

THREE BUDGETS OF UPA GOVERNMENT

Where is the "Human Face"?

SHOUVIK CHAKRABORTY

The UPA Government, which assumed power on May 22, 2004 with the support of the Left parties, was expected to bring about major changes in the economic policies in favour of the poor. The question which naturally arises therefore is whether their expectations have been fulfilled or whether this government too is framing policies favourable to the richer segments of the population. This paper attempts to find an answer to this question by analysing the recent Budget and the two previous ones presented by P. Chidambaram, the Union Finance Minister.

Employment

In the last two Budgets, the Finance Minister had claimed that maintaining growth, stability and equity were the main objectives. He had announced a target of seven to eight per cent growth for the economy in accordance with the NCMP and this year's Budget shows that the target was achieved. High growth rate itself, however, is not a sufficient condition for alleviating unemployment and poverty. Data entered from successive year's *Economic Surveys* reveal that the country has been experiencing a virtually "jobless growth", though the Finance Minister denied this in his Budget speech of 2005-06. Table-1 shows that the unemployment level in the country increased across all the categories. The *Economic Survey of 2005-06* states that from 1993-94 to 2003-04, the unemployment rate (on the basis of current daily status) for males increased from 5.6 per cent to 9.0 per cent in the rural areas and from 6.7 per cent to 8.1 per cent in the urban areas. Similarly, over the same period, the unemployment rate for females increased from 5.6 per cent to 9.3 per cent in the rural areas and from 10.5 per cent to 11.7 per cent in the urban areas. This is quite disturbing for our economy, which already has been facing the challenge of a high level of unemployment. Thus, it warranted a serious attempt on the part

of the UPA Government to formulate a growth strategy, which gave due attention to employment generation.

Table. 1 : Unemployment rates for 50th Round (1993-94) and 60th Round (2004) of the NSSO

Round	Males			Females		
	Usual	CWS	CDS	Usual	CWS	CDS
	Rural					
50th Round	20	30	56	14	30	56
60th Round	24	47	90	22	45	93
	Urban					
50th Round	45	52	67	83	84	105
60th Round	46	57	81	89	90	117

Notes:

1. Unemployment Rates are the number of persons (or person days) unemployed per 1000 persons (or person days)
2. CWS: Current Weekly Status
3. CDS: Current Daily Status

Source: *Economic Survey 2005-06*

The Budget of 2005-06 saw an allotment of Rs 11,700 crores (a provision of Rs 4050 crores in the national food for work programme and Rs 7650 crores for the SGRY programme) towards the total rural employment programme. This year's Budget saw an increased allocation on this front to Rs 12,870 crores (a provision of Rs 10,700 crores is under the NREG Scheme and Rs 2700 crores under the SGRY scheme), a nominal increase of only 10 per cent. While the NREG scheme comes into being, the SGRY scheme experiences a drastic cut and the Food-for-Work programme disappears. The allocation towards the NREG scheme falls quite short of the minimum required allocation, which is Rs 20,000 crores as calculated by many economists. In fact, Table-2 shows that though there has been a marginal increase in the absolute value of expenditure on total rural employment, but when taken as percentage of the total budgetary expenditures and GDP, respectively, it reflects a virtual stagnation. During the period between 2002-03 and 2006-07 (Budget estimates), the government's total allocations to this sector as a percentage of the total budgetary expenditure and GDP have stagnated at 2.30 per cent and declined from 0.39 per cent to 0.33 per cent, respectively.

The author is a Research Scholar, Centre for Economic Studies and Planning, Jawaharlal Nehru University, New Delhi.

Table. 2 : Allocations for Rural Employment Over the Years

	2002-03 (RE)	2003-04 (RE)	2004-05 (RE)	2005-06 (RE)	2006-07 (RE)
Expenditure on Total Rural Employment (in Rs crores)	9502.00	9639.00	6408.00	11,700.00	12,870.00
Expenditure as % of Total Expenditure	2.30	2.00	1.30	2.30	2.30
Expenditure as % of GDP	0.39	0.35	0.21	0.33	0.33

Source: Expenditure Budget and Economic Survey (various issues)

The success of the Food-for-Work programme, which was executed in 150 backward districts of the country in the fiscal year 2004-05, provided the necessary boost to the Finance Minister to extend this employment scheme to more than 250 districts in the next Budget. This year the budgetary allocations for the Food-for-Work programme have disappeared (the National Food-for-Work programme has been subsumed in the NREG scheme) and the allocation towards the SGRY scheme has declined from Rs 7650 crores to Rs 3000 crores. Thus, there has been no major increase in the budgetary allocations for the rural employment sector as has been claimed by the Finance Minister. Indisputably, the Budget should have gone several steps further and made much larger allocations, given the massive nature of unemployment in the rural areas.

