From New Delhi by Susan Maitra

A budget for honesty

The new spending plan gives the private sector a larger role, and takes a lot of steam out of the "black money" rackets.

It was not "budget as usual" at the opening of the parliament session this spring. The 1985-86 budget was the first hint of comprehensive economic policy from the new Rajiv Gandhi government. The $50 billion budget presented by Union Finance Minister V.P. Singh has provoked an outpouring of unbridled enthusiasm from the private sector and equally unbridled opprobrium from the opposition. The nominally pro-Congress left is meanwhile issuing thinly veiled "warnings" about "ominous trends."

Both the "free enterprise" cheerleaders and the socialist ideologues are wrong. By no means, and correctly so, does the budget shift the "commanding heights" from the public to the private sector, nor does it hand the country over to the multinationals, nor does it kick the poor in the teeth, as popularly charged. It does put the ball in the court of the small but professedly eager private sector, laying the basis for it to play a more responsible role in the economy. And, it takes a lot of steam out of the "black money" rackets.

Among the controversial elements in the budget is the lifting of license requirements for more than 25 industries, from special alloys to structural steel, industrial machinery, cycles (bicycles, motorcycles, etc.), machine tools, agricultural implements, paper and pulp, and canned fruit and vegetables, to name but a few. Now it is possible to go into production or expand production in these sectors without suffering lengthy delays and black-money generation in applying for licenses.

Similarly, the asset limits for companies defined as monopolies was raised, corporate tax rates have been reduced by 5%, corporate political contributions legalized, customs duties reduced on a variety of items including computers and project imports for the power sector, income tax exemption limits raised, and estate duties abolished.

As a result, the private sector can be expected to inject some needed dynamism. But like the enjoyment of relief among income-tax payers who make up a scant 5% of the population, this cannot become more than a marginal phenomenon in a country of 700 million where some 70% don't even figure in the market economy, and where infrastructural weakness is still a major constraint.

More important, the budget goes a long way toward eliminating the irrational tax and other control measures which have fueled one of the world's largest "black money" economies, which has, in turn, made a bad joke out of national development efforts. In that sense, it is, as some commentators have noted, "a budget for honesty."

The budget is not without risks, and perhaps some misjudgments. The round of increases in administered prices for a range of basic items—railway charges and petroleum among them—is a point of concern. This will create powerful inflationary pressure, and together with the acknowledged $3.3 billion deficit, will raise the premium on efficiency and effectiveness in implementation of the measures.

Annual budgets, however, don't determine the economic future in India. The $18.5 billion Seventh Five-Year Plan is expected to be completed by July. The distribution of investment in the Plan will determine whether and to what extent the investment incentives in the budget can be realized. For example, de-licensing is a powerful spur to industrial expansion, but if adequate electricity cannot be assured, few businessmen will want to put their money there.

Otherwise, the broad vector for the economy indicated by the new government tells what the budget really means. The prime minister has made no secret of his concern over productivity and efficiency. He has made modernization—in skills, work habits, and technology—the clear priority. He has also made it clear that he is looking for a dynamic partnership of the public and private sectors that is based on leadership and accountability.

In a recent speech, Mr. Gandhi announced that the government is hammering out a new strategy for technology improvement in which the government will play a catalytic role, concentrating on certain vital areas and leaving the rest to the private sector. He also made clear that the public-private interaction must be based on accountability. Addressing a group of businessmen, Mr. Gandhi said management will be held responsible for avoiding industrial "sickness," a euphemism for bankruptcy. "We will make it very expensive to become sick," he promised.

The prime minister has been equally candid in calling into question another old shibboleth—labor-intensive industry. There are many areas where the nation simply cannot afford to continue with labor-intensive industries, he said bluntly, adding that labor must be educated to this fact.