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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. Following 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 are 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 short-