‘COMMENTARAO’ IN “THE TELEGRAPH” OF MARCH 4 2013

“A Proxy Budget 2013-This budget does not have P. Chidambaram’s usual stamp” by S L Rao

Whose Budget?

This Budget speech of Mr Chidambaram has his words. It is not his Budget. Some have called it prudent. For me it reflects the inheritance of the Indira Gandhi ideas that the Congress ruling family have bought unquestioningly. The priority is social inclusion, not growth.

This budget like the 1991 budget, was a make or break budget. Growth has almost halved, inflation and particularly food inflation is rampant, savings have fallen sharply (household and corporate which had shown consistent growth) have fallen sharply), as has investment (domestic private, public, and foreign), current account deficit is at a record high. The threat of downgrading Indian debt to junk status was very real. Government borrowings, and hence deficits, have returned to 1991 levels. Mr Chidamabram therefore claims to put growth as the highest priority. So is social inclusion, reducing the deficit, cutting inflation and restoring the current account in the balance of payments to earlier levels (below 2% versus the current 5%). His numbers show him as succeeding on the deficit. Many schemes and high expenditures target inclusion. But neither growth nor inflation get much attention.

His actions are more politically oriented and reflect the priorities of the first family, to policies that they think lead to election victory. He has not rationalized and made more effective the vast sums spent on NREGA, public distribution of grains and kerosene, the rural health mission, etc. Indeed allocations are raised. He has provided a modest Rs 10000 crores for the expensive and ambitious Food Security Bill. If implemented it will be hugely expensive..

Challenges and Responses

The arithmetic shows the fiscal deficit is down. Is it sustainable? Instruments have been the raising of diesel prices, the promise that this will continue, over Rs 58000 crores from disinvestment in unspecified public enterprises, sale of telecom spectrum, and some small additional taxation. In 2012-13 he also pushed some committed payments into the next year. The disinvestment and spectrum revenues seem high in light of past experience.

He has raised the duty on silk imports, (helps in Karnataka elections). Cheap Chinese imports flooding India are untouched, though cheap capital equipment imports have higher duties, even where our capacities are inadequate.

There are no tax measures to stimulate exports. For example, iron ore exports, hit by domestic scams and world recession could have done with lower taxes. Coal imports are subject to duties as is gas. We import increasing quantities of coal and most of our gas, and they could have been made cheaper. Commerce Mnister is to bring out a policy on exports and imports.

There are measures to encourage long-term FII versus the present volatile short-term FII. However, the real block to FDI is the maze of procedural delays (land, environment clearances, etc). The Budget could have signalled that this bureaucratic mess will be tackled.

He rightly took infrastructure as the best stimulant for growth. However poor regulatory responses are the root cause of declining investment interest. Road projects are bedeviled by poor forecasting of revenues by private parties, and problems with land, environment clearance, etc. The proposed Road Regulator will take at least 18 months to be effective and government should evolve methods now to keep a sensible floor price in accepting quotations.

Power projects are held up by the huge losses of the SEB’s and unwillingness of investors to risk investing when these customers are unable to pay bills. The Budget has provision for another loan write-off (or securitization), a band-aid, not a solution. It will not tempt private investment (even NTPC) to power. Coal and gas unavailability have led to stranded capacities. Pool prices are no solution. A Coal Exchange for imported coal might help. So will slashing customs and excise duties. This Budget is unlikely to stimulate much of the infrastructure-roads and power.

The corporate surcharge on larger companies will disincentivize investment. The revived investment allowance for investments over Rs 100 crores must be carried forward for five years or so, to be effective.

NABARD is given funds for investments in agricultural storage by the public sector. There is no attempt to get the private sector into investment into capital expenditures for agriculture,-canals, storage, etc.

Thus, the strong impetus to growth that Mr Chidamabram promised has petered to a small gasp.

Proposals for inflation linked infrastructure tax-free bonds are welcome and could stimulate domestic financial savers. So could incentives for NRIs.

But the Budget could have done more to stimulate investment. There are too many bottlenecks, apart from harsh tax treatments, bureaucratic clearances, problems in supply of coal, gas, iron ore, etc. He has done little to reassure investors (foreign and domestic) that thoughtless tax measures would be simplified and made fair (retrospective taxes, lack of clearly defined and consistent rules on transfer pricing, single rates nationally for indirect taxes, etc). He is waiting for a committee report, for examination, consideration and action. The issues are well-known and any awake bureaucracy could have told the Minister.

A major Budget task was to tackle corruption and black money. There is a voluntary disclosure scheme for service tax evaders. No measures are there about black money.

The Budget speech devoted almost an hour to measures and funds for social inclusion of scheduled castes, tribes, some other backward castes, minorities, women, and the youth. These are good schemes and if implemented well, could help.

The earlier revision of prices of diesel, petrol, etc. rail fare and freight increases, and a temperate rail budget with no populism, helped Mr Chidambaram in this Budget.

Avoidable and Desirable measures

Some measures (not all in this Budget) could have been avoided by this government. The promise that the surcharge on super-rich and companies to be for one year is similar to such unkept promises made im the past. The 2% of net profits to be kept for corporate social responsibility is an additional tax on companies to what this Budget has introduced. Pooling coal and gas prices is similar to such measures that have invariably led to massive corruption.

The direct tax code and the goods and services tax are promises not kept for years. They should have had top priority if growth was a true objective. The GST that is emerging may not give us the one-tax nation we seek. Agriculture has substantial credit increase. However the government control on agricultural marketing has led to the farmer not receiving the full benefit of rising minimum support prices.

Conclusion

This Budget does less than was possible to stimulate growth in agriculture, industry and infrastructure. It has no credible measures to tackle inflation. The gaping current account deficit is to await the Commerce Ministry’s policy document. Savings and investment which required a huge push, have only received a nudge. The social sector has received attention without looking into effectiveness and delivery. Fiscal deficit seems to be controlled but assumes disinvestment and telecom spectrum proceeds that are higher than before.

This may be a prudent budget. It does not display Mr. Chidambaram’s trademark aggression and imagination. It is unlikely to stimulate growth, moderate inflation and restore our balance of payments. It will not help the Congress party much in fighting the coming elections. (1213)