

60. Chidambaram and his Package of Contractions

By Gopal Krishna Agarwal,

The internal contradiction in the present government due to differences in the economic thinking of the Congress and the Left does not leave any room for economic innovation. This is coming out very clearly in the criticism of the Budget by the Left Front.

In the Budget speech of the Finance Minister there is lot of lip service to rural development but there are no concrete provisions or announcement of policies. Almost all the policies of the NDA government are being continued. Instead of giving support to the small-scale sector, 85 items have been dereserved. Secondly, he has spoken a lot on education and has imposed access of 2 per cent across the board on all taxes, but it has not been clarified or spelled out as to how this fund will be spent and will this amount be in addition to the amounts earlier being earmarked for education in the Budget? In our bureaucratic set-up, implementation has always been the problem. If the government does not specify as to how the benefit will be delivered to the actual ultimate beneficiary, all the well intentions will not bear results. If all these funds are left to the states to be utilised then it will be a big failure. Our states have poor infrastructure and corruption being widely prevalent, many of the allocated funds to states are not being properly and fully utilised.

Thirdly, the FM has announced that a consortium of private banks will give loans to the tune of Rs 40,000 crore for infrastructure development. This kind of announcement regarding intentions of the private banks has no meaning as these will be commercial decisions and its credit cannot be taken in the Budget.

Fourthly, the announcement in the field of water conservation that wells, talabs, etc. will be repaired and renovated is also an eyewash as this will be done over a period of ten years and that too without any fund allocation. To meet his revenue requirements, the FM has stated that there will be a 40 per cent increase in revenue collection from corporate sector only without there being any increase in tax rates. He plans to achieve this through greater and stricter compliance of tax laws which is highly unrealistic and impractical.

After criticising so much on the disinvestment policy of the NDA, he is continuing with the disinvestment of NTPC, a profit- making company, and has also announced setting up of a Disinvestment Commission.

The Left Front's rhetoric of opposing FDI in strategic sectors has been given a raw deal by announcing increase in FDI in all the three strategic sectors of telecommunication, aviation and insurance. Telecommunication is one sector in which even USA does not allow majority holding to foreign investments. Even NDA government was reluctant to increase this limit

The major announcement of tax concession in the direct tax on the taxable income up to Rs one lakh is a more of a confusion and a complete eyewash. It would have been much better if instead of this, the basic exemption limit of Rs 50,000 had been increased. This will create resentment in anybody having even slightly higher taxable Income than Rs 1,00,000.

The increase in service tax by 25 per cent of the earlier level (8 per cent to 10 per cent) will also have inflationary effect. Service tax has a cascading effect and the government needs to control inflation to control fiscal deficit, which is already showing signs of increase. Further, the increase in the excise tax on steel will also be inflationary as this is a basic metal and will harm housing sector also.

The imposition of unreasonable transaction tax on all transactions is a big blow to the securities market. The government has not applied its mind as to whether this can be absorbed or will it completely kill the capital and bond market? Levying transaction tax is bad, as firstly, all transactions do not lead to profit, secondly, 80 per cent of the stock market turnover is either arbitrage business or jobbing transactions at a very meagre price difference of as low as five paise This will lead to a complete erosion of liquidity in the market which is very essential for recovery reducing impact cost (ie. the effect of bulk purchase order on the price of a scrip). Even without this step, the market was very nervous on the policies of the UPA government and the influence of Left parties thinking on the economic policies.

The low interest regime of the NDA government which was a major factor facilitating industrial development and the housing sector, etc., is showing a sign of reversal as the interest rates are firming up. If this government does

not take major initiatives, which are missing in the Budget, then we may see a major reversal in our country's economy.