Agriculture

In India, about 72 per cent of households belong to the rural areas and account for nearly 75 per cent of the total population. In rural India, about 66 per cent of usually employed males and 84 per cent of usually employed females are engaged in the agricultural sector. (*Economic Survey, 2005-06*) The government must recognise that the agricultural sector is in total disarray and it requires massive investment and rural credit support. Table-3 shows that the gross capital

Table. 3 : Gross Capital Formation in Agriculture

Year	(at 1999-2000 prices)			Investment in Agri. as % of GDP
	Investment in Agriculture (in rupees crores)	Public	Private Total	
1999-00	7754	35,719	43,473	2.2
2000-01	7018	31,158	38,176	1.9
2001-02	8529	38,215	46,744	2.2
2002-03	7489	38,018	45,507	2.1
2003-04	12,809	35,024	47,833	2.0
2004-05 (QE)	12,591	30,532	43,123	1.7

Source: Economic Survey 2005-06

formation in agriculture has dwindled over the last few years. In the post-reform period, there has been a huge withdrawal of the state's allocation from the economic and welfare activities in the rural sector. Since public investment crowds out private investment, there has been a continuous reduction in the gross capital formation in the agricultural sector. The recent Budget was also not serious in increasing public investment in the sector. No special packages were announced by the Finance Minister to improve public investment in this sector.

The National Commission on Farmers, set up by the government in 2004 and headed by an eminent scientist, Dr. M.S. Swaminathan, has expressed deep concern over the debt burdens in the rural areas. In the recent Budget, the only significant step taken was in terms of reduction of interest rates on institutional credits from nine per cent to seven per cent (although the Commission recommended a much lower rate of four per cent); an additional 50 lakh farmers have also been provided with access to institutional credit. Though these steps are encouraging, the Budget has still not fully appreciated the depth of indebtedness and the generalised nature of the agrarian crisis prevailing over all the peasant classes. Even if the government is thinking of proposals to raise investment, these can be effective only in the medium or long-term ones, and can benefit peasants after a long time lag. But, over the last few years thousands of farmers have committed suicides in the States of Andhra Pradesh, Tamil Nadu, Karnataka and several other parts of the country. Suicides by farmers who have already reached the end of their tether infuse the issue with an immediacy and centrality. In 2004-05, Professor Utsa Patnaik suggested some steps that could have been taken by the government to bring immediate relief to this sector. She suggested.

- 1 To set up immediately a Farmer's Debt Relief Commission headed by a senior administrative officer designated as Debt Relief Commissioner

with provision for enough staff to man offices in every taluka. The job of this Commissioner would be to invite applications from the indebted farmers who are interested in applying for debt-relief and to dispose of cases speedily. The relief would be in the form of a sanction letter, which banks should be instructed to honour, allowing the farmers to take loans and the government should stand as a guarantor to these loans.

To waive immediately all the arbitrary conditions which are in force at present for issuing BPL ration cards and to make these cards available to all those who wish to apply. Universalisation of PDS is the need of the hour.

But the government has not paid heed to such suggestions. These measures not only would have brought immediate relief for the rural poor but also generated additional effective demand for the economy as a whole through backward and forward linkages, by increasing the purchasing power of the rural poor. On the contrary, the Finance Minister in his Budget speech of 2005-06 emphasised crop diversification, which goes against the basic national objective of ensuring self-sufficiency in foodgrains. The immediate need is to ensure that the peasants are encouraged to diversify their crop production more in favour of food self-sufficiency. The bulging foodgrains in the godowns of the Food Corporation of India from 2000-01 to 2002-03 do not reflect that we produce too much relative to our requirements. Rather, they suggest that the purchasing power of the poor and the marginalised in our society is minuscule.

