What's in a budget?

An anti-climax to the scandal-mongers, the 1987-88 budget offends no one; nor does it break new ground.

On Feb. 28, Prime Minister Rajiv Gandhi presented the budget for FY 1987-88 to the Indian Parliament. The most immediate result was the collapse of several weeks of bilious press speculation about the radical policy shift certainly signaled in V.P. Singh's "ouster" from the Finance Ministry. Rajiv Gandhi had asked Singh to take on the Defense portfolio, and he himself took over Finance, 33 days before the budget was presented, at the start of the recent Indo-Pakistani military eyeballing incident.

But like anywhere else, the budget is neither the problem nor the solution to economic difficulties; it only reflects the basic economic policy of the government. As such the 1987-88 budget followed the course laid down by the former finance minister in his 1985-86 budget and the Long-Term Fiscal Policy that followed in 1986.

Expenditure was set at the equivalent of $50 billion at the prevailing exchange rate, with a projected deficit of about $5 billion. The non-plan expenditure allocation, which consists of defense, interest payments, various subsidies, economic services, and so on, rose to about $32.7 billion. Defense, the largest single item, will absorb $12 billion this year for expansion and modernization—up by some 17%. New tax proposals were kept to a minimum and are expected to fetch an additional $430 million in revenues.

The new budget has, however, put the government's money where its mouth is in support of certain economic reform concepts. For example, the import duty on machinery and specialty steel has been reduced, while the domestic tax on selected luxury items has been raised. As a result, manufacturing will be given a boost, while prices of most basic household consumption items will be held down, and the 50-brands-of-toothpaste syndrome discouraged. Similarly, depreciation rates have been raised to speed up the modernization of plant and machinery.

Fiscal incentives have also been provided to channel savings into the housing sector, in chronic short supply. A housing finance bank has been set up with an equity capital of $80 million to promote housing construction at the local and regional level. Both education and the Integrated Rural Development Fund have received a significant budgetary boost for the coming year. One of the rural employment program's primary tasks is schoolhouse construction.

Two days before the budget was submitted, the Finance Ministry presented its *Economic Survey, 1986-87*. The survey shows an estimated 4.5-5.0% growth in GNP, with a 1% increase in agricultural production and 6.4% growth in industrial productivity. According to the survey, management of infrastructure was better last year than the year before, but foreign exchange reserves, including gold and SDRs, dropped by $630 million to $5.9 billion. Wholesale prices are expected to rise by 5.9% against the rate of 3.8% in FY 1985-86, and, according to the survey, the deficit for the year could reach as high as $5.8 billion.

Prime Minister Gandhi has described the overall indicators as "highly encouraging." Indeed, he had returned the industrial production index, newly overhauled to include sectors like oil, electronics, and small-scale industries, for rechecking, because it showed such a high rate! But most observers shy from such optimism. In particular, there is concern about the growing extent of waste in government expenditures.

The main focus of the problem is the various public sector enterprises. As the survey documents, in the past year, the public enterprises, which enjoy an absolute monopoly in most of the poorer industrial sectors, earn less than $1 billion in profits—a mere 2% return on less than $42 billion worth of investment.

Rajiv Gandhi is by no means unaware of this problem. But it is clear that, so far, his and other government officials' lectures on the need to increase productivity or to introduce efficiency in management have failed to register. Public money in the large schemes continues to be wasted and the country continues to suffer from the lack of reinvestable surplus and general economic betterment.

This is the only context in which histrionics in the press over the size of the budget deficit—which included the front-page "scoop" that Planning Commission member Raja Chelliah was in Washington meeting with the IMF to secure a new loan, a report quickly termed baseless by the government—has had any validity. Deficits, even sharply escalating deficits, are no problem as long as they are paced by leaps in real economic surplus generation in the basic economy.