Three Budgets of UPA: Where is the "Human Face"?

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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 are 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 analyzing the recent budget and the two previous ones presented by Mr. P Chidambaram, the 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 7-8% 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 issues of the 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 had 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 percent to 9.0 percent in the rural areas and from 6.7 percent to 8.1 percent in the urban areas. Similarly, over the same period, the unemployment rate for the females increased from 5.6 percent to 9.3 percent in rural areas and from 10.5 percent to 11.7 percent in urban areas. This is quite disturbing for our economy, which already has been facing the challenge of a high level of unemployment. Thus, it demanded a serious attempt on the part of the UPA government to formulate a growth strategy, which gave due attention to employment generation.

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Table-1

Unemployment rates for 50th Round (1993-94) and 60th Rounds (2004) of the NSSO						
		Males			Females	
Round	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 rupees 11,700 crores (a provision of rupees 4050 crores in the national food for work programme and rupees 7650 crores for the SGRY programme) towards the total rural employment programme. This year's budget saw an increased allocation in this front to rupees 12,870 crores (a provision of 10,170 crores is under the NREG Scheme and 2700 crores under the SGRY scheme), a nominal increase of only 10 percent. 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 rupees 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 the total rural employment, but when taken as percentage of total budgetary expenditures and GDP, respectively, it reflects a virtual stagnation. During the period of 2002-03 to 2006-07 (budget estimate), the government's total allocations to this sector as a percentage of total budgetary expenditure and GDP have stagnated at 2.30 percent and declined from 0.39 percent to 0.33 percent, respectively. 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 on 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 7650 crores of rupees to 2700 crores of rupees. Thus, there has been no major increase in the budgetary allocations towards the rural employment sector as has been claimed by the Finance Minister. Indisputably, the budget should have gone steps further and made much larger allocations, given the huge amount of unemployment level in the rural areas.

Table-2

Allocations for Rural Employment Over the Years					
	2002-03 (R.E.)	**2003-04(R.E.)**	**2004-05(R.E.)**	**2005-06(R.E.)**	**2006-07(B.E.)**
Expenditure on Total Rural Employment (in Rs. Crores)	9502.00	9639.00	6408.00	11700.00	12870.00
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)

Agriculture

In India, about 72 per cent of households belong to the rural areas and accounted for nearly 75 per cent of the total population. In the rural India, about 66 per cent of usually employed males and 84 per cent of usually employed females were engaged in the agricultural sector. (Economic Survey, 2005-06). The government must recognize that the agricultural sector is in total disarray and it requires massive investment and rural credit support. Table-3 shows that the gross capital 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 in 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 to this sector. No special packages were announced by the Finance Minister to improve public investment in this sector.

Table-3

Gross Capital Formation in Agriculture (at 1999-2000 prices)				
Year	Investment in Agriculture (in rupees crores)			Investment in Agri. As % of GDP
	Public	Private	Total	
1999-00	7754	35719	43473	2.2
2000-01	7018	31158	38176	1.9
2001-02	8529	38215	46744	2.2
2002-03	7489	38018	45507	2.1
2003-04	12809	35024	47833	2.0
2004-05(Q.E.)	12591	30532	43123	1.7

Source: Economic Survey, 2005-06.

The National Commission on Farmers, set up by the government itself in 2004, headed by an eminent scientist, Dr. M.S. Swaminathan, has shown deep concern over the debt burdens in rural areas. In the recent budget, the only significant step taken was in terms of reduction of interest rates on institutional credits from 9 percent to 7 percent (although the committee recommend a much lower rate of 4 percent) and also to include an additional 50 lakh farmers with access to institutional credit. Though these steps are encouraging, the budget has still not fully appreciated the depth of indebtedness and the generalized 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 only 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

- 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. Universalization 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 emphasized crop diversification, which goes against the basic national objective of ensuring self-sufficiency in food-grains. 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 food-grains in the godowns of the Food Corporation of India from 2000-01 to 2002-03 does not reflect that we produce too much relative to our requirements. Rather, it suggests that the purchasing power of the poor and the marginalized in our society is miniscule.

Among the economists, there is a strong feeling that the government is under-estimating 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 towards the agriculture and allied activities. Table-4 clearly brings out this fact. During the period of 2004-05 to 2006-07 (budget estimate), the government's total allocations to this sector as a percentage of total budgetary expenditure and GDP have declined from 7.30 percent to 7.06 percent and 1.16 percent to 1.04 percent, respectively.