Among the economists, there is a strong feeling that the government is underestimating the extent of rural distress and the problems faced by the cultivators, especially the small and marginalised farmers. Though a lot of lip service was paid to farmers in the last three Budgets, very little has been actually allocated for agriculture and allied activities. Table-4 clearly brings out this fact. During the period between 2004-05 and 2006-07 (Budget estimates), the government's total allocations to this sector as a percentage of total budgetary expenditure and GDP have declined from 7.30 per cent to 7.06 per cent and 1.16 per cent to 1.04 per cent, respectively.

While the Finance Minister expressed concern over the agricultural sector, the limited allocations for this sector and the inadequate tariff protection

offered to it would not go a long way in addressing that concern. The immediate and necessary step which the government should have taken in this Budget was to raise the import tariffs, especially on cotton, to protect the farmers from the falling world prices which are often lower than even their cost of production. It should have also gone a step further, following the recommendations of the National Commission on Farmers, by establishing the Price Stabilisation Fund and extending crop insurance to all farmers and crops so as to prevent the collapse of viability of farming.

Table 4 : Budgetary Provisions in Agriculture and Allied Activities

Year	Total Allocations (in Rs crores)	As % of Total Expenditure	As % of GDP
2001-02 (RE)	25,634.21	7.08	1.13
2002-03 (RE)	31,080.37	7.52	1.26
2003-04 (RE)	33,034.34	7.01	1.20
2004-05 (RE)	36,306.82	7.30	1.16
2005-06 (RE)	36,641.16	7.20	1.04
2006-07 (RE)	39,843.44	7.06	1.01

Source: Expenditure Budget Volume-I, Annexure-I

Food Subsidy and Health

THE Budget speeches of P. Chidambaram differed from those of the NDA Government both in this rhetoric and in the somewhat larger allocations made for social development and rural sectors. In his Budget speech of 2004-05, he stated that the fair price shops constituted the backbone of the food security system for the poor and that the public distribution system would be strengthened. But, in the 2004-05 budgetary allocations, the food subsidy bill proposed was at Rs 25,800 crores, which was Rs 2000 crores less than the provision in the Interim Budget of the NDA regime. The Budget of 2005-06 saw a further reduction, even in absolute terms, from Rs 25,800 crores to Rs 23,200 crores, which was 4.6 per cent of the total budgetary allocations. In 2006-07, this ratio further fell to a level of 4.3 per cent. Far from extending the coverage of the Public Distribution System in the context of growing evidence of food insecurity and hunger deaths across the country, the Finance Minister has actually reduced the scope of the food subsidy. Another such example could be cited in the sector of health. In 2005-06, the

launching of the National Rural Health Mission indeed benefited the rural poor, who depend a lot on public health care facilities. The Budget estimates of 2006-07 for the flagship programme shows an increase from Rs 6553 crores to Rs 8207 crores, a mere increase of Rs 1654 crores, despite the grandiose claims made about it. The health expenditure levels are far below those required to fulfil the promises of the National Rural Health Mission. The Supreme Court has ordered the government to universalise the ICDS programme, which will require an allocation of Rs 8000 crores. But, this year the Finance Minister has allocated Rs 4087.54 crores for the programme. A significant development in the health sector was the proposal of setting up six AIIMS-like institutions to provide medical education in the deficient States. In 2005-06, the allocation made for this purpose was Rs 250 crores and this experienced a drastic fall to Rs 6 crores by the time the revised estimates came out. In this Budget, the Finance Minister has pegged the allocations for this purpose to a meagre sum of Rs 75 crores. Thus, when it comes to the actual allocations for the social sectors, the Finance Minister has been quite miserly.

Education

In 2004-05, the Finance Minister's speech stated that "no issue enjoys a higher priority than providing basic education to all the children". This was a reflection of the commitment on the part of the government to spread basic and primary education to all the children. That year saw the implementation of two per cent education cess on all taxes, which was expected to mobilise Rs 4000-5000 crores to finance elementary education. The Finance Minister has increased the total allocation for elementary education and literacy from Rs 12,536.33 crores in 2005-06 to Rs 17,132.71 in this Budget. The increasing amount of educational cess mobilised by the government will reach Rs 8746 crores (2006-07 BE), which should have acted as a catalyst for allocating more to this sector. It is important to note here that despite the promise of enhanced education expenditure, the actual allocation is far below the level required to achieve universal elementary education. The Tapas Majumdar Committee Report estimated a sum of Rs 137,000 crores required over a period of 10 years to achieve the goal of universal elementary education. The average annual additional amount being Rs 13,700 crores, there is a gross inadequacy in the allocation of funds if the government is serious about

universalising elementary education. In a country where more than 35.60 per cent of the population is illiterate, spreading literacy and universalising primary education should have been the foremost task of the government.

