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Budget in Retrospect

THE criticism that the Budget marked a retreat from socialism pained him, the Finance Minister said in his reply to the general debate on the Budget in the Lok Sabha. But unless he had credited Members of Parliament with complete lack of perception, this criticism he should have anticipated when he framed the Budget. What is there in the Budget that links it to the socialist objectives of the Congress or the Plan? Its basic premise, almost explicitly stated, is that to give a new momentum to the economy it is more important to stimulate private saving and investment than to enlarge public saving and investment. Not explicitly stated, but no less discernible, is the assumption that in fiscal policy at any rate the objective of a more equitable distribution of income ought to receive no priority. Folowing from these, the changes in corporate taxation all aim at enlarging the resources of corporations and the substantial reduction in personal tax rates will put more income in the hands of those who constitute, income-wise, the top two or three per cent of the population.

These concessions, all "in the interests of higher production and greater efficiency", have been made, the Finance Minister said, "without sacrificing the claims of the Plan". This claim needs to be examined. The total public sector Plan outlay in 1965-66, taking the Centre and the States together, is Rs 2,225 crores. This marks a decline in the rate of increase of public outlay on the Plan, from about 17 per cent in 1964-65 to *12* per cent in 1965-66. And investment in the Central Government's commercial and industrial undertakings in 1965-66 is actually smaller, in absolute terms, than in the previous year!

The Economic Survey no doubt states that total public sector outlay in the Third Plan will be Rs 8,000 crores as against the original provision of Rs 7,500 crores. But in real terms what does this 7 per cent higher outlay mean when we consider the over 25 per cent increase in prices since the beginning of the Plan? In industry, for instance, by the time of the Mid-term Appraisal of the Plan *in* the latter half of 1963, the estimate of investment needed to carry through the public sector programme had been revised upwards by almost Rs 500 crores or about 28 per cent of the original estimate. Even in financial terms, public sector outlay has exceeded Plan provision mainly in agriculture and transport; elsewhere the Plan figures of outlay will be barely achieved. Is it so certain, then, that *the* distribution of real investment between the private sector and the public sector has conformed to the proportions envisaged in the Plan and has not been altered to the disadvantage of the latter? If it has been so altered, as there seems to be every reason to believe, should not its correction receive some attention in the Budget?

There have been, of course, shortfalls in private investment too, in some of the highest priority industries. But, on the other hand, in each Plan period, a very large proportion of the community's savings has been diverted into non-priority industries and into speculation in real estate and commodities in short supply. Every Plan has laid down which arc the industries to be developed and to what extent But the means which have been provided for ensuring that private investment flows into these industries in the required quantities — control of capital issues, provision of supplementary finance by Government-sponsored finance corporations, licensing of imports and allocation of scarce materials — have proved to be most inadequate. On paper the idea that a sophisticated scheme of fiscal incentives will work where these administrative devices have failed has its attractions. The Finance Minister, at any rate, appears captivated. But there are others with fairly acute knowledge of the functioning of the economic system who have maintained that neither administrative controls nor fiscal-monetary gimmicks will work without fundamental changes in the structure of the economy— in the motives and methods of functioning of the banking system, for instance.

In any case, the basic problem is certainly not one of making up shortfalls in private investment in priority industries by transferring public resources. It is one of shortage of resources for investment in Plan schemes, in both the public and private sectors, clue mainly to the diversion of a large part of the economy's savings into private non-Plan expenditure and, since the Chinese aggression, into the defence build-up. The failure to regulate private investment and to channel savings into the Plan in adequate measure was reflected in the need to have two versions of the Third Plan — a physical plan and a financial plan. It can be seen once again in current exercises in the preparation of the Fourth Plan, in the desperate attempts to equate an aggregate of physical programmes to a certain financial figure when it is plain enough that it will cost much more.

Financial Devolution

IS the purse-string perhaps the strongest bond that binds the Central and State Governments together? In our brand of federalism, about one-quarter to one-half of the total revenues of each State is derived from the Centre, by way of shares in taxes centrally levied and collected and grants-in-aid. The revenue heads left entirely to the States are relatively inelastic and prohibition has closed one lucrative source. On the other hand, apart from Plan outlays, the States have to cope with other financial pressures such as growing debt charges and the demands of their employees for scales of pay commensurate with that of the Central Government. In the circumstances, pleas for larger shares are presented quinquennially before each Finance Commission.