Table-4

Budgetary provisions in Agriculture and Allied Activities			
Year	**Total allocations (in Rs. Crores)**	**As % of total expenditure**	**As % of GDP**
2001-02 (R.E.)	25634.21	7.08	1.13
2002-03 (R.E.)	31080.37	7.52	1.26
2003-04 (R.E.)	33034.34	7.01	1.20
2004-05 (R.E.)	36306.82	7.30	1.16
2005-06 (R.E.)	36641.16	7.20	1.04
2006-07 (B.E.)	39843.44	7.06	1.01

Source: Expenditure Budget Volume-I, Annexure-I

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 is 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.

Food Subsidy and Health

The budget speeches of Mr. 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 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 25, 800 crores to 23, 200 crores of rupees, which was 4.6 percent of total budgetary allocations. In 2006-07, this ratio further fell to a level of 4.3 percent. 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 it 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 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 2% education cess on all taxes, which was expected to mobilize rupees 4000-5000 crores to finance elementary education. The Finance Minister has increased the total allocation for elementary education and literacy from Rs. 12536.33 crores in 2005-06 to 17132.71 in this budget. The increasing amount of educational cess mobilized by the government will reach Rs. 8746 crores (2006-07 B.E.), 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. 137000 crores required over a period of 10 years to achieve the goal of universal elementary education. The average annual additional amount being Rs. 13700 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 percent of the total population is illiterate; spreading literacy and universalising primary education should have been a foremost task of the government.

The spending on primary education should not, however, serve as an encumbrance for 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 very desirable that the Centre increases its expenditure on this segment too. The Finance Ministry has paid insufficient attention to higher education in general and university education in particular. The total expenditure on secondary and higher education in the present budget is Rs. 6982.28 crores. Though the increase amounts to Rs. 1182.28 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 argument that 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 institutions of excellence has gained a special importance since last year. In the 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 four universities, namely the University of Calcutta, the University of Madras, the University of Mumbai and the Punjab Agricultural University, Ludhiana. But, this 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 the hundreds of government run institutes that are in a crumbling state due to the dearth of resources. When one recalls the promises made by this government in the NCMP of raising the spending on education to 6 percent of GDP, then one would be surprised to find that even after two and a half years of its tenure, the education spending is still below 4 percent of GDP.

II

Let me now analyse the proposals made by the Finance Minister over the last three budgets in order to push forward the reform process in the country. The media have lauded the Finance Minister's effort to carry forward the neo-liberal reform process and have 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

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 years' 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. SSI sector, in fact, provides much more employment per rupee of investment than 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 the 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 macroeconomic 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 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% of GDP that fiscal year compared to 3.5% of GDP in 2003-04. The Fiscal deficit was estimated to be 4.4% of 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 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 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 the 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.

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(R.E.)	2.6	4.1	0.5
2006-07(B.E.)	2.1	3.8	0.2

Source: Budget at a Glance, various issues.

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 percent to 30 percent 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 percent, in the absence of which the corporates could evade tax through legal routes, showing the perquisites as a 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 percent in 1996-97 to 22 percent in 2003-04 (calculated from National Account Statistics, various issues). In 2004-05, the government had increased the service tax from 8 percent to 10 percent and in the recent one there has been a further increase to 12 percent. Such a step by the government is laudable. However, no significant fiscal initiatives were taken by the government to mobilize additional resources, despite the immense potential for this at present.

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% to 10%. In 2004-05, the Finance Minister's proposal of levying 0.15 percent tax on the short-term transactions in the stock market was really applauded by many. Later, the Finance Minister retreated from the proposal under pressure from the brokers in the stock market and made it a nominal 0.015 percent. This year, even though there is an increase in the short-term transaction taxes by 25 percent, the entire tax is too minuscule 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 the Tobin tax, on the operations of foreign institutional investor, as even the governor of the Reserve Bank of India has recognized that there is a need to curb this inflow of finance capital.

Budget 2006-07: Proposals of Financial Liberalization

This year's budget has made two significant announcements regarding the financial liberalisation. These are; allowing the banks to divest government securities and increasing foreign institutional investors' access to such securities; and the second allowing 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, had has been pursuing the policies of liberalization and privatisation, which underscores their 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 only a reflection of it. 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 the same verdict to this government as 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 has a feeling that a reconciliation of the reform policies with an increase in the welfare expenditures is possible. According to Professor Patnaik, the immanent logic of "liberalisation" pushes governments, no matter what their political complexion, into bowing to the caprices of globalised finance and hence necessarily having to sacrifice welfare objectives (whose achievement therefore requires abandoning the neo-liberal path). The UPA government has 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*".