The spending on primary education should not, however, serve as an encumbrance in allocating funds to research and higher education. On the other hand, it can be argued that in light of the expected increase in the demand for secondary education due to an attempt to universalise elementary education, it is desirable that the Centre increases its expenditure in this segment too. The Finance Ministry paid insufficient attention to higher education, general and university education in particular. The total expenditure on secondary and higher education in the present Budget is Rs 6982 crores. Though the increase amounts to Rs 1182 crores, the absolute amount is still inadequate. The view that greater allocation for higher education would eat into the funds for elementary education is based on the wrong assumption that the total resources in this sector are fixed. Last year, the introduction of the Rajiv Gandhi National Fellowship for SC/ST students pursuing higher education and full fee waiver for such students in institutes of excellence was a welcome step. But there is also a need to bring girl students and students from minorities under this net, so that students belonging to these sections are also encouraged to pursue higher education. The proposal of creating institutes of excellence has gained special importance since last year. In last year's Budget, Rs 100 crores was given to the Indian Institute of Science, Bangalore and this year the same amount has been allocated to each of the four universities, namely, the University of Calcutta, the University of Madras, the University of Bombay and the Punjab Agricultural University Ludhiana. But such allocation of funds to a few specific institutes does not improve the overall scenario and the need of the hour is to allocate more funds for hundreds of government run institutes that are in a crumbling state due to the dearth of resources. When one recalls the promise made by this government in the NCMP of raising the spending on education to six per cent of the GDP, then one would be surprised to find that even after two-and-a-half years of its tenure, the spending on education is still below four per cent of the GDP.

II

LET me now analyse the proposals made by the

Finance Minister over the last three Budgets in an attempt to push forward the reform process in the country. The media has lauded the Finance Minister's effort to carry forward the neo-liberal reform process and hailed the rise in the Sensex and the Nifty. But, the reform process has catered only to a small section of the Indian population and has failed to serve the interests of the majority of the population.

Small Scale Industry

In the last two Budgets and the recent one aggravate the problems of the Small-Scale Industry (SSI) sector. In 2004-05, the Finance Minister put forward the proposal of de-reserving 85 items; in the next budget he further de-reserved 108 small scale industries. This year's Budget has again proposed a de-reservation of 180 items. In order to strengthen the reform process, the Finance Minister has denied these small sector industries the benefits they used to enjoy in the form of governmental support through subsidies and priority sector lending. This will definitely have a negative impact on this sector. The SSI sector, in fact, provides much more employment per rupee of investment than the large-scale, capital-intensive sectors.

FDI in Mining and Pension Funds

In the 2005-06 Budget speech, the Finance Minister had proposed to introduce FDI in trade, pension funds and most crucially in mining (though this year the government was silent on this issue). According to Professor Joan Robinson, the outstanding Cambridge economist, FDI in mining constituted an extremely unwise move. Minerals are natural resources and are exhaustible; the government should use the bounty of natural resources for the development of the economy through diversification; for this purpose it should retain the entire surplus generated in the mineral sector rather than allowing foreign capital to repatriate much of it. Another important sector, where the government is proposing to introduce FDI, is in pension funds. Under no circumstances should the pension fund of the people be entrusted to the discretion of foreign operators. Two main arguments stand against the introduction of FDI in this sector. The first is concerned with the macro-economic impacts of the move. The fund, if it stays with the state, is used for various public investment projects, especially the social priority investments. Leaving such funds to the foreign operator undermines the possibility of their being used for productive purposes. Secondly, in our

country the common man is politically more empowered than he is legally. It takes thousands of rupees to fight a case in our existing legal system and thus a poor person has to think many times before fighting any legal case. Hence, the very claim that the pensioners would be legally protected is untenable, since an average person is in no position to drag these huge multinationals to the court. The Bhopal gas tragedy case illustrates the helplessness of the ordinary people in facing multinationals in the court of law.