The latest recipient of the pleas is the Fourth Finance Commission, now at work. It has heard, for instance, from the Madras Government that the Stales' share of Union Excise duties should be raised to 50 per cent (from the present 20 per cent) and that "population" should be the sole criterion governing its allocation; from the Maharashtra Government that "collection" should be the sole basis for the division of the income tax; and from the Rajasthan Government that the factor of "area" should also be considered for the reason that geographical size adds to the administrative as well as developmental responsibility of a State.

The arithmetic of devolution which, judging from its terms of reference, is the principal concern of the present Finance Commission, covers grants-in-aid also. Properly interpreted, this would involve principles extending beyond the simple rules of division. The accepted role of grants-in-aid is that of a final dole for meeting what has frequently been termed the "residual fiscal needs of the States". This is a devise for ironing out, to some extent, the wide disparities between the more and less advanced States; but it could also make a mockery of autonomy since it permits the Central Government to assume financial responsibilities that should rightly belong to the States. The last Finance Commission pointed out that "there is a general feeling that the contents of the autonomy of the States are being diluted not only by the prescription of detailed directives on subjects within the State list but also by unilateral financial decisions taken". In the five years since that pronouncement was recorded, the feeling appears to have grown, *in* a strongly-werded memorandum to the Fourth Finance Commission the Madras Government has gone to the extent of saying that planning itself "entails a measure of limitation on the freedom of the States because it visualises a pattern of utilisation of resources which cannot be deviated from without risking the failure of the Plan", and that "no further restrictions on States should be found necessary". The Memorandum further argues: "the promotion of a sense of independence and vigour in planning at the level of the State, with realistic regard to local conditions and circumstances Is a desirable end in itself and from this standpoint too the present arrangements for canalising Central assistance for the Plan, call for a radical review".

The principle that Central assistance for State plans should be marginal in character is no doubt unexceptionable. But as facts pertaining to financial resources stand, a large quantum of Central assistance is unavoidable. The Madras suggestion that financial assistance should be for non-Plan expenditure, thus leaving the States' own resources free for Plan financing really does not; solve the problem. Actually, it would deprive the Centre of the one important means of direction and co-ordination of developmental outlay that it now has. But the review and adjustment of Centre-State fiscal relations, new made every five years, should not only be far more frequent but also more extensive, to include plan formulation and implementation. The suggestion of the two previous Finance Commissions for extending the Commission's role and functions either by merging it with those of the Planning Commission or by endowing it with more powers is extremely pertinent now. The Central Government has chosen to ignore the problem — which is certainly no alternative to solving it.

The Ones That Get Away

|T took courage of a type for the Home Minister to talk of his anti-corruption campaign within a fortnight of the no-confidence motion debate in the Lok Sabha. The debate was precipitated by the Government's alleged failure to take suitable action against Bijoyananda Patnaik and Biren Mitra even though an enquiry by the Central Bureau of Investigation had established a *prima facie* case of corruption against them. Those who read records of the debate and reports of the CBI's findings and the views of the Cabinet sub-committee on them, leaked out through the enterprise of an Opposition Member, could not but agree that the substance of the Opposition's charge had been established. Not only did the defence of the Government by the Prime Minister and two Cabinet Ministers fail to carry conviction, but the disparaging remarks of the Education Minister on the CBI's report seemed to indicate that members of the Government are not above running down a Government agency to save the skins of their partymen.

And yet on Sunday last Nanda was seriously telling his listeners on the All-India Radio that "the (anti-corruption) measures adopted and *even more the climate generated* arc acting, to an extent, as a deterrent on the activities of the wrong-doers" (emphasis added). True to form, the Home Minister talked of corruption among businessmen and among Government servants, described in details the steps taken to detect corruption among these two categories of persons and gave statistics of the number of businessmen and Government servants sent to jail or fined or dismissed or punished in other ways; but as far as he was concerned corruption among Ministers might never have existed.

Within days of the debate on the 'Orissa affair' the Deputy Home Minis-