2.5 percent growth rate considered likely in last year's Economic Survey. Secondly, the estimate for industrial growth appears too high. Certain knowledgeable observers have cast doubts on the propriety of a recent downward revision in the indices of industrial production for 1991-92 which have the effect of increasing the growth rate in 1992-93. But even taking the growth rate given in the Survey at face value, this works out to only 3.8, and this is unlikely to be improved upon in the year as a whole, if only because of the disruption due to Ayodhya and its aftermath. Even the Survey concedes that the "industrial sector continued to suffer from recessionary conditions through 1992-93," and it seems premature for it to claim simultaneously that 'industrial growth is accelerating' since manufacturing output is really not significantly different from what it was two years ago.

Similarly, as far as agriculture goes, the kharif output this year has been better than last year but not very much better than in 1990-91. And, as far as services are concerned, several indicators presented in the Survey (for example, railway goods movement and cheque encashment) suggest that growth in 1992-93 might have been less than in 1991-92. Overall, it would not be surprising if finally the actual growth rate turns out to be between 2 and 3 percent, implying that per capita incomes continue to be below what they were before the 'reforms' began.

While output growth is an area where the Survey is only cautiously optimistic, it is almost ecstatic regarding inflation, claiming that 'there has been decisive progress.' Certainly, the annual point-to-point inflation rate at around 7 percent currently is well down on the 16 percent rate reached in August and September 1991, following the devaluation of the rupee. But the difference is less when the annual 12-month average inflation rate is used, and more important, there seems little in the actual inflationary outcome which would justify the Government taking credit for whatever downturn that has occurred. Indeed, the lower inflation rate in 1992-93 is due entirely to a sharp deceleration in the case of agricultural goods after August 1992, and this pattern can be explained entirely by the pace and timing of the monsoon this year.

As has been noted earlier, the kharif output this year was considerably better than last year and this helped moderate price. But even more important was the fact that till July 1992 the general expectation was that of a below-average monsoon. Consequently, private stocks of agricultural commodities shot up to record levels in anticipation of a poor harvest, and these were released when the rainfall actually revealed itself as unexpectedly copious, causing a price fall during August-January larger than what would have occurred had a good harvest been expected all along. That it was this peculiarity of the weather, as also the fact that rural wages were severely squeezed by past inflation, which explains the lower inflation in recent months and not any fiscal, monetary or food stock management policy measures of the Government is clear from the data presented in the Survey. Despite wheat imports, government food stocks have been below minimum levels throughout the year, precisely because of private stocking; credit to the commercial sector has increased faster this year; and no comparable slowdown inflation is seen for non-agricultural commodities as would have been the case if demand-restraining policies were having the effect of reducing profit mark-ups generally.

Yet, the Survey, after a passing reference to the good monsoon, chooses quite tendentiously to attribute lower inflation mainly to these measures. The dangerous implication is that the Government seems to believe its policies have brought down inflationary expectations, whereas it is likely that such expectations are still high and actual inflation has fallen only because the pattern of the monsoon was such that inflationary expectations were even higher earlier in the year.

Nowhere is the danger of a wrong assessment of current inflationary expectations greater than in the area of balance of payments and exchange rate policies. This is another area where the authors of the Survey pat themselves on the back, claiming a comfortable reserves position and 'hopeful signs' on the export front. In fact, not only have the current level of foreign exchange reserves been built up entirely by borrowing, but at the end of January 1993 these reserves were less than the level in March 1992 and well below the conventional minimum target of three months' imports. Moreover, during 1992-93, exports grew at the pathetic rate of 3.4 percent per annum in dollar terms and this fell well below the rate of growth of imports, which exceeded 16 percent. As a result, the balance of trade deficit has widened sharply and is expected to be close to $6 billion in 1992-93, implying a balance of payments deficit of over $7 billion which is comparable to the deficit figures in the most profligate years of the late-1980s.

Clearly, the balance of payments situation is far from comfortable in reality, particularly given the fact that India's credit rating continues to be below investment grade and because, despite the large figures being talked about as intentions, the actual inflow of foreign investment is minuscule and must also have suffered a setback owing to Ayodhya. The Government's optimism derives

from two facts: that the removal of import restrictions imposed in 1991 did not either reduce reserves significantly or lead to any sharp depreciation in the market exchange rate, and that exports to the general currency area (GCA) expanded by 6.3 percent.

However, the practice of drawing comfort from higher growth in GCA over total exports is somewhat misplaced since there is evidence that a considerable part of the erstwhile rupee area trade continues, though now by diversion through intermediaries in hard currency markets. And the fact that freer imports did not lower reserves or put the rupee under pressure reflects partly the fact that domestic recession kept imports in check and partly that the country was able to keep up a fair amount of borrowing despite its poor credit rating. Most such borrowing was of course from multilateral agencies, with NRIs [Nonresident Indian] and commercial lenders still shy, but the Survey suggests that over $3 billion came from sources other than the above. No further details are available about this $3 billion inflow except that about half of these may be foreign currency deposits by overseas banks.

In any case, the Survey's figures from the RBI's task force on international debt show that India's external debt increased by $8 billion between March 1991 and September 1992, during which period India's GDP declined in dollar terms. In other words, the balance of payments situation continues to be precarious with low export growth and with imports held back despite the massive devaluation since July 1991 only owing to domestic recession. And yet, it was necessary to increase external debt massively to prevent a fall in reserves and a run on the rupee, implying that any reflation through an increase in domestic investment could become destabilising without either more foreign borrowing or a return to import controls.

The Survey claims, however, that there was a revival in investment activity during the year under review, basing this conclusion on loan sanctions by term-lending institutions. A similar claim had been made in last year's Survey for 1991-92, but this is contradicted by the Central Statistical Organisation's more reliable estimate given in the current Survey that private investment fell from 16 percent of GDP in 1990-91 to 14.5 percent in 1991-92, even as GDP stagnated. Similarly for 1992-93, the Survey tables show a stagnation in the availability of machinery and transport equipment, both imported and indigenous. Indeed, it is this picture of stagnant investment from the tables in the Survey, rather than the claim of growth in the text, which fits better the overall situation of industrial recession and reduced public investment which the Survey acknowledges. If this is accepted, the attempt in last year's Budget to revive investment by stoking the stock market failed even more comprehensively.

Unlike earlier Economic Surveys, the latest one contains a whole section lecturing readers on the basic theoretical view underlying the Government's Strategy for Economic Reform. This will be informative for those not familiar with the World Bank's grey cover reports. The intelligent reader will also gain immensely if he compares the Government's expectations with reality as it has evolved so far, and then goes on to evaluate the Budget just presented in this light.

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