Fiscal Deficit

THE ideological obsession with containing fiscal deficits afflicts the Finance Minister. In 2004-05, he estimated the Central Government's revenue deficit to be 2.5 per cent of the GDP of that fiscal year compared to 3.5 per cent of the GDP in 2003-04. The fiscal deficit was estimated to be 4.4 per cent of the estimated GDP. In 2005-06, he promised that the government would abide by fiscal corrections from 2006-07 and thus estimated the revenue deficit and fiscal deficit as percentages of the GDP to be 2.7 and 4.3, respectively. This year he has provided for a further reduction in the revenue deficit and fiscal deficit as percentage of the GDP to 2.1 and 3.8, respectively. Table-5 shows that the government has over-fulfilled the targets it has set for itself. But the real question is whether this was at all necessary for the economy. Despite repeated arguments from economists that the fiscal deficit can be used to enhance the level of economic activity, in the presence of idle resources, the Budget envisages a reduction of the same. The Finance Minister's proposal to reduce the deficit over the same period lacks any economic justification, amidst excess capacity in the industries and overflowing foreign exchange reserves. The mindless pursuit of contractionary fiscal policy in the name of fiscal prudence is actually imprudent. These policies are based on the tenets of neo-liberal economics, which bring about a reduction in state expenditure as a proportion of GDP in deference to the caprices of finance capital. Given the irrational FRBM Act, there would be an automatic curtailment in the expenditure of the Union government in case of any shortfall in its tax revenues to maintain a certain arithmetical value of fiscal deficit-GDP ratio.

Direct and Indirect Taxes

ON the tax front, the increase in tax revenue in the current year was a source of relief. A significant part of this increased tax-GDP ratio

comes from the high tariff collections made by the government from increased imports and the higher prices of oil imports. The Finance Minister in 2004-05 gave no fresh proposal on corporate tax, which left out a huge sector from where substantial revenue could have been collected. In 2005-06, the Budget's proposal to reduce the tax rate from 35 per cent to 30 per cent in the case of the corporate sector was an unwelcome move. This year too the Budget remains silent on the corporate tax. One of the positive aspects of last year's Budget had been the proposal to levy a Fringe Benefits Tax at 30 per cent, in the absence of which the corporates could evade tax through legal routes, showing the perquisites as cost to the company. But this year's Budget saw relaxations on this front too. The belief of the Finance Minister that such relaxations would encourage more of corporate investment is fundamentally flawed and has little empirical basis. In the recent past, the amount of total corporate investment as proportion of the Gross Domestic Capital Formation has declined from 38 per cent in 1996-97 to 22 per cent in 2003-04 (calculated from National Account Statistics, various issues). In 2004-05, the government had increased the service tax from eight per cent to 10 per cent and in the latest Budget there has been a further increase to 12 per cent. Such a step by the government is laudable. However, no significant fiscal initiatives were taken by the government to mobilise additional resources, despite the immense potential for this at present.

Table. 5 : The Deficits of the Union Government (in percentage terms)

Year	Revenue Deficit as % of GDP	Gross Fiscal Deficit as % of GDP	Gross Primary Deficit as % of GDP
2001-02	4.4	6.2	1.5
2002-03	4.4	5.9	1.1
2003-04	3.6	4.5	0.0
2004-05	2.5	4.0	-0.1
2005-06(RE)	2.6	4.1	0.5
2006-07(BE)	2.1	3.8	0.2

Source: Budget at a Glance, various issues

On the issue of taxing capital gains, the Finance Minister for the last three years shied away by fully exempting long term capital gains. In 2004-05, he also reduced the tax on short term capital gains from 33 per cent to 10 per cent. In 2004-05, the Finance Minister's proposal of levying 0.15 per cent tax on the short-term transactions in the stock market was really applauded by

many. Later, the Finance Minister retreated the proposal under pressure from the broking the stock market and brought the tax down to nominal 0.015 per cent. This year, even though there is an increase in the short-term transaction taxes by 25 per cent, the entire tax is too minute to make any difference either in terms of revenue or in terms of curbing speculation. The Budget's silence on the issue of taxing foreign institutional investors is bewildering. The Budget could have levied a tax, commonly known in literature as Tobin Tax, on the operations of foreign institutional investors, as even the Governor of the Reserve Bank of India has recognised that there is a need to curb this inflow of finance capital.

Budget 2006-07: Proposals of Financial Liberalisation

This year's Budget has made two significant announcements regarding financial liberalisation. These are: one, allowing the banks to diversify into government securities and increasing the foreign institutional investors' access to such securities, and two, allowing the Indian mutual funds to invest abroad. These two policies have serious implications for the Indian economy. The former makes government finances vulnerable to the state of the speculative market and the latter creates the potential for financial volatility and allows domestic savings to flow out of the country. This is rather intriguing when the government claims that huge amounts of foreign savings are required for domestic investment.

Conclusion

THE UPA Government, since its inception, has been pursuing the policies of liberalisation and privatisation which underscore its commitment to neo-liberalism. Notwithstanding certain policy announcements in the NCMP, the government is unwilling to change course and is in essence pursuing the same policies as the NDA. The Budget is a mere manifestation of those policies. Though the Finance Minister has made somewhat higher allocations to the social sector, these are grossly insufficient. The UPA Government must not forget that the working people can give to this government the same verdict they handed out to the previous NDA regime. While many economists like Professor Prabhat Patnaik strongly believe that "liberalisation with a human face" is impossible, the outlook of the UPA leaders is different. This government is of the view that

now had three Budgets to prove such critics and detractors wrong. But as of now it has done nothing to dispel such scepticism. Though the media has applauded the last three Budgets of the UPA Government, there is nothing much in them for the "aam aadmi". ■

[The author is indebted to Professors Prabhat Patnaik and Jayati Ghosh for their valuable comments and suggestions.]

UNION BUDGET 2006-07

Alien to CMP, Serving Minuscule Minority

KAMAL MITRA CHENOY

Union Finance Minister P. Chidambaram's Budget for 2006-07 was supposed to be for the common man in the run-up to the five State elections in 2006. He was given numerous representations, including from the Left. The Left demands for increased long-term and short-term capital gains taxes, inheritance taxes and other measures to increase direct taxes have been given short shrift. Chidambaram has categorically stated that there would be no change in the rates of personal income tax or corporate income tax. So upper middle class professionals will continue to pay the same rates of taxes as the corporate elite. Not only have no new taxes been imposed, but the earlier one-by-six scheme obliging certain categories of people to file income-tax returns has been abolished. Thus yet another opportunity to make the rich pay their share for social investments for the poor, underprivileged and marginalised has been missed.

Little has been done on the employment front. The much touted National Rural Employment Guarantee Act has been provided only Rs 11,300 crores. In fact, all schemes together for rural employment amount to only Rs 11,700 crores.

A pittance considering the enormity of unemployment. The NSS' 60th Round data shows that male unemployment has significantly increased since 1993-94 to nine per cent in the rural areas and 8.1 per cent in the urban areas. Correspondingly, female unemployment has increased to 9.3 per cent in the rural areas and 17 per cent in the urban areas.

The NREGA will provide at best only 100 days

The author is a Professor, Jawaharlal Nehru University, New Delhi.

of employment per household every year at minimum wages for only the 200 poorest rural districts in the country. With the meagre funding the Budget has given it will not succeed in even doing that. Hundreds of rural districts and all urban districts are not covered. It was expected that with employment being such a crying need, urgent and far-reaching measures would be taken. But despite the Finance Minister's promise to create jobs in manufacturing and services, nothing concrete has been done.

CHIDAMBARAM's proposal to reduce the short-run interest rate for farmers by two per cent along with the proposed increase in farm credit are welcome. But these do not address the severity of the agrarian crisis with major recommendations of the National Commission of Farmers, like the creation of a price stabilisation fund for agricultural commodities and extension of crop insurance to all farmers and crops, ignored.

No additional protection has been provided for cultivators of raw cotton despite their wide distress in Maharashtra and elsewhere. So, despite the Finance Minister's reference to the UPA as a compassionate government, the severe difficulties of the farmers, which he concedes have occurred over the last two years, have not been addressed. Not only have new initiatives not been taken, but even the critical recommendations of the NCF have been ignored. The demand to increase the coverage of the public distribution system, when net per capita availability of foodgrains and cereals has gone down and starvation deaths have increased, has been ignored. Instead, the Finance